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Book Reviews

W. H. Lawton

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Book Reviews

THE VALUE OF A BALANCE-SHEET, by SIR MARK WEBSTER JENKINSON.
Gee & Co., Ltd., London. 31 pages.

The Value of a Balance-sheet is a reprint of an address delivered before a joint meeting of bankers and accountants at Sheffield, England, on March 15, 1928. It is a remarkably clear, concise and comprehensive summary of what a balance-sheet of the present standard is, what it is not, and what it ought to be in order to convey adequate information to that most helpless of mortals in the financial world, the shareholder. Like Kipling, the author has the knack of epitomizing in verse the gist of his "story," and I can not refrain from quoting the heading:

"We have told the truth in our tale to you
So far as the records show,
But whether the telling is strictly true
Minerva alone can know.
Fixed assets are valued according to cost,
But you have to settle their *worth*.
Is it more? Is it less? We leave you to guess,
If you can—can you value the Earth?"

Could there be a better description of the average balance-sheet?

Most of us are fairly well acquainted with the limitations of a balance-sheet. With the comment that I have never seen its merits and defects so vividly contrasted as in this address, I pass to the author's suggestions for reforms and improvements in shape and scope.

First, he recommends the change of form of the balance-sheet so as to emphasize

- "(a) The amount of working capital available.
- "(b) The extent to which the share capital is represented by fixed assets, the value of which varies with the earning power of the business."

This is really a change from the English form showing the capital assets and liabilities first to the American form which shows the current assets and liabilities first, with the addition of carrying down the actual balance of current assets or liabilities as the case may be from the current to the capital section. This is not entirely new, and the suggestion has much to recommend it. Bankers and creditors always figure it out for themselves, but the ordinary investor simply looks for the surplus item, and the significance of the current net assets escapes him entirely.

The author's second recommendation, which is a new one, is that in addition to the regular annual audit there should be periodical five-year examinations or surveys for the purpose of ascertaining the trend and prospects of a business. To a limited extent the three-year comparative balance-sheets which are often submitted in our own practice show this service, but we merely set out the figures of past years and make no attempt to show their significance. The sort of report suggested by the author would tell the shareholder plainly whether the business was gaining or losing.

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And lastly he proposes an "audit" of the management! Or, as again epitomized in a closing verse.

"One asset is omitted—and its worth I want to know,
That asset is the value of the men who run the show!"

Impracticable? Impossible? Perhaps. Yet ". . . if inefficiency in management could be brought to light before too late, incompetent administration being replaced by men with the necessary knowledge, imagination and intuition, more capital would be attracted to industrial enterprise as the result of greater confidence which would exist."

Well said! And who if not the auditor is to perform this service for the shareholders?

W. H. LAWTON.

ERRATUM

By a typographical error in the review of *Effective Business Letters* by Edward Hall Gardner and Robert Ray Aurner in THE JOURNAL OF ACCOUNTANCY for July, Mr. Gardner's name appeared as "Carpenter." This notice is published in order that readers may correct their records.