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Book Reviews

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AUDITING—THEORY AND PRACTICE, by ROBERT H. MONTGOMERY. *The Ronald Press Company*, New York. Cloth, 772 pages. 1934.

In its familiar dress Mr. Montgomery offers to the profession the fifth edition of *Auditing—Theory and Practice*, revised and re-written to show the developments in auditing practice during the eventful years since 1927. Withal it is much condensed as compared with the 3rd edition of over 1250 pages, in two volumes, and the 4th of 860 pages. Much irrelevant matter has been omitted, such as details which belong more properly to accounting theory and practice, tables and specimen statements which are readily found in statistical handbooks, special instructions for auditing different classes of business, etc. The liberal extracts quoted from legal decisions might well have been eliminated without affecting its usefulness as a text-book. However interesting and informative these may be to experienced practitioners, they are rather beyond the grasp of the average student. Nevertheless the shortening of the book is a distinct improvement.

Another improvement is the change of arrangement in considering the balance-sheet and detailed audit together. Although we may still cling to distinctions in classes of audits, there is no blinking the fact that courts and the public are becoming impatient of them and are inclined to insist upon full examination and verification no matter what the auditor may call the audit. With the growing mandates of the laws and the public no auditor worthy of the title will hesitate to make as detailed an audit as he considers necessary.

Once more the author is compelled to discuss the reasonableness of the time-honored rule of "cost or market whichever is lower" as the basis for valuing inventories in abnormal times. As before, he admits that there may be exceptions to this as to all rules. That, of course, is common-sense. If the inventory is really worth less than cost or market value, it is the business of the auditor to disclose the fact. But why should it be necessary to state the current profit or loss on the basis of such low valuation? Why not treat the inventory purely as a suspense item by basing it on actual cost, thereby showing the balance of the purchase account as the cost of goods sold in the period? One of the reasons against revaluation is, as the author says (p. 203) that "writing down to market value may show an apparent profit in the succeeding period." But it does more than that. It saddles the current period with a part of the cost of goods sold in the next, thus distorting the profit or loss in both. The only excuse for it is the plea of anticipating a loss that *may* occur. But this possibility is easily disclosed by showing the reduced valuation in memorandum, as the author himself says in the same paragraph. Correct auditing procedure is not affected, as the auditor must ascertain the true value of the inventory in any event, but it would simplify matters for the reader of financial statements and eliminate wrangles with treasury agents. Costs can easily be proved from the records while professional opinions are—opinions.

The chapters on capital and surplus should serve to clear up a lot of confused thinking on these subjects, especially in reference to no-par stock and so-called reserves. The closing chapter on liabilities of directors contains some valuable suggestions for the practising auditor. While few except listed corporations are affected by the stock-exchange acts, many state legislatures have enacted or are considering more or less drastic laws concerning the responsibilities and liabilities of directors; and the alert auditor can be of great service in calling attention to acts, or failures to act, which may be discovered in the course of an audit.

Hypercritical as it may seem, I venture on behalf of the young auditor, who in the majority of cases will become a small-town practitioner, to protest against Mr. Montgomery's sweeping statements that "it is no part of an auditor's duties to locate errors on the trial balance," and that "any one who spends his time in such work is not and is not developing into a professional auditor" (pp. 73/4). On the contrary, helping the bookkeeper to find his errors should go far to enlist his cordial coöperation during the audit, and I know of no better way for the young auditor to gain practical experience in finding mistakes. Moreover, it is fair to assume that the bookkeeper has already done his best, and if assistance is refused there is danger of his forcing a balance somewhere —which might give the auditor still more trouble!

Comparing present with past auditing practice, one is struck by the tendency of auditors today to assume a more assertive and authoritative attitude in laying out audit programs and determining proper disclosures to be made in statements and reports. Inasmuch as Mr. Montgomery, from his earliest edition (Dicksee's), has always upheld the highest standard of professional independence and responsibility, it must be gratifying to him to observe this realization of his life-work.

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