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Book Reviews

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THE FINANCIAL POLICY OF CORPORATIONS, by ARTHUR STONE
DEWING, *Ronald Press Company*, New York. 1309 pages. 1934.

In the preface of the third edition of *The Financial Policy of Corporations* Mr. Dewing states that: "Although this edition is called a revision it is, in all important respects, a new book." It may be ungracious to take issue with the author on his own statements, but certainly in those features which are particularly interesting to accountants there is little change from the views and material included in the former edition. Of the three factors which there is every reason to believe will have a determining effect on financial policies of corporations in the future little is said, and that little is so vague and general as to be of small value as a guide in determining or anticipating the future policies of corporations.

The first of these factors is the federal securities act which is given four or five pages of text and a few scattering references throughout the volume. One would certainly expect in a work of this sort a full analysis of the act, some considered statement as to its effect in withholding the flow of investment funds from their legitimate channels and some expression of views as to what revision is necessary in the act and what features of it are of permanent value. We find nothing but vague and brief suggestions upon these points. With the vast reservoirs of material at the command of the author, with his broad experience in corporate finance and with his clarity of perception and lucidity of style we might certainly expect more than this.

The second important factor with which everyone responsible for or interested in corporation finance must deal in the near future is the devaluation of the dollar and the subsequent abrogation of the "gold clause" in bonds. Mr. Dewing makes only the briefest reference to this and does not seem to think the violation of the contract with the bondholders and the accompanying uncompensated transfer of interest in the property from the money creditors to the holders of equities is a very serious matter. A statement from a man of the author's experience and eminence on the effect of governmental interference with private contracts on future financing would be of much significance.

The third factor which has affected most corporations of any size is the government regulation of stock exchanges and, closely allied with this, the recent fairly successful attempts of stock exchanges to improve corporate practices in reporting to stockholders and in the adoption of more nearly accurate accounting principles and methods. Certainly the men directly responsible for the financial policies of corporations have been much occupied with the aims and requirements of the stock exchanges in the eight years which have elapsed between the two editions of Mr. Dewing's book.

In the previous edition exception was taken to many corporate practices in presenting reports to stockholders. No one would pretend that corporate reports at present are perfect, but it is equally impossible to deny the substantial improvement that has been made in the last few years. Mr. Dewing, however, does not seem to think this movement is of sufficient significance to be noticed, and he apparently does not think the work of the securities and

exchange commission will have much bearing on the financial policy of corporations.

By the omission of these things the principal value of his work is reduced to the historical and here it is of real importance. The large volume of material is presented in a clear and interesting manner. It is well organized and the examples are pertinent, interesting and frequently amusing. With many of the author's views it is impossible to disagree. However, his treatment of accounting theory and practice, which occupies the greater part of book IV, is such that it seems impossible that any practising accountant of experience and standing could agree with him.

We find on page 497 these "postulates"—“(1) that there can be a money value fixed to correspond with every economic value; (2) that this fixed money value changes in a definite and determinable ratio in accordance with changes in the corresponding economic value; (3) that any one economic value in a series of changes may be represented by the corresponding money value.” No matter what parts of the book are new, these are word for word as they stand in the previous edition.

The author's curious views, expressed with a vigor and clarity equalled only by their inherent error, have not altered with the years but have rather strengthened. He still ignores the basic concepts of accountancy: that financial rather than economic or physical facts are to be recorded and that the receipt or expenditure of money or the realization of assets in terms of money or the imminent probability of these things is the stuff of accountancy rather than changes in "value" of some sort, measured by some undetermined scale and revised with confusing frequency. The author complains that accountancy is not an "exact science" and "the accountant does not tell the business man what to do." It is hardly possible that the author is seriously proposing to shape business policies and transactions to fit the accounts rather than to adopt the accounts to transactions—but if that is not his meaning it is difficult to deduce another.

To the accusations of being a "pragmatic science" (page 495) accountancy can do nothing but plead guilty, but in this pleading every science based on human actions and emotions must join. Accountancy deals first with persons and with things only as they are owned by, owed to or used for the benefit of persons. They are represented by what persons have paid or will pay for them.

Perhaps the "pragmatic science" most closely related to accountancy is law. Sir Henry Maine in his book *Ancient Law*, says of primitive law: "Law has scarcely reached the footing of custom, it is, rather a habit." The whole fabric of the law is built on this and scientific jurisprudence is a series of principles deduced from the mass of custom and habit which formed the primitive unwritten law. The conception of a primordial and divinely ordained code, while a useful basis on which to enforce obedience, has no warrant from an historical point of view.

Accountancy, in its sphere, has done for business some of the same things which law has done for the community at large. It has provided reasonably consistent and uniform methods of describing transactions, in themselves not always consistent, and has provided for a record of transactions and their results, expressed in conventional units and by conventional means. It is folly, and dangerous folly, to attempt more.

All attempts to inject into accounts conceptions of "value" not supported by transactions, actual or to be consummated in the near future, open the way to manipulation and deceit and deprive the investor of any solid basis for his conclusions. Closely bound up with this is the author's conception of the income account as "dynamic" and the balance-sheet as "static." The balance-sheet is a chronological record of investment in the same way that an income account is a chronological record of earnings. One is no more "static" than the other.

Enough has been said to show that Mr. Dewing's views are no more like the usual concepts of accountancy now than they were in 1926. As accountants can not now do what Mr. Dewing desires any more than they could when the earlier editions appeared, his opinion of them has not improved.

While this book may not be of the greatest value to corporation executives and accountants who are faced with immediate problems of corporate finance it does, nevertheless, provide part of the background which anyone responsible for the finances of corporations should have and it provides it in a manner which is clear, interesting and authoritative.

MAURICE E. PELOUBET

BEFOERDERUNGS—UNTERNEHMUNGEN ZUR SEE, by OTTO REUTHER. *C. C. Poeschel Verlag*, Stuttgart. 233 pages. 1933.

Accountants interested in ocean shipping and in a more intimate knowledge of the industry than can be gathered through the usual audit procedure will find *Befoerderungs—Unternehmungen Zur See* very useful. One is impressed by the thoroughness with which the subject has been treated. All aspects of importance are dealt with broadly and comprehensibly.

The opening chapter is purely introductory. Characteristically it starts with a definition of terms. Thereupon it deals with the position of ocean shipping in relation to other forms of transportation with its international competitive character and with the resulting special types of organization ranging from single-vessel ownership to the modern giant enterprises. It shows the conflicting political interests of the national government against the financial interests of the lines themselves and stresses the differences between ocean and rail shipping under government control.

Very readable chapters on sailing vessels, freight and passenger steamers follow the general introduction. Apparently the sailing vessel still remains an important factor in long-distance mass transport and as a training school for seamen. The relative advantages of size and speed are discussed; problems of construction, interior division and arrangement, machinery and fuel, loading and unloading questions are considered. Size, speed, luxurious interior and general demands for safety and comfort in passenger vessels, the élite among ocean steamers, place them in a special class.

The next chapters deal with the authority and responsibilities of various personnel groups, their care, pay and organization. Considerable space is given to the catering problem. Then follow treatises on navigation; harbors and their facilities; subsidiary activities such as towing, trucking, stowing, warehousing, delivery, ship-chandlery, etc.; admiralty law including interesting paragraphs on signaling and the use of the flag; classification and insurance.

This completes the first part of the book.

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Part II deals principally with finance, accounting and management. It commences with a general discussion of capital requirements and returns, relations between the investment in floating and other equipment and between fixed and working capital.

A chapter on depreciation sets forth the difference between actual and service life of the various types of vessels and of vessels in different kinds of service, the effect of extensive repairs, obsolescence and the writing down of book values to nominal amounts. Rational conclusions are drawn, in substance admitting that the cost of a vessel should be written off proportionally over the years of its useful life, the periodical provisions being a part of the vessel's operating cost. The author does overlook the additional need for frequent overhauls and reconditionings and the merits of supplementing the regular depreciation policy by extra provisions as warranted by the profits. The conflicting views of the tax collector are presented and the effect of exchange fluctuations is described.

Other chapters include a classification of operating accounts, the temporary character of which is acknowledged by the author. Powerful arguments are brought forth against the inclusion of interest in the operating costs. The various expenses and revenues are examined in considerable detail. The balance-sheet and profit-and-loss statement, voyage accounts, budgeting and rate making receive their full share of critical observation. The last twenty pages deal with general policy, forms of organization and conditions in the business. At the end a list of available literature is given.

The general accounting principles set forth are sound, but they shed no new light upon any of the important controversial questions. The great merit of the book to the profession lies in its comprehensive treatment of a subject that must be of considerable interest to a number of practitioners.

A. VAN OSS

DE LEER VAN HET BOEKHOUDEN, by O. TEN HAVE. *J. Waltman, Jr.*, Delft, Netherlands. 305 pages.

De Leer Van Het Boekhouden deals almost exclusively with bookkeeping in the Netherlands during the 17th and 18th centuries. The opening chapter gives an historical survey of the general industrial development and of certain trade customs and business methods in the Low Countries from their ascendancy culminating in the 17th century to their swift decay in the 18th. The second chapter takes up more than one half of the book. It gives the history of bookkeeping and of methods of instruction in the art and is for the greater part devoted to the Dutch authors on the subject, the books written by them and specific cases in those books.

A few pages follow on the literature of these days in other countries. The quotation from an English source, "Holland was the training school not only of many of our own writers, but of our merchants," is significant of the prominent position of the Low Countries in accountancy, commerce and finance and recognizes the extent to which they were a leading factor in the development of the art in the 17th and 18th centuries.

Chapter IV reviews the material of the preceding parts. The gradual segregation of accounts into different groups such as personal, nominal, proprietary and other accounts; the emergence of general rules for debiting and crediting;

expansion of trial balances into balance-sheets; subdivision of the journal; quantitative inventory control; single entry; prevailing industrial accounting; etc. are briefly discussed and the contemporary record of various kinds of transactions is shown.

Several appendices are annexed. The first give descriptions and studies of material found in Dutch archives and libraries. A list of sources, an index and some very interesting reproductions of title pages, a page of a journal kept in 1589 and a closing trial balance of the year 1600 add to the usefulness of the book to those who are interested in the subject.

A. VAN OSS

FINANCIAL ORGANIZATION AND ADMINISTRATION, by W. MACKENZIE STEVENS, *American Book Company*, New York. Cloth, 670 pages. 1934.

Once in a blue moon a "damned professor" produces a book which makes practical business men and accountants sit up and take notice! Such a book is Dr. Stevens' *Financial Organization and Administration*, in which we have an intensely practical guide for the young business man—and for many an oldster, for that matter—on how to organize a business, how to raise capital in the most advantageous way, how to avoid the pitfalls of over- and under-capitalism, how to foresee and prepare for business cycles, and generally how to administer effectively the financial and operative affairs of a going business. I confess I took up the book with some reluctance. The country's experience with academic theorists has not filled me with enthusiastic admiration for college professors in business, and the flood of books on the new economics led me to expect just another "ism." But here is a writer with both feet on the ground who knows from long experience in various capacities how business is managed—and mis-managed—and writes vigorously and clearly of what he knows. Withal a sense of humor and a keen wit pervade his pages, as, e.g., in his good-humored, cynical advice on what to do in case of monetary inflation:

"If the financial manager believes that inflationists will reach their objectives, practically all the principles of effective financial management must give way to one, viz.: convert all assets into residual equity claims on as much physical property or commodities as it is possible to procure; and convert all possible liabilities to others than yourself into liabilities payable in fixed numbers of dollars. Thereafter your creditors and investors must take payment in depreciated currency at the nominal rates prescribed in the contract, while the commodities and property you hold rise to their real value. By this means the property of others is conveniently and legally transferred to you. The mutuality of interest between competent corporate managements, stockholders, investors and employees is destroyed by such a process, of course. But it is the essence of monetary inflation to take property by law from those who have claims stated in specified numbers of dollars and to give this property to those who have the residual or equity interests. Ordinary rules of good business no longer apply. By law, every man is encouraged to grab as much and as soon as he can at the expense of his neighbor, his employees, his investors and those who supply him with goods. Under such conditions the business man will profit most who operates his business as a speculative enterprise" (p. 396).

The book is divided into three major parts. Part one (chapters I–XI) deals with financial organization giving descriptions of all types with their comparative advantages and disadvantages. A significant chapter is the one on

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reorganization of a failed business, a matter upon which many a public accountant may be called for advice in these days. Most of this part is devoted naturally to corporate forms of organization, including an instructive chapter on capitalization.

In part two the author explains the different ways of procuring capital, whether by borrowing, selling stock or self-financing, with useful hints as to the best methods for a new business. Where to incorporate is the subject of an interesting discussion (chapter XVI), and the final chapter XVII of this part, "Public regulation of the sale of securities," is a rather startling revelation of liabilities that may be incurred unwittingly by incorporating in certain "blue-sky-law" states. And yet, in the opinion of Dr. Stevens, the innumerable exemptions provided in most of the blue-sky laws practically nullify the purpose of the acts to prevent stock swindles while placing a heavy and unnecessary burden on honest promoters. He gives two pages to a list of the fees and expenses which may be imposed in certain states with the closing sage comment, "In some cases, the amount of capital necessary to get permission to sell stock would be sufficient to start the business if such complicated and expensive permission were unnecessary" (p. 321). Aside from this burden, which might be plausibly defended as being for the public welfare, the author's further conclusion is sound—"The paternalism attempted is impracticable—if our population is to be treated by our legislators like children, the securities commission is certainly not a very satisfactory parent" (p. 333). Necessarily this chapter is short—a full treatment of the blue-sky laws, including the federal securities act of 1933, needs a book by itself, which Dr. Stevens promises in the near future. It will be welcomed by public accountants at least.

Part three (chapters XVIII–XXV) which makes a good half of the book, covers exhaustively financial administration based on budgetary control. In fact, by itself it is a treatise on the science and art of budgeting and forecasting, well illustrated by tables and graphic charts—a good workmanlike job. In the light of recent government activities and plans, pessimistic readers may consider superfluous the last chapter on surplus and reserves, but at least it rounds up the book with the traditional happy ending dear to American optimists!

Painfully aware of how inadequate is this brief review of a really notable book, I must fall back on the customary reviewer's tag—the book must be read to be appreciated. Nevertheless I am sure no reader will regret the time he gives to it.

W. H. LAWTON