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BOOK REVIEWS

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Thomas J. Burns and Edward N. Coffman, *The Accounting Hall of Fame: Profiles of Forty-one Members* (Columbus, Ohio: The Ohio State University, 1982, pp. vi, 104, single copies available upon request).

Reviewed by
Kathryn Verreault
Bentley College

Possible themes for a book on the forty-one members of the Accounting Hall of Fame are numerous. The book could center around a chronological development of contributions in accounting by selected individuals. A grouping of contemporaries and their respective contributions might constitute an interesting theme. Accounting contributions summarized by subject also could be constructed creatively. The contributions of these individuals organized by economic similarities might also produce a successful book. This book contains none of the above.

Instead, forty-one alphabetic profiles comprise this book. No more. No less. Each profile is accompanied by a sketch of the respective member. Any narrative exceeding the first page is located at the end of the book. This magazine-style format has been adopted throughout.

The contents of this book could have been made interesting and informal. Each member's contributions could have been summarized in a meaningful manner rather than the mundane recitation of details. For instance, educational contributions could have been isolated from theoretical or research contributions. Professional contributions might have been emphasized as such. Any rational summary of material would aid the teacher. Unfortunately, the content does not follow any recognizable method of analysis.

Each profile seems similar to a "Who's Who?" listing in terms of both style and content. An analysis of three random profiles tracing

"Who Was Who" content supported this suspected overlap. Fact after fact is listed with little attempt to project the personality of the individual. Perhaps if the number of people under review was large, this would be acceptable. Forty-one, however, is a manageable number for which to prepare a summary of contributions in an informative, readable structure.

A crisp, clear introductory summary of reasons for an individual's selection to the Accounting Hall of Fame would have been appreciated by this reader. The detailed profile would then flow from this summary. As an alternative, a final summary of achievements might contain this information.

A summary—any summary—would help. About all one might conclude from reading this book is that the individuals read much, wrote much, worked much, and in summary contributed much. They must have enjoyed little leisure time and their private lives are barely noted. A summary of contributions from all individuals should have been generated. An analysis by educational contribution, research contributions, theoretical contribution, chronological contribution, charitable contribution—any contribution—would improve the value of the book. The achievements of the individuals certainly were noteworthy, but this reviewer believes they have not been properly recognized.

In summary, this book can be judged by its cover. Forty-one profiles of Accounting Hall of Fame members. No less. No more.

C. W. DeMond, *Price Waterhouse & Co. In America* (New York: Comet Press, 1951. Reprint Edition, New York: Arno Press, 1980 pp. ix, 356, $35.00).

Reviewed by
Robert Jennings, Jr.
Indiana University Southeast

In *Price Waterhouse & Co. in America,* Arno Press has reprinted C. W. DeMond's 1951 history of the accounting firm in the United States. Originally printed for internal distribution only, this work provides an historical insight to the development of Price, Waterhouse & Co. and to the development of many of our accounting standards. Most chapters contain interesting discussions of accounting issues and growth problems of the profession (if one can skip the numerous required references to various individuals of the company).

The book traces the origins of the partnership of Price, Waterhouse & Co. from London in approximately 1865. At this early stage,

> "The principal work undertaken consisted of liquidations, bankruptcies and arbitrations, but another important contribution to the practice was the introduction of prospective borrowers of money to those who had funds available and were prepared to lend them." (p.2).

Activities began in the United States as early as 1873 primarily with mergers and audits of the U.S. related subsidiaries of British firms. Most work papers and report drafts were sent from the original New York or Chicago offices to London for review. Finally, in 1895, with the establishment of Jones, Caesar & Co., direct accountability to London ceased, and a new American firm began.

The partnership of Jones, Caesar & Co. retained a distinctly British flavor for many years as evidenced by the influence of its first senior partner, Sir Arthur Lowes Dickinson, appointed in 1901. The reader is introduced at this point to many of the difficulties faced by accountants at the turn of the century including, surprisingly, problems with the media. At the turn of the century, an American brewery wished to reduce depreciation expense in order to permit a dividend payment, and several Chicago newspapers immediately agreed, stating that

> ". . . the whole charge was an invention of these tiresome English Accountants, got up to rob the poor ordinary shareholder of his capital dividend." (p.22)

Additional accounting problems encountered included treatment of contingencies and the desire by some companies to show stock dividends received as income.

As the growth of the firm is chronicled, the author discusses new offices established throughout North and South America including the first offices of a national firm in such cities as Detroit, Los Angeles and Seattle. Although tedious at times, the discussion includes theoretical descriptions and various anecdotes which help to enliven the reading. Spurring continued growth of the firm were the introduction of income taxes, escalating mergers and consolidations, and ever increasing audit engagements. At times the early progress of the firm seemed to mirror the American economy as marked by business expansion and panics, but growing regulatory demands provided the major impetus.

Early partners were very active in the establishment of various professional societies. In 1904, Joseph E. Sterrett was named the chairman of the first International Congress on Accounting in St. Louis. By 1910 this activity had propelled another partner to nationwide prominence and through him, Price Waterhouse & Co. achieved a level of success previously considered unattainable. Although Dickinson had provided the foundation, it was through George O. May that the firm achieved fame.

George O. May, a partner for thirty-eight years, led Price Waterhouse through the period during and after World War I, the stock market crash of 1929, the rise and fall of offices during the depression, and ultimately, the McKesson-Robbins case. A major innovator, he published the first formal standard audit report as well as numerous other authoritative works. During World War I he considered employing women to alleviate the manpower shortage. A major force in achieving cooperation between the New York Stock Exchange and the American Institute of Accountants, May was associated with Price, Waterhouse & Co. until his retirement in 1940.

The author's last chapter of significance deals with the McKesson-Robbins case of 1938 and 1939. Although the firm is ultimately absolved of all responsibility, DeMond goes to great lengths to support the work of Price, Waterhouse & Co. and to provide justification for the audit work, or lack thereof, performed in this situation. Prior to McKesson-Robbins, generally accepted auditing standards did not require the actual observation of physical inventory or the confirmation of receivables. Subsequent discovery of management fraud and collusion in this case forced a re-evaluation of the auditors' responsibilities. Price Waterhouse & Co. ultimately repaid the entire audit fee of approximately $500,000.00, although the firm maintained that it had acted entirely within the scope of accepted practice at the time.

Apart from numerous references to personnel changes and transfers, this book provides valuable background information on many accounting practices and procedures used today. The reviewer believes that students of accounting history and educators will find this work immensely helpful in understanding the development of accounting principles and the accounting profession in the United States.

Esteban Hernandez Esteve, *Contribucion al Estudio de la Historiografia Contable en Espana* (Madrid: Banco de Espana, 1981, pp. 210, 100 pesetas).

Reviewed by
Mark Roberts
Georgia State University

This book, in Spanish, was prepared for the Fourth Annual Congress of the European Accounting Association held in Barcelona, Spain during April 13-15, 1981. It provides an overview of the history of Spanish accounting. Hernandez has collected the records of merchants, bankers and teachers in an effort to chronicle the origins and accounting developments of his country. He supports the approach of Karl Peter Kheil (1843-1908), a Czech, who believed that a complete understanding of accounting was unattainable without a sound knowledge of accounting history.

Kheil compiled a list of twenty-eight Spanish professional businessmen who maintained some accounting records during the sixteenth century (two of the more prominent were Bartolome Salvador de Solorzano and Miguel Jeronimo de Santa Cruz). Few of these men wrote exclusively about accounting. In fact, most of the topics centered on mathematics and law with perhaps an article or chapter dedicated to accounting or bookkeeping. Accounting and calculation were often mutually exclusive fields in different parts of the Iberian Peninsula. In Spain, facets of accounting were often subsumed under various headings, including

1. Commercial Accounts
2. Theoretical and practical mathematics
3. Law (including administrative interpretations)
4. Spelling and mathematics
5. Accounting and bookkeeping

Many of these books and records are based on methods explained in Latin and indicated the use of double entry.

Traditionally, accounting was viewed as a part of mathematics and not worthy of serious consideration as a separate discipline. The Renaissance heralded the development of financial accounts as a part of commerce (instead of a sub-discipline of mathematics). Slowly it was realized that maintaining financial records was an integral part of daily business affairs. In 1549, Mario Pardo de Figueroa persuaded some of the merchants of his day to record their accounts according to the double entry method, as explained by Bartolome Salvador de Solorzano, in order "to protect themselves from fraud and to stay out of jail."

An inherent characteristic of Spanish attitudes is individualism. Records and notes from early Spanish accountants offer individual insights into commerce and lifestyle as well as accounting techniques. This spirit of *voluntad,* coupled with the Spanish regional loyalties and diversities, explains why the serious study of Spanish accounting history is of only recent origin.

Hernandez presents a very well documented and scholarly work that sheds insight into the nature of Spanish accounting history. The work is also very readable and never becomes overbearing or pedantic; his aim is to give the reader an overview of the main contributors and their disciples. He carefully notes that there is still a great deal to document, and that the next few years should produce not only more information on Spanish accounting history, but also history in the making. There is an extensive bibliography of books and other sources which should be helpful to those wishing to conduct research.

Leonard W. Hein, *The British Companies Acts and the Practice of Accountancy 1844-1962* (New York: Arno Press, 1978, pp. 385, $25.00).

Reviewed by
Christopher Noke
The London School of Economics and Political Science

An historical study of the law relating to company accounting casts light on many aspects of current practice, and the factual content of this book may prove of interest for that reason alone. Hein's specific purpose, however, is to examine the interaction between the developing law and the profession of accountancy, and he uses a historical framework to seek answers to three questions: (i) the extent to which increasing legislative control arose from the failure of the profession to control its own practices, (ii) the source of the pressures for increased control, and (iii) the effect of the controls on the development of accounting and the accounting profession.

Although the bulk of the text examines the evolution of the accounting aspects of company law since 1844, Hein's objective requires consideration also of the concurrent growth of the accounting profession. There is a useful summary of professional development in both the United Kingdom and the United States, dealing with such matters as attempts to exclude the unqualified from the profession and attempts to control the qualified. Clearly one chapter cannot do justice to this topic but it helps lay the groundwork for some of his conclusions—in particular that, despite the highminded principles of most of the professional societies, their inability to control those participating in the profession and to enforce those principles on clients and the business community in general led to other ethically-minded groups (lawyers, chambers of commerce and the like) seeking legislative controls to strengthen the position of accountants. Written before the advent of accounting standards, the book contains warnings of further governmental intervention if the profession (in both countries) fails to put its house in order.

Apart from a chapter of doubtful relevance on the history of the corporation through boroughs and gilds merchant prior to 1844, the legal aspects of accounting are treated by topic rather than by simple chronology. The book contains separate chapters on the auditor, the balance sheet, profit and loss statement and group accounts. The drawback of this arrangement is that it is often difficult to get an overall impression of the impact of each Act, and as a narrative the end result is not as clear as in, say, Edey and Panitpakdi's essay 'British Company Accounting and the Law 1844-1900'. (Incidentally, despite an extensive bibliography, Hein makes no reference to that important essay, published in *Studies in the History of Accounting* in 1956. Edey is mentioned on page 240 in connection with his evidence to the Jenkins Committee, but his name is misspelled.)

Nevertheless, Hein deals with much of the material—particularly the abortive attempts at legislation between 1877 and 1899—in greater detail than is usually found elsewhere. The chapters on the Prospectus and Dissolutions touch upon important areas of the accountant's work often overlooked in similar studies. He includes from the report of the Gladstone Committee a nice example of an early prospectus in which one of the named auditors was the porter at the company, and the table he produces from the report of the 1867 Select Committee showing the number of liquidations handled by accounting firms—one firm having an average of 20 per partner—may well be a pointer to the comparative indifference then shown by some accountants to financial reporting.

However, as far as control of financial statements is concerned Hein perhaps places insufficient emphasis on the Cohen Report of 1945, which, among other things, adopted verbatim the definition of a balance sheet in the submission of the ICAEW (probably the first time that such a committee had considered the function of that statement) and accepted the Institute's recommendation to delete reference to 'values' of fixed assets contained in earlier legislation, effectively rooting financial reporting in the historical cost convention.

The main primary sources used are Committee Reports, minutes of evidence, draft bills and final enactments, and from the weight of material available the author has chosen some apt illustrations. Those familiar with the part played by Sir George Jessel in early English dividend law will appreciate his remarks to the 1877 Select Committee: "As I have said before I have an utter distrust of these pieces of paper called balance sheets." (p. 199) and "Profit, of course, is a mere matter of estimate." (p. 250) But even good quotations do not bear repetition and Robert Lowe's famous remark about the state having "no desire to force on these little republics any particular constitution" does not warrant quoting twice. Needless repetition is, perhaps, the most irksome feature of the book.

There are problems in concentrating almost exclusively on parliamentary and similar documents. For example, we are told (p. 77) that "it was not until 1907 that the ordinary business corporation was again required to publish a balance sheet." (The fact that Hein states (p. 192) "the production of a balance sheet did not again become compulsory for ordinary companies until 1908," a fact reasserted (p. 348), is an inconsistency one would not expect to find in a doctoral dissertation.)

But while it is true that the 1900 Act did not spell out the need for a balance sheet, that need appears to be implied by the sections on audit, and Buckley J.'s decision in *Newton v. Birmingham Small Arms* in 1906 may be interpreted in this way. Hein, however, does not examine how any of the statutes were interpreted in the courts and the resultant impact of case law on the practice of accounting. There is no mention of any of the dividend cases, nor even of the *Royal Mail* case. Some of his conclusions may also be slightly coloured by his choice of primary sources. While using the minutes of evidence, he rightly highlights the inconsistencies and *voltes faces* of many of the professional bodies (in relation, for example, to group accounts, secret reserves and qualifications of auditors); his overall conclusion, that "accountants abnegated their potential role as leaders in developing accounting legislation" (p. 354) overlooks the potential impact of unofficial pressures. For example, even though the ICAEW made its first formal submission to a company law amendment committee in 1925, Aranya has suggested, in his study of pressure groups, that in many respects the 1900 Act reflected the views of the ICAEW as presented in *The Accountant,* rather than those of the Davey Committee on whose recommendations it was nominally based.

The book was written in 1962 while the last major company law amendment committee was sitting. The subsequent entry of the UK into the European Economic Community has brought about fundamental changes in the way amendments to company law are considered. Hein's note that throughout this period there was a continuing trend of recommendations towards a uniform balance sheet, and the imposition of prescribed formats of accounts in the Companies Act 1981, as a result of the EEC 4th Directive, both illustrates that change and rounds off a part of his story. Accountants who believe themselves too constrained by such prescription will find little joy in Hein's observation (p. 242): "Once statutory treatment of an item is achieved it is rarely challenged in the sense of a reversal towards greater freedom of presentation."

J. Slater Lewis, *The Commercial Organisation of Factories* (London: E. & F. N. Spon, 1896. Reprint Edition, New York: Arno Press, 1978, p. vii, 540, $42.00).

Reviewed by
Walker Fesmire
The University of Michigan-Flint

This work presents a detailed accounting of how to organize and conduct the operations of a steel mill, written at the turn-of-the century. The author offers a practical approach, and spends considerable time dealing with insignificant items and/or procedures. His emphasis on minutiae makes it difficult to hold the reader's interest. For example, in Chapter XVI, Lewis requires eight pages to discuss the duties and attributes of a factory gatekeeper including a discussion of the type of woman who should be his wife! He devotes Chapter XII to ordering, accounting for, and control of stationery. These are only a few of the many minor topics that comprise this work. On page 161, he describes the office accommodations for a mill foreman: "each foreman must have an office in a conspicuous part of his shop, from which he can obtain an uninterrupted view of his men. It should be raised several feet above the level of the floor, and be provided with as many windows as possible as well as have a clock and a wash-hand basin with towels."

Although this work is heavy on detailed descriptions, Lewis does offer insights into the environment of the British business world of 1900. Many so-called "recent" business developments have been with us since the beginning of the century, for example, the emerging influence of women on business. On page 25, he praises the addition of lady cashiers. As to lady clerks he notes (p. 47) that "there are thousands of young women earning a respectable livelihood as shorthand writers and typists . . . some male clerks resent the intrusion of women." He observes that women are expanding their opportunities in the changing arena of employment (p. 77) and notes that "lady draughtsmen . . . are now being employed . . . it is clear that they are destined to fill a very important position in . . . the new drawing office."

Lewis notes the effects of technological change when he cites the possible future influence of the phonograph (dictaphone) and the typewriter. This discussion helps one to understand and appreciate the technological developments that have occurred this century and to recognize that changing technology is hardly a recent phenomena.

The legal responsibilities of a manager towards workers are briefly presented in his discussion of the "Factories Act." (pp. 133-4. On a related legal topic, he touches upon the problems of checking the references of prospective workers (p. 135) as well as the issuance of letters of reference. He considers the legal limitations placed upon employers taking disciplinary action against workers.

Without illustrating the accounting flow, the author devotes several chapters to discussing such cost accounting matters as prime costs, overhead, inventory handling, plant assets, and shipping costs. In these areas, he has included illustrations of many business forms (sales invoices, etc.) that might be adopted.

In summary, by avoiding being overcome by the details and minutiae of this work, one can obtain considerable insight into the level of British business development around 1900. Furthermore, one can appreciate the problems facing business during the early part of this century as well as obtain a feeling for technological developments and operational changes that have occurred since.

Robert H. Montgomery, *Fifty Years of Accountancy* (New York: Ronald Press, 1939. Reprint edition, New York: Arno Press, 1978, pp. xi, 679, $40.00).

Reviewed by
Geofrey T. Mills
The University of Northern Iowa

This book is part of the Arno Press series "The Development of Contemporary Accounting Thought." It is the reprint of Montgomery's memoirs, first published in 1939, and recounts his life in law, accounting and public service. Montgomery wrote in a lively, very readable prose, and his pages are littered with anecdotes and asides which can be quite amusing. The book reflects his somewhat cynical, iconoclastic view of the world. The person who emerges from these pages is a loveable curmudgeon who lived life in the fast lane, at least prior to World War II. The book is thoroughly enjoyable, and is recommended to anyone interested in a participant's-eye view of the nexus between the accounting profession and government service.

The book is divided into two sections. The first is Montgomery's personal memoirs which occupy some 235 pages of the book. This section is by far the better of the two, as the other section, roughly 445 pages, was added as an appendix for "published reports, papers, and prefaces by the author pertaining to accounting, tax, and public problems throughout the years 1904 to 1939." The appendix contains such items as Montgomery's response to the welcoming address for foreign delegates at the 1933 International Congress on Accounting, and the prefaces of his many books. These materials add nothing to the essential story line and in most cases are trivial. The only gem is Montgomery's report on the hearings of the War Policies Commission. The WPC was established in late 1930 to investigate the munitions industry, to determine whether there may be a method to "take the profits out of war." Montgomery's report is intriguing, although his recommendations were unacceptable to the WPC. He appears to have been too liberal for the rest of the committee.

In summary, however, the book would be more interesting without the Appendix and it can be ignored without destroying continuity.

Montgomery's memoirs are divided into four parts: public accounting, taxes and the practice of law, war, and hobbies, with the best material contained in the middle two sections. Parts one and four contain the alpha and omega of Montgomery's life, and it is clear that he regards these two as of lesser importance. "Public Accounting" is an account of how he stumbled into accounting, his education, work habits, organizational interests, etc. This section may reinforce one's view of life in turn-of-the-century America. Montgomery is a sort of Horatio Alger, a true self-made man. Poor in background and resources, he had to quit school to help support his family and only obtained an education through sheer tenacity. Like many men of his generation, he sought his fortune in business and set a course in the accounting profession. He developed an outstanding practice and reputation, and using his contacts and clients, was appointed to many public sector jobs in World War I and later. Those were the days when businessmen were recruited for public service on the basis of their reputations and were not, as a rule, scrutinized as carefully as they are today. Part four, "Hobbies" may be of limited interest to many because of Montgomery's self-righteous and patronizing airs.

In the middle two sections Montgomery describes his role and views on some of the great public policy issues of the early Twentieth Century. Here is an "insider's" account of the historical development of the income tax and the 16th Amendment to the Constitution. The author regards these laws as hardly more than "soak the rich" schemes, yet provides an interesting account of taxation practice before World War II. Montgomery's sardonic wit adds spice to his narrative. This section also contains details of his many books on tax and accounting, as well as some of the speeches, addresses, and papers he delivered to many professional organizations.

Part three on "War" may be the most interesting section. Montgomery came to occupy many positions of high public trust during and after World War I. His work for the War Department, the War Industries Board, and the WPC was distinguished. Montgomery was one of a small legion of "Dollar-a-year-men" who were appointed to government positions without pay during these decades, returning to private life after the job was concluded. He offers first-hand accounts of these agencies, their operation and importance.

R. H. Parker, Editor, *British Accountants: A Biographical Sourcebook* (New York: Arno Press, Inc., 1980, no pagination, $25.00).

Reviewed by
Lee D. Parker
Monash University, Melbourne, Australia

Professor Parker has provided a fascinating collection of previously published biographical pieces that provide some insight into the lives of men who have been prominent figures in the history of British accounting. The book is a useful sourcebook that provides easier access to existing information about the founders of the British profession, and encouraging biographical research in accounting history.

It contains the biographies of 65 accountants; 56 of them obituaries, for the most part, originally published in the *Accountant*. The editor's introductory remarks cover eleven pages and outline literary sources, criteria for inclusion, the Scottish influence on British accounting, social origins of the accountants included in the book, the work of the accountant, text-book writers, accounting and the universities, and Knights, Baronets and Peers. The biographies themselves are reproductions of the originally published biographies (the actual typeface of the original publication) and 29 include a photograph of their subject.

The collection covers notable accountants of British birth who spent most of their working lives in Britain. Of particular interest to the general reader are the biographies of men whose names have survived through association with prominent national and international firms. These include McClelland, Price, Young, Cooper, Deloitte, Whinney, Waterhouse, McLintock, Touche, Peat, and Marwick. Also worthy of note are the biographies of leading textbook writers such as Dicksee, Pixley, Dickinson, Carter, Leake, de Paula, and Spicer.

Although it is a valuable resource, this book undoubtedly would have further benefited from some modest editing to make the reader's task a little easier. Numbering of the book's approximately 147 pages would be most useful to general reader and researcher alike, as would the provision of a comprehensive index. Each biography would benefit from the inclusion of birth and death date and source of reproduction. While recognising that the book is intended as a "source book," the extension of already valuable introductory editorial comments and analyses would be welcomed.

When so many biographies are read together, a number of general impressions are formed. Many British accountants were politically active or politically "connected." Many also served on government posts or committees, advised government or took part in Royal commissions. Some accountants exhibited a wide range of community interests and involvement while others were devoted solely to their profession. Accounting teachers and textbook authors were invariably professional practitioners who displayed an academic talent and commitment. Nor could it be said that they were all staid and sober; Parker's biographies include poems written by and about such men.

This book represents an invaluable addition to works in accounting history. Moreover, Professor Parker's editorial raises a series of important questions that await the attention of researchers. Nevertheless the book deserves the attention of an even wider audience. It provides material which could usefully be included as background material in financial accounting and auditing textbooks, thus introducing students to the traditions of the profession. It also provides anecdotal material for accounting teachers to include in undergraduate lectures and a data bank for historical material that can be introduced at the postgraduate level. Undoubtedly, the researcher, teacher and general reader will find within the pages of this book a rich resource indeed.

Gary John Previts, *A Critical Evaluation of Comparative Financial Thought in America 1900 to 1920* (New York: Arno Press, 1980, xii, 259, $22.00).

Reviewed by
Robert M. Kozub
The University of Wisconsin-Milwaukee

A Critical Evaluation of Comparative Financial Accounting Thought In America, 1900 To 1920 was written by Gary John Previts as the dissertation requirement for the degree of Doctor of Philosophy at the University of Florida in 1972. The title suggests his intention to discuss early twentieth-century accounting theory. Previts begins the discussion by establishing the existence of a Preclassical School of Thought, and doing so, presents an excellent history of early twentieth-century accounting. Included in this analysis are the theories of Cole, Dickinson, Esquerré, Hatfield, Kester, Montgomery, Sprague, and Wildman.

This book, which consists of eight chapters, discusses four major topics:

1. The environmental elements of the Preclassical era,
2. The contributions of the Preclassicists to asset valuation theory,
3. The contribution of Preclassicists to income determination theory, and
4. The legitimacy of labeling the Preclassicists as a distinct School of Thought.

Previts devotes two chapters to the environmental factors which influenced the Preclassicists. The first deals with the economic and social events of the early twentieth century which shaped the institutions of our age. The second relates how social and economic events affected the financial accounting duties of accountants during the era.

Previts warns against overgeneralization of the contributions of the Preclassicists to accounting theory, emphasizing that their era was one of initial inquiry. Nonetheless, preclassical valuation theory was, according to him, surprisingly complex. Among the contributions of Preclassicists were both a theory of depreciation and appreciation. In Chapter Four, Previts discusses several other theoretical concepts suggested by the Preclassicists, which were sufficiently valid to modify the pure historical cost valuation model. Previts states that "[P]reclassical cost modification theories also supplied the precedent from which the subsequent inquiry of Classical accountants would be patterned—as in the search for a specific price-level theory" (p. 148).

In discussing Preclassical accounting income theory, Previts acknowledges its strong dependence upon economic concepts. During the Preclassical period the income statement acquired nearly the same importance as the balance sheet. Because of this, Previts argues that it is incorrect to consider the Preclassicists merely balance sheet accountants. By establishing a modified cost valuation theory, the Preclassicists identified with and modified the indirect approach to income determination. Their modification of the indirect approach created a basis for the emphasis on income theory among Classical accountants.

Previts presents a convincing argument for classifying accounting theorists of this era as a distinct school of thought. For its enlightening perspective, his book is highly recommended to anyone with an interest in the development of accounting theory.

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Earl A. Saliers, *Principles of Depreciation* (New York: The Ronald Press Company, 1916. Reprint edition, New York: Arno Press, 1980, p. xii, 200, $18.00).

Reviewed by
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University of Wisconsin-Milwaukee

The purpose of Saliers' book was to develop a justification for charging depreciation expense in the determination of income, and for writing down assets over their useful lives. The author's earnest attempt to convince the reader that depreciation should be charged over the lives of assets began by pointing out that, relatively recently, vast amounts of wealth had been invested in large corporations. Through depreciation charges, companies could recover the cost of capital from the normal operations of the business. Failure to charge for depreciation would result in an overstatement of profits and (possibly) in dividend payments which included returns of capital.

Several events occurred early in this century which made income determination more important. Most states had passed laws prohibiting companies from distributing capital when paying cash dividends. Public utilities were operating as monopolies; and regulatory agencies had to determine what constituted an adequate return on investment. Widespread absentee ownership of large corporations made income determination important to investors in their evaluation of returns on their investments. The newly enacted income tax law made income determination important for taxing purposes.

From these information needs, the author extended his argument for using depreciation charges by citing court cases, public commission pronouncements, and practices of accountants in the United States and Britain. The author conceded that the charge for depreciation is indefinite, but he asserted that the magnitude of investment by large corporations demanded that the problem of determining depreciation charges be "mastered."

The author's first chapter, entitled "Character of Industrial Plant," discussed the accumulation of depreciable assets and defined depreciation as "the loss of value, whether tangible or intangible in form, resulting from physical decay, or from obsolescence or inadequacy, which indicate functional decay" (p. 22).

The author next presented the process of recording depreciation. Using a hydroelectric plant as an example, he first established the costs to depreciate. Through the use of a plant ledger, Saliers described the adjustments required to record charges for depreciation. The author then distinguished between depreciation reserves and depreciation funds. Depreciation reserves were described as the accumulation of charges to reduce apparent net profits to actual net profits by writing down book value of assets to actual values. Depreciation funds were amounts actually created for the purpose of replacing buildings, machinery, etc.

The author's use of the term "value" is somewhat disturbing to the current reader because of contemporary recognition of current value, entry value, exit value, etc. Saliers' methods for determining and charging depreciation, however, more clearly show his intention to allocate costs to periods of benefit. The reader would be better served by focusing on the latter point rather than trying to guess what the author meant by value.

In the next part of the book, Saliers developed the propriety of the charge for depreciation. As mentioned earlier, Saliers used court cases, rulings by public commissions, and actions of accountants in the United States and Britain to justify his position throughout this discussion.

In the final section, Saliers described various methods of depreciation in use during the period in which he wrote. They include the straight line method, the reducing balance method, the sinking fund method, the annuity method, the equal annual payment method, and the unit cost method. Some of these more complicated methods are little discussed today.

This book is valuable from several standpoints. While depreciation charges are considered normal and proper today, they were viewed with suspicion in 1915. Contrast Saliers' view of charging depreciation with Paul-Joseph Esquerré's:

> ". . . charges made to operations under the title of 'depreciation' often contain, if the truth were known, provisions for unknown quantities, the ultimate result being the perversion of accounting truth." (Esquerré, 1914; 372)

While we describe the allocation of costs to periods of benefit to introductory accounting students today, in 1915 justifying the propriety of depreciation charges through logic and by citing court cases, public commission actions, and the practices of accountants was necessary in order to develop a theoretical foundation and to obtain general acceptance of the practice.

This book would be useful to those interested in accounting for utilities and rate making. The author focused on the benefits and techniques of charging depreciation in railroads and utilities. It will also interest scholars of early development of the depreciation charge. Most importantly, the book provides an insight into the struggle and progress of an earlier theorist.

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Reviewed by
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During the period 1962-1967, Hayden, Stone & Co. (HS), a prominent investment house, sponsored six annual accounting forums that were hosted by New York University (NYU). This book consists of four pages of introduction by the editor, followed by verbatim transcripts of the proceedings of all six seminars.

HS regularly conducted "off-the-record forums" in which corporate executives "appeared before institutional investors to discuss the current operations and prospects for their companies." However, in 1962 it became apparent to the research department of HS that their clients had a strong interest in certain accounting issues currently before the Accounting Principles Board (APB). Consequently, HS requested the assistance of Professor Michael Schiff in organizing an accounting forum to be held at NYU; this arrangement continued for the next five years.

A typical forum convened with a "welcome" address delivered by Professor Schiff, followed by introductory remarks by the president of Hayden, Stone. Three formal presentations were then made by the keynote speakers who the editor describes as "primarily managing partners of 'Big Eight' professional accounting firms." Some of the speakers served on the Accounting Principles Board and as presidents of the AICPA. Other speakers were corporation executives, lawyers, an SEC Commissioner and a member of the academic community. In addition, "the audience of several hundred persons consisted of senior financial officers of large corporations, financial analysts, officers of large investment houses, professional accountants and a very small representation from academe. The entire membership of the APB was in the audience at one of the sessions." Upon completion of all presentations, the speakers entertained questions for the audience. The presentations are summarized below, preceded by the theme of each seminar:

1962: *Impact of Accounting Changes on Corporate Earnings*
John W. Queenan, "Depreciation Guide Lines and Rules," 7 pages (p.); Herman W. Bevis, "Accounting for Leases," 4 p.; and Thomas G. Higgins, "Price Level Depreciation," 8 p., Questions & Answer session, (Q & A), 2 p.

1963: *The Impact on Business of Self-Regulation in the Accounting Profession*
Robert E. Witschey, "The Business Need for Better Accounting Principles," 5 p.; Alvin R. Jennings, "The Accounting Profession's Responsibility in Determining Accounting Principles," 5 p.; and Leonard Spacek, "The Treatment of Goodwill in the Corporate Balance Sheet," 7 p.; Q & A, 4 p.

1964: *How the Tax Rules Invade Accounting Principles and Affect Reported Earnings*
David B. Chase, "Tax Accounting and Financial Reporting," 4 p.; Donald C. Cook, "Depreciation, the Investment Tax Credit and Leases—Tax vs. Accounting," 8 p.; and J. S. Seidman, "Tax Practice vs. Accounting Practice," 3 p.; Q & A, 6 p.

1965: *Improving Financial Accounting and Reporting*
Herman W. Bevis, "Earnings per Share and the Need for Full Disclosure," 7 p.; Clifford J. Heimbucher, "Current Developments at the APB," 5 p.; and Byron D. Woodside, "The SEC's Administrative Policies and Financial Reporting," 8 p., and Q & A, 7 p.

1966: *Why Worry About Accounting?*
Raymond J. Chambers, "Why Worry About Accounting?," 10 p.; L. T. Moate, "The Financial Reporting Controversy" (Product Line Disclosure), 6 p.; and Robert M. Trueblood, "A Season for Head-Hunting," 7 p.; Q & A, 4 p.

1967: *Accounting is Being Challenged—Do We Have the Solution?*
Richard T. Baker, "Accounting is Being Challenged—Do We Have a Solution?," 7 p.; George P. Hitchings, "The Investment Credit Controversy," 5 p.; and Leonard Spacek, "A Report By a Critic of the Profession," 15 p.; Q & A, 5 p.

An examination of the above topics reinforces the adage "the more things change, the more they stay the same"; current controversies including accounting for leases, deferred taxes, the effects of inflation and self regulation of the profession were directly addressed during these forums some 20 years ago.

In reviewing the transcripts, one frequently observes the speakers grasping for conceptual tools with which to resolve the technical aspects of specific reporting problems. Repeatedly, panel members struggle to resolve fundamental questions concerning the nature and the function of accounting numbers. A comment from Leonard Spacek (1963) is illustrative:

> We must must decide what we are trying to do before we can do it. We have not defined the objectives of our financial statements. Why do we have a balance sheet? What is it supposed to show, and to whom? Similarly, what is the purpose of the income statement? Are we trying to show venture results? Or, are we trying to show the earning power of a company's productive facilities so that those who trade in the company's securities can arrive at a trading price? It is incredible that these objectives were not clearly determined and agreed upon long ago.

With respect to accounting issues, the transcripts portray a profession deeply concerned and fully questioning its role in a contemporary capitalist society. Particular attention is focused upon the role of financial reporting in resource allocation and on the profession's ability to sustain self regulation. These records also capture the reaction of the profession in an era that witnessed escalating litigation and severe criticism of corporate integrity. This reaction offers the reader a glimpse of the profession re-evaluating the propriety of its interaction with the investment community, the securities exchanges, the SEC and the IRS. In brief, the Hayden Stone seminars provided a public forum for the examination of traditional practices, relationships and values, the spirit of which was characteristic of the socially chaotic decade in which they took place. This is particularly evident in the presentation made in 1966 and 1967 when the APB was the target of increasing criticism (Trueblood, 1966, Baker, 1967, and Spacek, 1967).

This book would have significantly benefited from a more extensive discussion of the economic and political environment that characterized the decade of the 1960s. Since the editor was the central figure in these seminars, he appears to have been in a unique position to provide this background information. The book consists principally of uninterpreted transcripts of presentations and questions and answer sessions; unless one already possesses an understanding of the related economic, political, and reporting environment, one is left to reconstruct or to pursue elsewhere the evolutionary context of these forums. The introduction is helpful but additional background would have contributed significantly.

On the lighter side, over 80 pictures of individual speakers, entire panels and the audience are presented. Pictures of the audience provide a source of humor as they often reveal one or two audience members whose eyes are securely closed. (This finding is consistent with this writer's personal observations concerning large accounting seminars).

Schiff has successfully preserved and made available a raw, uninterpreted view of the accounting profession struggling with myriad technical and philosophical problems. This book will be especially attractive to those interested in observing the profession grapple with a variety of issues, many of which are with us today.