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REVIEWS

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REVIEWS OF BOOKS AND OTHER PUBLICATIONS

Sokolow, Jaroslaw W., *The History of Accounting Thought* [*Istocia razwitija buchgaltierskowo uczieta*] (Moscow: Finansy i Statistik, 1985), 367 pp.

Reviewed by
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Many books and papers have been devoted to the history of accounting, but only a few of them have been concerned with the development of accounting thought. This book successfully provides an integrated history of accounting thought around the world, emphasizing the less well-known contributions made in Russia and the Soviet Union.

Professor Sokolow's primary question is: what does the history of accounting thought teach us? In offering answers, he reveals a profound and wide-ranging knowledge of the subject-matter. In the light of the history of accounting research, he distinguishes the following approaches:

1. Philosophical — the approach adopted particularly in the works of F.W. Jezierski and J.M. Galperun, in the East, and of A. Haara. in the West.
2. Documentary — used by O.O. Bayer, H.F. Szirokow and B. Penndorf.
3. Synthetic — used by N.S. Pomazkow and A.I. Lozinski.
4. Analytic — used by A.K. Littleton and B.S. Yamey.

It must be said, however, that Sokolow does not take into account modern developments in accounting theory in the West, such as the work of R. Mattessich and Y. Ijiri.

A lot of attention is paid to economic records in antiquity and the Middle Ages. Further, the author analyzes the conditions in which the dualism of accounting arose. Next, he characterizes the development and expansion of double-entry bookkeeping in Europe between the 15th and 18th centuries as the period when the language of accounting, as well as the structure of accounting records, for example, was created. In this way, he argues, accounting became a science: it developed a methodology for the transformatión from a set of empirical and dogmatic rules to a device for the investigation of economic reality. This final transformation took place, according to Sokolow, at the turn of the 19th century.

At this time, E. Leote and A. Gilbo identified three functions of accounting which Sokolow argues remain valid:

1. To establish a logical structure of record-keeping.
2. The social function, which is related to the social class structure (today we would say this was articulated by the legal regulation of accounting).
3. The economic function, to steer economic activity by means of accounting information.

He also states that there were concurrent accounting theories which were based on mathematical models; however, these theories did not substantially change the existing paradigm.

The development of accounting thought in pre-revolutionary Russia is a particularly strong point of the book. He begins his discussion with religious cloisters and then takes us through manors, households, trade, building construction and industrial production. The author points out that the development of accounting was limited for many years by the fact that, in accounting, the Byzantine practice of literal signs was adopted instead of Roman or Arabic numerals.

The acceleration of the development of accounting, especially in governmental accounting, followed the administrative reforms of Peter I in the eighteenth century. It is believed that Western models, in particular those taken from Sweden, were adopted. Double-entry bookkeeping was mainly used in trade rather than manufacturing because the latter was mainly state-owned and did not operate on the principle of economic accountability (although it was well controlled).

In the 19th century, the development of manufacturing resulted not only in the application of double-entry but also a much higher level of accounting. At the same time, in the academic literature, original doctrines of accounting were created by K.J. Arnold, I. Achmatov, and E.A. Mudrov. At the end of the 19th century and the beginning of the 20th, the scientific foundations for the paradigm of double-entry were formulated. Special attention is paid by the author to the contribution made to European accounting thought by L.I. Gomberg (who won the gold medal in Paris for, among other things, founding the journal *Ekonomologia*) as well as by A.M. Wolf, N.I. Popov, A.M. Galagan, A.P. Rudanowski and others. Between 1783 and 1917, some 1356 books on accounting were published in Russia; according to Sokolow, their level of sophistication was at least as high, and in many cases higher, than in the rest of the world.

He now turns to a discussion of accounting in capitalist countries in the 20th century, distinguishing the following schools: German, French, Italian and Anglo-American. In his opinion, one of the fundamental ideas of accounting in these countries is not only historic record-keeping for organizations but also projections of what could happen and what should happen. Among the characteristic trends of contemporary accounting that Sokolow identifies in these countries is a supposed development of a unified international methodology, terminology and chart of accounts. In addition, he recognizes the move from the empirical to the theoretical and from deterministic to stochastic approaches to research. Finally, he recognizes the increasing independence of the accounting profession from the management of enterprises as well as the increased prestige of the profession generally.

The author also considers accounting in socialism in historical perspective, even extending to accounting for the physical units of labor and energy. He offers a new paradigm of accounting, which he calls 'Soviet accounting'. In addition, he argues against the view that the development of accounting will depend on data-processing technology which has traditionally emphasized quantitative, descriptive models. Instead, he maintains that it is necessary to expand these models to include evaluation of alternative projects and economic efficiency. Sokolow also refers to some notable achievements by accounting scholars in East European countries.

The book ends with his attempt to answer his primary question: What does the history of accounting thought teach us? He considers the legal and economic dimensions of accounting. He states that accounting as an instrument of management gives information not only for decision-making but also of the consequences of decisions. As a result, the subject of accounting is contingent upon the goals of management; the example he gives is of standard costing and variance analysis. The essence here is not that accounting provides a mirror-like reflection of reality but a conceptualization of the economic process for efficient management. In his opinion, the most important contribution made by accounting thought lies in the creation of artifacts, such as 'cost', 'revenue', etc.

The bibliography is extremely rich, consisting of 460 items in several languages. This book will be of interest not only to academics but also to professional accountants with a desire to understand the intellectual foundations of the discipline.

J.L. Meij, Editor, *Depreciation and Replacement Policy* (New York and London: Garland Publishing, Inc., 1986, $40)

Reviewed by:
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First published in the Netherlands in 1961, this volume was reprinted in 1986 as part of a series of Studies in Industrial Economics. The principal aim of the series is "to stimulate study and research in this part of economics and to further an interchange of ideas and results on an international basis." [p. v.].

This volume on depreciation, edited by J.L. Meig, Professor of Industrial Economics, State University of Groningen, The Netherlands, consists of four separate papers on various aspects of depreciation. Professor Meij states in his introduction: "There are but few fields in managerial economics where the gap between theory and practice is so wide as in that of depreciation of durable assets" [p. 1.]. It is the purpose of this book to fill a part of that gap.

The first chapter, "Depreciation and Obsolescence as Factors in Costing," was written by W. Arthur Lewis, University of Manchester, England. His main objective is to define depreciation for the purpose of calculating costs. This chapter contains a very well written, theoretical discussion of the measurement of depreciation as related to such topics as valuation of assets, calculating net profit, price policy, surplus capacity cost, and full capacity cost. The theory is well formulated and explained, with several illustrations.

The second chapter, "Depreciation and the Maintenance of Real Capital," was written by Edgar O. Edwards, Rice University, Houston, Texas. Again, this chapter includes a theoretical discussion of the importance of depreciation policies in capital maintenance under stationary conditions and under dynamic conditions. The principal methods of depreciation are classified by the author as subjective-depreciation, market-depreciation, and internal-rate depreciation. The depreciation techniques used in practice, straight-line, declining balance, sum-of-the-years'-digits, compound interest, and various production unit techniques, are regarded as means of approximating either internal rate or market depreciation.

Professor Edwards rejects the idea that depreciation should supply sufficient funds to finance the ultimate replacement of an asset. "The assumption attacked is that firms hold depreciation funds in the form of cash until the machine being depreciated is actually replaced" [p. 113]. The author suggests that such funds are more likely to be invested in assets which rise in price as the price-level increases. Hence, it is the use of the funds, as determined by management, which enables the firm to maintain its real capital. The ideas presented by Professor Edwards are well developed.

The third chapter, "Depreciation Problems and Taxation," was written by David Walker, University College of East Africa, Uganda. At the time he was a lecturer in Economics at the University of Manchester, U.K. Although Professor Walker based his discussion primarily on the tax-system of the United Kingdom with which he was most familiar, he also included discussion of related problems in the United States, Sweden, France, and Belguim. This chapter, more than the others, achieves the objective of providing an "international basis" of ideas.

This chapter, also, has more historical significance than the other chapters because the author includes discussion of the difficulty of getting depreciation recognized as a deductible expense for tax purposes. He states: "It was not til 1878 — more than a generation after the introduction of the U.K. Income Tax in more or less its present form — that any relief for capital expenditures was given. Since that time there have been depreciation allowances for plant and machinery" [p. 156]. Another historical reference is made to depreciation in the United States tax system on page 160. Problems of depreciation as related to taxation discussed by the author include: (1) the effect on investment, (2) accelerated depreciation in the U.K., United States and Sweden, and (3) replacement cost as a basis for depreciation in France and Belgium. The discussion is easy to understand and is written on a more practical basis than that in the other chapters.

The last chapter, "The Theory of Depreciation and Entrepreneurial Behaviour," was written by four professors in The Netherlands. This chapter summarizes the results of a study made concerning the replacement investments in 50 Dutch enterprises. The chapter also includes a case-study of the Dutch Merchant Marine made to test the reinvestment theory presented in the chapter. Although these two practical studies are well analyzed, other parts of the chapter are not easy to follow because of the use of equations and mathematical models.

The introduction to the series states that "the level of treatment is that appropriate to an audience of graduate academic standard" [p. v.]. I agree that this book is appropriate for graduate students. Some aspects of the discussion might be useful as background material for doctoral dissertations or might suggest additional studies which could be made. The introduction also states that "the volumes are not addressed to academic scholars only but also to those engaged in management" [p. v.]. In my opinion most of the discussion in this book is not written in language which would be readily applicable to business management. The most useful for this purpose would be the third chapter relating to taxation.

Richard Vangermeersch, Editor, *The Contributions of Alexander Hamilton Church to Accounting and Management* (New York and London: Garland Publishing, Inc., 1986, $20.)

by Akhil Kumar
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This book is a collection of articles by Alexander Hamilton Church along with a few related articles by other authors. In the editor's opinion Church's views are of great relevance to accounting and management of today. In addition, he is of the view that these areas can benefit a great deal from Church's writings. The purpose of the book, therefore, is to stimulate a discussion and review of Church's work. The editor has been careful to limit his objectives to pointing out the relevance of Church's work. He refrains from suggesting that solutions to modern day problems are contained in Church's work.

The articles presented are very diverse and cover a wide area. They span the fields of accounting, management, business and society, and industrial engineering. The articles by Church, written during the period of 1900 to 1931, are not reprinted in his books. Hence, this anthology makes an important contribution by exposing the reader to significant writings of Church.

In "The Meaning of Commercial Organization" [1900] Church emphasizes the importance of overhead cost component in product costs. In addition, Church highlights the importance of monitoring product wise profitability and requiring monthly performance reports. Church is fearful of the obstructionist role of unions in the "British Industrial Welfare" [1901]. He prophesizes that if unions resisted new technologies, industrial activity would shift to countries where innovation was acceptable. "The Meaning of Scientific Management" [1911] was Church's interpretation of Taylor's "Scientific Management". He saw it as a quest for accuracy — in planning, and in actions. He disagrees, however, that Taylor had found a science of management. In "Has 'Scientific Management' Science?" [1911] he questions the real-world applicability of Taylor's principles. He challenges Taylor "to convince the rest of us that, in this imperfect world, he can banish discord, and substitute cooperation for individualism, except in the very limited sense that any well managed system of payment by results covers the same ground" [p. 32]. This article also illustrates Church's concern for the behavioral issues, a dominant theme in some of his articles. In "Intensive Production and the Foreman" [1911] he suggests that employers take the foreman in confidence and discuss changes to minimize frictions. In "Distribution of the Expense Burden" [1911] Church introduces the notion of machine-hour rate method and goes on to develop this idea in subsequent writings.

Church provides a thorough overview of a good reporting system in "What is a Cost System?" [1915] He supports the idea of management by exception and quick reporting for prompt corrective action. In "What the Foreman Wants to Know about Costs", Church switches from his usual "big picture" approach and discusses the minute details of the information a foreman should be able to get from machine shop cost records.

Another recurrent theme expressed in Church's writing was a perferance for evolutionary change over revolutionary methods. This was evident to some extent in "Intensive Production and the Foreman" [1911] and "Industrial Management" [1915]. He places management into an evolutionary model and attributes the progress in management to a process of "analysis" and "synthesis".

For the most part, the editor achieves his objectives i.e., of providing an exposure to Church's writings. How these writings are relevant is somewhat ambiguous and left to the reader to figure out. It is clear to see Church's contribution in the areas of allocation of overhead costs and product line profitability. From an historical perspective, it is interesting to see the emergence of behavioral issues in his writings. However, there are occasions when Church lacks rigor and his conclusions are sweeping generalizations. For instance, in "Industrial Management" [1915], he states " . . . the competent manager, like the great general, is born and not made" [p. 157]. Again, Church's arguments in support of including interest expenses in manufacturing costs are very weak.

The book could have been better organized and presented. The articles are arranged chronologically. As a result, the ideas are jumbled and the underlying themes are unfocussed. It is left to the reader to sort out the ideas and then figure out their relevance. For instance, a reader interested in cost accounting will have to skip several intervening articles on management in order to maintain a continuity of thought. I would have liked to see the writings arranged thematically and categorized by subject rather than chronologically. This would have helped the reader better appreciate the development of ideas in Church's work. Also, some of the articles have been reproduced in very fine print which makes it difficult to read.

Overall, this anthology makes an important contribution by exposing the reader to significant writings by Church. This book should be interesting to students desiring a historical perspective on some of the current practices in cost accounting and management.