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Book Reviews

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THE FINANCIAL POLICY OF CORPORATIONS, by ARTHUR STONE DEWING. *Ronald Press Co.*, New York. 1281 pages.

The present volume of *The Financial Policy of Corporations* is referred to as a revised edition of the previous work of the same name in five volumes published some six or seven years ago. It is, however, much more than that as it consists of nearly one-third new matter, and it should be regarded more as a new work than a mere revision of the former edition.

The chief feature which distinguishes this work from others on the same subject is the careful and usually successful effort made to coördinate finance, economics and accounting, which is rarely attempted in works of a similar nature. Professor Dewing is a trained economist, a well informed financial student, but, one is forced to conclude, only a rather indifferent accountant.

The greatest shortcoming of this book, written in a lucid and interesting style and full to overflowing with exact and well ordered information and original and stimulating views, is its distressingly consistent misapprehension of the functions of accountancy and the accountant.

Professor Dewing's views on this subject are thus summarized on page 453: "The fundamental presupposition of accountancy is that all economic values can be expressed in terms of a common unit. This unit is money. Following upon this presupposition there are these three 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."

Without considering the question as to whether or not expression in a common monetary unit is more fundamental than the principle of equivalence—or action and reaction—characteristic of double-entry, and ignoring those instances where correct double-entry accounts are kept without the use of a monetary unit, it still seems doubtful whether the assumption that all economic values can be expressed in terms of money is fundamental to accountancy or is even generally taken into consideration. A favorite and frequently expressed misconception of Professor Dewing's is that accountancy is a system of valuation and revaluation which attempts to value and revalue all economic factors in a business.

As a matter of fact and practice financial accountancy is primarily concerned with stating cost and realization in terms of money. As a general rule economic factors until brought into the accounts by payment of money or transfer of property are not considered, although naturally every accountant knows they exist. Personal character and ability, reputation, organization—often the determining factors in the success of an enterprise—are seldom if ever brought into the accounts until their existence is evidenced by a sale or through increased earnings and even then they are not brought in as such. Many economic changes take place long before realization but are not recorded until they result in a change in the realizable assets. Increased value of plant, land or further usefulness of machinery through increase in demand for product not previously anticipated are examples of changes in economic value which are not and should not be recorded until realized.

Every accountant knows that monetary values in the accounts do not and can not change pari passu with economic values. One reason for this is that at the time an economic change takes place it frequently is not recognized or can not be measured and is often counterbalanced by some other economic factor before its effect is realized in money. Permanent economic changes of value sooner or later result in transactions which realize these changes in money but until that time they are not usually a fit subject for treatment in the accounts of an enterprise. Of course in the event of sale these factors, so far as known, would be taken into calculation but even then only to the extent paid for in money or property.

The ideas that the accountant is a valuer, that his "valuations" have a direct and determinable effect on the figures shown in the accounts and that his object is to present the economic rather than the financial status of a business permeate Professor Dewing's whole work and are the cause of the slurring remarks and unfounded implications concerning accountants scattered so plentifully throughout the book.

The general plan is the same as in the former five-volume edition, that is, description of corporate securities, promotion of corporations, administration of income, expansion, failure, reorganization and corporation securities from the investors' viewpoint.

The first section is a clear and well documented description of the various types of securities a corporation may issue and the information, so far as facts go, is full, useful and admirably presented. Its effect, however, is marred by not infrequent sweeping generalities which are not merely inaccurate but which are themselves often contradicted further along in the book.

For instance on page 4, the author thinks the setting-up of bond discount on a balance-sheet as a deferred charge is a "fictitious bookkeeping entry" and on page 513 the practice of writing it off in one year is "pernicious." The bewildered accountant thus has the doubtful privilege of choosing to be either fictitious or pernicious.

Another example: page 12 states flatly and without qualification that "mines find it impossible to sell bonds" while on page 602 the method of providing sinking funds for "most mining bonds" is described as "requiring the payment to a trustee of a certain sum of money for each ton of mineral removed." Rates for various minerals are given and specific issues by various mining companies are described and discussed.

Too much attention need not be paid to venial inconsistencies such as these but they can not fail to detract from the value of the work as a whole, as they tend to cast doubt on statements which may be entirely correct and exact.

The lurid description of "lawyers' clerks" appraising property "ostensibly worth millions of dollars" and the statement that "securities are brought into existence by the mere fiat of ignorant and irresponsible clerks" (page 29) are so wide of the mark (the author is not speaking of cases where fraud is intended) as to be little better than fantastic. It may, of course, be true that clerks sometimes temporarily represent real owners or promoters, but they are in such cases far from irresponsible and presumably would be so bound by instructions that their ignorance is of little moment.

Professor Dewing's book is dedicated to Professor Ripley. It would be interesting to hear the dedicatee's comment on a whole-hearted advocacy of lumping surplus and the no-par stock figure together in a balance-sheet. Page 31 states that the best way in which no-par-value stock may be brought onto the balance-sheet is "not to bring it on at all". It does not seem possible that the potential benefit to those few stockholders who are impelled to inquire into the actual value of the stock will compensate for the opportunities for concealment opened up by this method of grouping no-par stock and surplus in one figure.

The second section deals with promotion and, except for the general weakness as concerns accountancy, the information appears to be full and accurate and presented in a lively and graphic manner, particularly the chapter on marketing low-grade securities, which can only be described as absorbing, accurate and amusing.

The third division, administration of income, is much the weakest of the six. Misconception of the function of accountancy colors the entire section. Page 461 appears to say that the creation of a depreciation reserve brings a fund into being. Under the caption "Confidence in accounting methods" (page 544) we are told that "the second determining factor of dividend policy, that of lack of confidence in the accounting methods of the corporation, is always in the background of the minds of corporation directors. As suggested several times before, accounting methods are efforts to state precisely—or rather with that degree of precision figures make possible—a set of varying, and in many cases intangible, economic values. So long as these estimates serve only as checks to actual conditions, errors in them are not vital. But should they mislead the judgment in distributing as net profit what was, in truth, capital, the consequences to the solvency of the corporation would be serious. . . . Furthermore, in addition to any possible losses which accountant and director alike might anticipate, it frequently happens that there are contingent events which no system of accounting, unless omniscient, could protect the corporation against."

These quotations illustrate admirably Professor Dewing's consistent attitude towards accountancy which is to criticize it because it does not exercise many capabilities and functions highly desirable but unfortunately non-existent, such as the possession of exact measures of valuation and even clairvoyance, and then solemnly warn the world that these virtues and powers are not to be found within the realm of accounting theory and practice.

Just why the distinction between income and capital should or could be differentiated from estimates that serve as a check to actual conditions is difficult to fathom as is also the state of mind of the directors of a corporation who pay large sums to maintain an accounting department to produce statements by methods on which they steadfastly refuse to rely. The revelations of such hopeless pessimism would be almost comical were they not pathetic.

The fourth and fifth sections on expansion, failure and reorganization are by far the most valuable and original in the book. The application of the law of diminishing returns to corporate policy under the title of the "Law of balanced return" is a brilliant example of the practical application of economic theory and forms the groundwork of these two sections. The considerations involved in expansion and the reasons for and against extension, depending on the type of business, are given clearly and fully and are reinforced by many examples. Anyone responsible for or associated with a corporation which has expanded or is contemplating expansion would do well to "read, mark and inwardly digest" these two sections.

These two sections are largely based on another and earlier work by Professor Dewing entitled *Corporate Promotions and Reorganizations* and embody basic principles and laws deduced from the wealth of material gathered there as well as illustrative material from that and other sources.

If there could be any justifiable complaint of this portion of the book it might be that Professor Dewing is somewhat in the position of a surgeon who is overly used to the diseased and abnormal and perhaps just a little too interested in that aspect of things. One would gather the impression from reading these two sections that the proportion of badly organized and badly managed corporations is greater than it really is and that corporation management is more generally inefficient than is really the case. He presents so many horrible examples that one's capacity for shocks and shivers is greatly dulled by this long programme of a financial Grand Guignol.

The final section deals with corporate securities from the investor's point of view and discusses the relative advantage of investing in money or commodities, as represented by bonds or stocks, and the considerations which should govern investment, besides pointing out that economic features especially should be given consideration.

In general this book is a mine of information, written from a fresh and independent viewpoint, in a style more readable and entertaining than would be thought possible on such a subject. Views which are unusual and diverge from those commonly held are numerous and are fearlessly stated: for instance, on page 613, that the real value of sinking-fund provisions from the investor's viewpoint is very slight; on page 59, that the cumulative provision in respect of preferred-stock dividends is of little practical value; on page 26, that the stockholders' investment has little real significance as security to creditors; on page 50, that a provision protecting the preferred stockholders in case of liquidation has little real significance.

While one may disagree with Professor Dewing in many things his opinions are always clearly stated and he is never dull—qualities which are desirable and rare. A work such as this might conceivably be of more value in stimulating thought and discussion than one written less brilliantly but with a more meticulous adherence to accepted points of view and methods.

MAURICE E. PELOUBET.

FEDERAL INCOME AND ESTATE TAX LAWS—CORRELATED AND ANNOTATED, by Walter E. Barton and Carroll W. Browning. *John Byrne & Company*, Washington, D. C. 651 pages + index.

The prefatory comments of *Federal Income and Estate-tax Laws* state that this is the third edition of this work.

That which will appeal to tax consultants and practitioners in this book is the ready comparison therein made, section by section in columnar form, of the last six revenue acts as related to income and estate taxes. As is well known, there have been many changes in the laws with respect to these taxes since the first comprehensive act was passed in 1916.

When one is confronted with a particular issue to be raised with the commissioner the first question presenting itself is: What was the law as to this matter during the year in which the issue presents itself? Then: What did the law provide on this particular point in preceding years and subsequent years? While it may be presumed that the law as to any given particular in a given year is the all-important one, it is quite probable that the change made in the wording of a particular section from that which obtained in a previous act may reveal valuable information as to the trend of the thought of those enacting the law. With this added information one reads the present act's provision and obtains a more definite idea of the proper interpretation of the sometimes vague language used to convey the thought. It is much more convenient in such cases to refer to a book such as this one under review, than to dig out of one's library the several enactments and make the comparison.

In this book one needs simply to turn to the particular section number and from left to right read the provisions of the federal income and estate-tax laws of 1926, 1924, 1921, 1918, 1917 and 1916. The book also contains the revenue acts of 1861, 1862, 1863, 1864, 1865, 1866, 1867, 1870, 1894, 1909 and 1913, but as these acts are so different in structure from the later acts (and as their provisions are now comparatively unimportant), the columnar form of presentation is not followed.

The indexing of this mass of vital material is most comprehensive and the voluminous annotations are individually brief, clear and pungent.

This work will be found a very valuable book of reference to all who are interested in the subject of federal taxation. The reviewer's reaction upon seeing it was one of wonder that it had not come to his attention heretofore, (this being its third edition) and he fancies that the cause may have been his haste in consigning a former communication concerning it to the waste basket.

STEPHEN G. RUSK.

BANK BOOKKEEPING AND ACCOUNTS, by JOHN A. MEELBOOM and CHARLES F. HANNAFORD. *Gee & Co., Ltd.*, London. 221 pages.

Bank Bookkeeping and Accounts, revised and largely rewritten, now in its fourth edition, is known as volume I of the second series of books published by Gee & Co., under the general title of "The accountant's library." Most accountants are familiar with the series. For the benefit of the junior members of the profession it may be stated that the object of this series is to provide detailed information as to approved methods of keeping accounts of all leading classes of industry which call for more or less special treatment in the manner of keeping their books and recording transactions. The present volume adheres strictly to its subject and explains in a concise manner the various transactions handled by a bank, the methods of recording these and the records to be kept. A full section is devoted to foreign transactions, both in relation to the foreign branch and to the head office. There are also chapters on the use of machines and labor-saving appliances in banking work. The book is intended for the use of bank bookkeepers, auditors and accountants as well as for accountants generally who may have to do with the audits of banks or who may be called upon to advise regarding their bookkeeping records.

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