Book Reviews

NO-PAR STOCK, by Carl B. Robbins. *The Ronald Press Co.*, New York. 228 pages.

As the author of *No-par Stock* states, there are available few authoritative and no exhaustive discussions of the subject of his book. Under these conditions the present work would have been assured of a welcome if its modest origin and the somewhat restricted background of the author, so clearly indicated in the preface, had governed to a greater extent the author's approach to the problem and his attitude toward those who have been called upon to deal with it.

He does not discuss the problems in relation to contributions of capital in the form of property other than cash, which lie at the root of the difficulties in dealing with capital stock—with or without par value. Such questions arise as whether in any given case the *property* is itself the contribution to capital, or whether the capital is properly the *value* of the property at the time of contribution, and, if the latter, how the value is to be determined. These questions and the practical difficulties that arise from the adoption of any given solution are outside the scope of the author's work, although they constitute the major part of the problem of formulating rules in regard to capital which shall afford reasonable protection to investors and creditors without unduly hampering the conduct of business in the corporate form.

The author emphasizes the distinction between stated capital, capital contributed and capital rights in liquidation, and his whole work is predicated on the assumption that what he terms the stated capital is the figure of paramount importance.

"The amount of assets impounded for the security of corporate creditors is," he says on page 20, "properly termed a corporation's stated capital." His discussion of the question is rendered more difficult by the terminology which he here adopts. Passing by the use of the word "impounded," it is not at all clear why he should use the term "stated capital" in the sense indicated when it is used in other senses in the statutes, and when the concept would seem to be much more accurately described by some such term as "legal capital" than by the term "stated capital."

As a result of this unfortunate terminology we find the author on page 30 defining the stated capital as being the stated capital plus something else. In the rule for determining the amount of "stated capital," one item of the aggregate of which he says it is composed is "the aggregate *stated value* of all *stated value* no-par shares which have been duly subscribed and any excess of the subscription values *over the stated value* that was intended to be devoted to capital uses, plus," etc. (italics mine).

A quotation from page 140 of the book will serve to indicate the author's views, attitude and methods:

> "Attitude of Accountants.—The astonishing thing about these fallacious methods is that they are supported by the largest and most reputable firms of certified public accountants. For one interested in the accounting profession, it is most trying on his tolerance to peruse a balance-sheet on

> which no-par capital stock is carried at, say $1, and then to note that the accountant who compiled the balance-sheet has attached thereto an unqualified certificate of its accuracy. Little wonder that such accounting practice has received this tart comment by Professor Ripley, 'Did ever accountants heretofore subscribe to such a contradiction in terms. . . . Further comment upon such an accounting monstrosity—or shall we call it acrobatics—is superfluous.'
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> "The accountant who certifies that the stated capital of a corporation is, say, $100,000 and the surplus $25,000 when as a matter of fact the stated capital is $120,000 and the surplus is $5,000 is getting on dangerous ground. He has certified to a falsehood and his position cannot be justified.
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> "A large majority of the certified balance-sheets of no-par stock corporations are grossly inaccurate in their statements of surplus and stated capital.
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> "The accountants have not intended a breach of professional ethics—although in fact they have committed as much—but they have acted in sheer ignorance of the facts."

Incidentally a portion of this quotation is a repetition of a paragraph to be found on page 135 except that the author's enthusiasm has increased enough to cause him to put the word large in front of the word majority.

His earnestness is undeniable. He is so convinced of the validity of his method that he speaks confidently of falsehood, gross inaccuracy and breaches of professional ethics as necessary consequences of any failure to adopt it.

Since the published accounts of important companies usually reflect the considered conclusions of accounting and other officers of the corporations, lawyers and perhaps bankers as well as the certified public accountants, the relatively limited experience of the author might have suggested the wisdom of less sweeping and more temperate statements.

By what is doubtless an unfortunate coincidence the two cases cited on page 140 both fail to support the criticism. Accountants are not alone in "acting in sheer ignorance of the facts."

The comment of Professor Ripley which is quoted with warm approval relates to a treatment of no-par-value stock which seems to be according to the author's own tests, an exception to the general rule that the capital of no-par-stock corporations is inaccurately stated. On page 4 he says, "A corporation which has true no-par shares may accumulate a paid-in surplus by expressing an intent in the subscription contract" and that when this precaution has been taken "accountants may assume that the express intent of the parties governs and proceed accordingly in setting up the stated capital and premium surplus on the books of the corporation." Neither he nor Professor Ripley suggests that in the case alluded to the accountants followed any other procedure. Professor Ripley's criticism was that it was inherently absurd to show at $1 the capital stock which was entitled on liquidation to $100, and it is strange that Mr. Robbins should echo and endorse Professor Ripley's criticism, though at the same time insisting that there is no relation whatever between the amount to which the stock is entitled on liquidation and the figure at which it should appear on the balance-sheet.

The subscription contract in the case referred to may not have been available to Mr. Robbins; but the charter, which is available, in article 7 provides definitely for the exact procedure that was followed. Why then assume that the subscription contract did not so provide?

A serious defect of the author's method is illustrated by the statement immediately preceding that quoted above and by the footnote which appears on the same page. The author condemns as utterly absurd the method of showing no-par shares at market value and adds a footnote as follows:

> "The Famous Players-Lasky Company in 1921 apparently carried its no-par stock at the market price for balance-sheet purposes." E. E. Lincoln, *Applied Business Finance* (3d ed.), p. 94, footnote 1.

The author relies here on second-hand evidence. A little investigation has shown that when the Famous Players-Lasky Corporation was formed in 1916 the principal merging interests agreed upon valuations for their properties, tangible and intangible, and thereafter agreed to issue stock for the properties—one share of stock for each $80 of value. In some cases option was given to take either stock or cash or part stock and part cash, always with a value of $80 a share for the stock. The public did not know that there was to be any such stock and the stock market valued it later at about $80, thereby recognizing the justness of the estimate by the organizers.

The net effect in this case was precisely that which would follow from the adoption of the author's dictum that if no-par-value stock is issued wholly or in part for goodwill or intangible values those values must be determined and set up as a part of the stated value.

It is possible but improbable that the author could not have obtained all the information as to the organization of Famous Players-Lasky Corporation given above, but the published accounts suffice to show that the statement made is erroneous. Mr. Robbins would be well advised to rely on first-hand evidence, or at least verify and, where necessary, correct his authorities.

In considering evils of no-par stock and comparing them with the conditions under which par-value stocks are issued we find on page 137 that "it is a universal custom to carry par-value shares on the balance-sheet at par regardless of the price at which such shares were issued" and "par-value shares are carried on the accounts at par for a fundamental reason." The author might with advantage look up, as a prominent example, the published balance-sheet of Tobacco Products Corporation.

The book is one which should be used only with care. While recognizing the courage and earnestness of the author I may perhaps conclude this review with the comment which Mr. Robbins makes on the essay which won the prize offered by the Institute in a competition on the same subject—"It is not altogether an adequate treatment of the subject."

FRANK W. THORNTON.

THE MATHEMATICS OF BUSINESS, by WILLIAM V. LOVITT and HENRY F. HOLTZCLAW. *D. Appleton and Co.*, New York. 246 pages.

The subject matter of *The Mathematics of Business* is what is variously called the mathematics of investment, mathematics of finance, commercial algebra or business mathematics. That is, it treats of simple and compound interest and discount, annuities and their applications to sinking funds and amortization, depreciation, building and loan associations, bonds and of probability and its applications to life annuities and life insurance. In addition, it has chapters on logarithms, progressions and computational aids for those who need to review those topics or who have never studied them in their algebra courses. The book gives all the standard subject matter, with a little more practical discussion than is usual in most college texts on mathematics of finance. Its study presupposes a fair working knowledge of elementary algebra, although some topics can be read with only a slight algebraical knowledge. One year of high-school algebra is stated by the authors to be all that is required for reading all the text, although further algebraic study would be very helpful.

The book seems well written and is well printed and attractive in appearance. Exercises are scattered throughout the book and are well selected and of practical interest. Answers to most of the exercises are given at the back of the book. The discussion of the elementary principles of life annuities and insurance is especially good. The standard interest, annuity and mortality tables are printed at the end of the book, but unfortunately the type used for the figures in the tables is very small, making continued use of the tables rather trying on the eyes. Only a four-place table of logarithms of numbers is given; a larger logarithmic table would have been far more useful. A table not found in other books on this subject is a table of monthly accumulations, of use in problems on building and loan associations.

LLOYD L. SMAIL.

THE EXPERTS' PLAN FOR REPARATION PAYMENTS. Published by The Reparation Commission, Paris. For sale in America by *A. W. Shaw Co.*, Chicago. 397 pages.

Although the experts' plan, more popularly known as the Dawes' plan, has been in operation since the autumn of 1924, the numerous group of reports, agreements, decisions, laws and other documents that constitute the plan were never brought together until the publication of the present volume. While some parts of the plan, such as the reports of the two committees of experts, were well known and fairly accessible, other parts were difficult to secure and the absence of an index made almost hopeless the task of following any particular subject through the maze of documents. A comprehensive index is a most commendable feature of the book now at hand.

The volume is arranged under the following divisions: Part I., The experts' reports; Part II., The London agreements; Part III., The new bank and the new currency; Part IV., The new railway company; Part V., The industrial charge; Part VI., The external loan, and Part VII., Agreement regarding the distribution of the Dawes' annuities.

The book is well printed and bound in buckram and will probably be sold at a moderate price. Everyone interested in European affairs will find this book indispensable.

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