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Book Review

*Ratio Analysis of Financial Statements**, by Alexander Wall and R. W. Duning, sets forth the procedure and methods advocated and used by the authors in analyzing a credit risk.

The three factors: personal, financial, and cyclical, that must be taken into consideration in a credit risk, are explained briefly in the first chapter. The authors generally give the approximate values of 40% to the personal factor, 40% to the financial factor, and 20% to the cyclical factor. The remainder of the book develops the methods of analyzing the financial factor.

Two chapters are devoted to the nomenclature of the balance sheet and one chapter to the profit and loss statement. The authors differ from many accountants on certain accounting principles when they state that savings accounts and certificates of deposit should not be included in cash, receivables should represent only claims against firms for goods sold, and supplies should never be included in inventories. In their analysis, they hold that depreciation should be shown as a deduction from the asset, but it is not uncommon, they state, for accountants to show the asset net, after depreciation, or to show one reserve, which includes reserves that are true liabilities, appropriated reserves, and depreciation reserves which apply to assets.

The "common size or 100% statement" is valuable in making it easier to compare one company with another. In this statement the total assets and liabilities are

each set equal to 100% and the proportion of each individual item to its respective total is shown on the statement.

The most important ratios are the four static ratios: the current ratio, merchandise to receivables, net worth to fixed assets, and net worth to total debt; and the four dynamic ratios: sales to receivables, sales to merchandise, sales to fixed assets, and sales to net worth. To these eight, supplementary ratios are added. The authors describe and explain their relative importance, but state that a person must determine the weight that is to be placed on the ratios in each situation.

Ratios are of little value unless there is a basis with which to compare them. Two methods for finding a ratio are used by the authors. It is inadvisable to choose a certain year as a basis, as that year may be a very weak year; consequently, the ratios for the period under consideration might show improvement over the basic year, but the business might be a poor credit risk. Therefore, it is recommended that a five-year period be used as a basis; the total for the five years of each of the two accounts in the ratio is used. The other method of determining a basic ratio is to take the average ratio of a number of similar concerns. To find this average, the authors use the average of the ratios found by using the arithmetical method, the mode, and the median figure.

The last half of the book is an appendix in which the authors take actual cases to illustrate the principles they use when analyzing the financial condition of a credit risk.

* Harper & Brothers, New York, 1928. 353 p.

Additions to the Library

Alford, Leon Pratt. *Laws of Management Applied to Manufacturing*. (New York, The Ronald Press Company, 1928. 266 p.)

American Paper and Pulp Association. *Its Organization, Purpose, Program and*

Accomplishments. (New York, American Paper and Pulp Association, 1928. 12 p.)

Byrne, James Anthony. *Accounting System Suitable for Use of a Club*. 4 p. (Clipping from *The Pace Student*, April, 1924.)

Cotton-Textile Institute, Inc. *An Outline of Bases to be Used in Predetermining Costs for Guidance as to Sales Policies.* (New York, The Cotton-Textile Institute, Inc., 1928. 39 p.)

Hill, Adams Sherman. *The Principles of Rhetoric.* New edition, revised and enlarged. (New York, American Book Company, c1895. 431 p.)

National Industrial Conference Board, Inc. *Employee Stock Purchase Plans of the United States.* (New York, National Industrial Conference Board, Inc., 1928. 245 p.)

National Industrial Real Estate Institute. *Justice and Economic Benefits of a Preferential Basis for the Assessment and Taxation of Industrial Real Estate.* (New York, National Industrial Real Estate Institute, n.d. 20 p.)

Woolley, Edwin C. *New Handbook of Composition.* (Boston, D. C. Heath and Company, c1926. 343 p.)

News Items

Colonel Carter and Mr. Kracke recently sailed for Europe to attend to an important engagement. Colonel Carter sailed on the *Berengaria*, and a few days later Mr. Kracke followed on the *Olympic*.

Mr. C. N. Bullock, manager of our Detroit office, addressed the members of the Associated Sign Manufacturers of Detroit on the subject of "Overhead," at the Wolverine Hotel, Detroit, on October 31, 1928.

Mr. H. Brooks Davies, who has been manager of our San Diego office, has been appointed manager of our Dallas office.

Mr. H. W. Goodson, of our Dallas office, has been appointed assistant manager of that office.

Mr. J. W. Haines has been appointed manager of our Buffalo office, effective November 1, 1928. Mr. Haines until re-

cently was assistant manager of our Philadelphia office.

Mr. O. N. Hutchinson, manager of our Charlotte office, has been elected vice-president and a director of the North Carolina Association of Certified Public Accountants.

Mr. G. C. Rayner, of our Newark office, has become a member of the New York Society of Certified Public Accountants.

A letter from Mr. Wildman to the editor of *The American Accountant*, containing an expression on the idea of the natural business year, appeared in the October issue of that magazine.

An article by Mr. Bell entitled, "Preparation and Issuance of Financial Statements," appeared in the October issue of *The Certified Public Accountant*.

A report of the Special Committee on Arbitration of the American Society of Certified Public Accountants, submitted by Mr. Dunn as chairman of the committee, appeared in the October issue of *The Certified Public Accountant*.

The report of the Committee on Natural Business Year of the American Society of Certified Public Accountants, of which committee Mr. Rossetter is a member, appeared in the October issue of *The Certified Public Accountant*. Mr. Rossetter is chairman of the Illinois Society of Certified Public Accountants' Committee on "The Natural Business Year." He presented the report of this committee at the annual meeting of the Illinois Society in Chicago on September 11.

An article by Mr. Pearce C. Davis, manager of our Seattle office, entitled "Submit It to Arbitration," appeared in the October issue of *Public Service*, a Seattle publication.