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Book Reviews

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HARMONY BETWEEN LABOR AND CAPITAL, by OSCAR NEWFANG. *G. P. Putnam's Sons*, New York. 238 pages.

The creed of the author of *Harmony between Labor and Capital* is set forth on the wrapper of the book as follows:

(The book)

> "Sets forth the drawing-account wage, a new application of the partnership principle to industry. Workers would have a drawing-account or preliminary wage similar to the drawing-account of partners in a copartnership; at the close of the year's business, after a fair dividend has been paid upon capital, the remaining earnings are to be allotted to workers, both managerial and manual, in proportion to salaries or wages. The preliminary wage is to be determined by free competition, but the final earnings of the workers will be whatever they can make the business earn above a reasonable dividend on capital.

To lay bare the causes of strife and to present a "comprehensive and final solution" of the problem of establishing harmony between labor and capital is the professed object of this book. Part 1, causes of industrial discord, is a presentation with which little fault can be found, although colored somewhat by an exaggerated idea of the extent to which capital dominates labor. Part 2, dealing first with employers' methods then with workers' methods of trying to establish industrial harmony, hits at both, severely and with effect. Throughout all this part of the book the author writes as though the division of income between capital and labor were such that capital received the great bulk of it. The opposite is the case. The amount paid in wages and salaries by the corporations of this country exceeds many times the amount of profit accruing to capital. In the year 1921, individuals reported income from dividends 2,476 million, and 13,813 million from wages and salaries; the majority of wage earners were not represented even in these figures, being tax exempt.

The present reviewer was for many years a member of a trade union, delegate to Central Labor Union, etc., and knows just how widespread among workingmen is the idea that profits would suffice to increase wages by a large proportion. Mr. Newfang seems to have this delusion. Profits look large because they appear in bulk, but if distributed over all workers they become sufficiently small.

Mr. Newfang has succeeded very well in laying bare the causes of strife; prominent among them is the greedy character of the human animal, laborer or employer. Let us see what is his "final" cure.

This is summarized on page 108 as follows:

> "Capital should be treated as a commodity for whose use a fixed rent should be paid, while labor should not be treated as a commodity. The workers should be treated as living human beings whose livelihood is more important than the surplus income of investors. A living for labor before dollars for dividends."
>
> "At present capital is the 'residuary legatee,' to use an illustrative legal phrase in the division of receipts over capital costs, and labor is procured as a commodity at the lowest fixed price and figures into the cost of the product like any other commodity used in manufacturing. To reach the

> true basis for industrial harmony it is necessary that this method should be reversed and that capital should be treated as a commodity to be procured at a reasonable rate per annum and labor should be the residuary legatee to whom all the remaining earnings of industry should go."

We may pass the inconsistency of the slogan "a living for labor before dollars for dividends" and the contention that first a reasonable rate be paid for capital and the residue given to labor.

In the year 1921, of all corporations in the United States of America, 48% had some net income and 52% had losses. Labor was paid in all cases. Does the author hold that the 52% of corporations having losses and the many corporations with profits less than enough to pay a normal return on capital should have treated capital as a commodity and paid a return thereon and that labor should have been the residuary legatee? Or is labor to be residuary legatee only where there is a sufficiently large residue?

Only capital can stand a year without income; it is substantially in the position of an insurer.

Even in the prosperous year 1925, 41% of all corporations had net losses; 430,072 corporations reported to the bureau of internal revenue, of which 252,334 had some profit and 177,738 had net losses.

The author does suggest (page 131) that the losses in any year should first be borne by the capital, but with a cumulative claim on future earnings, if any. What, then, about capital as a commodity and labor as a "residuary legatee"?

On pages 191 et seq. are given data showing how under the author's plan the whole property of certain of the largest and most solidly prosperous of American corporations might be conveyed to the workers. Unprosperous companies would never be acquired under the plan, unless some cruder mode of confiscation should be adopted.

Truly, the author points out the inequity of Marx and of the Bolshevist idea; but he seeks to arrive at the same result, namely, the transfer without consideration of capital to the workers. Nay, he is more unjust than these; he seeks to transfer to the workers all profits over a fixed return, thereby conveying to them in the end all profitable capital, leaving all unprofitable capital to the present owners.

There are knotty questions to be settled—what is a fair rate of return on capital, what is the actual amount of capital invested, what is the proper amount of compensation for risk of capital (differing for each enterprise) and many others, each, so far, without solution. Our author's resource is more law, more government regulation, even international agreements.

There is, on pages 110–113, a discussion of the rates to be allowed to capital, in which it is admitted that a universal rate is out of the question; but it is held that the rate at which bonds could be issued is a sufficient guide for fixing a basis. If labor should put up in cash as great an equity as now represents common stock and should guarantee the return to capital of principal and interest, perhaps a basis could be found; but instead of labor guaranteeing the return to capital (which we are told is a commodity and therefore to be paid for in cash) it asks this commodity to pay the "drawing account" of labor whether there are any profits or not. One who can think of capital voluntarily invested on such terms is to be congratulated on a brilliant imagination; I can not do it.

We may gather from the author's childlike faith in the efficacy of government regulation that he is unsophisticated, and we may believe that he means well. There is a lamentable superfluity of books on economic and accounting questions by writers who mean well.

F. W. Thornton.

GOODWILL AND OTHER INTANGIBLES, by J. M. Yang. *The Ronald Press Co.*, New York. 232 pages.

The increased interest shown in recent years in the accounting problems arising in connection with so-called "intangible" property makes Dr. Yang's work a welcome addition to accounting literature and those who have an interest in these problems will find the book extremely thought provoking.

The book begins with a rather searching analysis of the concept of property with particular reference to the time-worn classification of property as between tangible and intangible. The elements entering into the make-up of goodwill are then considered from the psychological, economic and legal viewpoints. Similar analysis follows for other classes of intangible property, including trademarks, patents, franchise, going value, etc. The first half of the book ends with a discussion of goodwill value as related to excess earning power and the problem of imputing excess earning power to specific intangibles. The chief value of this section of the book lies in keenness of its analysis and the stimulating character of the discussion. If any criticism is to be made, the reviewer wishes that Dr. Yang had taken the final step and conceded that all property is "intangible" in the sense that basically it consists of rights, powers and privileges given and guaranteed by society. Property consisting of land is an "intangible" including among other things the exclusive privilege to use, the power to transfer and the right to keep others from trespassing. The distinction sought to be made as between tangible and intangible property will never be clear until it is approached in this manner and "intangible" property, as it is now defined, shown to be merely rights, powers and privileges of a somewhat different type as compared with the rights, powers and privileges classified as tangible property.

The second half of the book deals specifically with accounting problems including the treatment on books of account of intangibles, purchased and non-purchased, with a final chapter on intangibles in partnership and corporate reorganizations. The discussion here covering only 120 pages is by no means exhaustive and leaves some of the accounting problems unmentioned. The chief criticism of this section lies in the fact that the author fails to develop clearly the purposive nature of value and the different kinds of value which may be used in a single situation depending upon the purpose to be achieved. The reviewer finds no difficulty with the proposition that a given asset may have more than one value and that the value to be used may depend upon the particular purpose which the statement is intended to serve.

The chief merit of the book lies in the fact that it stimulates one's thoughts on a subject of more than passing interest. From such stimulation progress toward the solution of these problems is bound to follow. The book should be read by every accountant.

James L. Dohr.

SURVEY COURSE OF ACCOUNTING, by WESLEY JAMES MCCARTY and L. CLEVELAND AMIDON. *Prentice-Hall, Inc.*, New York. 483 pages.

Survey Course of Accounting is a text designed for the use of colleges and university departments which do not offer extensive instruction in accounting. It contains a large number of demonstrations and exercises for the student to solve. Only 200 of the total 469 pages are devoted to general discussion of the principles illustrated. The title of the book suggests that all the important subdivisions of accounting theory and practice will be presented. The requirements of such a programme compel the authors to make rather short shrift of some topics. The subject of constructive accounting is dealt with in chapter twelve. The first two paragraphs read as follows:

> "1. *Constructive Accounting.*—Constructive accounting is that branch of accounting which embraces the study of a business enterprise, that its needs, in respect to forms, books, titles of accounts, form of exhibits, et cetera, may be determined and acquired either by purchase, or by submitting sketches to a printer and having them made to order.
>
> "2. *Drawing Forms.*—Practice in drawing forms for journals will be had by duplicating the purchase, sales, cash receipts, cash payments, and the general journal, as used in chapter X, in the accounting for M. P. Scott. One form should be placed on a page; and the various forms fastened within a cover, in book form."

The remainder of the chapter (approximately four pages) introduces an exercise, the solution of which requires the use of specialized journals. Students in the arts and sciences are prepared to analyze the basic theories underlying accounting. In view of the purpose of the text, it would seem that the theoretical portions might well be extended and the demonstrations reduced.

In the preface the authors state that "a new method is presented in this text. . . . This course is built upon the 'equation' which, as such, is easily and universally understood, but which, apparently, heretofore has been regarded as incidental to accounting, and not as the foundation upon which the science is built." (p. iv.) This statement puzzles one in view of the fact that complete theories of debit and credit have been developed from such well known equations as "assets equal equities"; "assets equal liabilities plus proprietorship"; "assets equal ownership-claims."

C. RUFUS ROREM.

FEDERAL INCOME TAXES, 1927, by ERIC L. KOHLER. *A. W. Shaw & Co.*, New York. 542 pages.

Mr. Kohler's contribution to federal income-tax bibliography is addressed principally to the "beginning student" and "does not attempt to compete with the larger handbooks and manuals to which the trained practitioner has reference." For the student of taxation, this book is admirable in the complete and interesting manner in which its lore is set forth and demonstrated. The trained practitioner, too, will find the book interesting, especially when he observes the problems that are given for solution. These problems cover almost the entire range of tax questions upon which any sort of authentic ruling has been made. The answers to the problems are not given, but people having experience will recognize on reading the questions that they have seen, somewhere, the same problems solved by the courts, the treasury department or by the board of tax appeals.

It seems proper to state, as has the author in his preface, that little is developed upon such matters as depletion, taxation of insurance companies, nonresident aliens, withholding at the source. The author holds that these matters are not of general interest.

Among the matters discussed in this book, which will appeal to tax practitioners, are the paragraphs setting forth the dates of the several acts, as well as the effective dates of many of the taxes imposed in the acts. To many of us the question as to when a certain provision became effective is one that causes much painstaking search and consumes much valuable time in solving. It is probably unnecessary to detail the plan by which this subject is developed by the author. It is sufficient to state that after a brief review of federal income taxation of the past eighteen years, the subject is developed in much the same sequence as that in which the 1926 act is written. It is fully indexed.

There may be those who question whether or not the subject of invested capital is of any current value, as the statute of limitations has become effective upon taxation of the years in which excess and war profits taxation was imposed, but to those who are still confronted by problems for those high tax years, this book will furnish information that will be found helpful. I wonder if others have found the same difficulty, in computing taxes under the acts of 1917 and 1918 in these later years after having forgotten the intricate methods by which the solution was found. When the question appeared as to what limitation upon the tax was provided for by section 302 of the act of 1918, my reaction was about the same as it is when one meets an old acquaintance whose name will not come readily to mind.

Stephen G. Rusk.

MATHEMATICAL PRINCIPLES OF FINANCE, by Frederick C. Kent. *McGraw-Hill Book Co. Inc.*, New York. Second edition, 400 pages including tables.

The first edition of *Mathematical Principles of Finance* was reviewed in The Journal of Accountancy of July, 1924, and the ten-place tables, recently published separately but now incorporated in the volume, were reviewed in The Journal of January, 1927. The new edition in combined form makes an excellent reference book for any accountant. The introduction to the second section containing the tables gives sufficient examples so that a knowledge of actuarial science is unnecessary for all ordinary purposes. The first 174 pages contain the theory of compound interest and its applications, including chapters on logarithms, depreciation, building and loan associations, the federal farm loan board. There are three chapters on life insurance.

For students with a thorough knowledge of elementary algebra the text should present no great difficulties, although in places it makes hard reading which might have been avoided through a little more "padding." In some cases, in order perhaps to shorten the arithmetical work, a formula is transposed to a different form, although by doing so the obvious reason for the original equation is lost. It is sometimes easier to make two calculations than one and much easier to remember a formula of two elements which mean something than a formula of one element the meaning of which cannot be read from its face. In other cases common sense is more easily applied than an algebraic formula. However, these are minor criticisms of a work which contains remarkably few errors and shows great thoroughness and care in its preparation and is a valuable addition to the literature on the subject.

EDWARD FRASER.

BANK AUDITS AND EXAMINATIONS, by JOHN I. MILLET. *The Ronald Press Co.*, New York. 490 pages.

"The average board of directors is composed of men of affairs who could not afford to devote the required time to make a complete examination."

"The usual directors' examinations fail of their real purpose for the following reasons:

"1. Inattention to detail

"2. Lack of technical training

"3. Lack of time."

These words of the author of *Bank Audits and Examinations* emphasize the necessity of bank examinations by trained examiners and his book can well be used as a reference book by bank examiners to see what work can be performed to conduct a thorough, complete and detailed audit of a bank and its operations. After a short outline of bank organizations and a preliminary survey of a bank, the reader finds himself in one department after another making a complete and detailed examination of all assets and liabilities, earnings and expenses that are discussed. Then follow the usual criticism of examinations made by directors, suggestions regarding the audit programme to be adopted before the examination is undertaken, suggestions regarding preparation of statements and reports and the use of ratios and an outline of internal control. The book closes with a presentation of a few provisions of banking laws and a fourteen-page index.

The bank auditor will be disappointed to find little about his internal work and the bank examiner to find a maze of detail which can be used only in exceptional cases. Few directors will be found willing to pay the cost of an examination as extensive as described. The book lacks logical sequence and proper editing. Chapters 28 and 29 should have found a place in the beginning, since the programme must be prepared before the examination is started and should be approved by the board of directors or the examining committee. There are many and good suggestions in the chapters dealing with examinations, but there is little excuse for the numerous errors and hazy statements which should not appear in a technical book. For instance, on page 187 reference is made to the "contingent liability of the bank acceptances; for the bank is required to pay, whether the customer is in a position to repay the bank or not." The words themselves show that this direct liability is a very actual liability, as every banker knows.

In chapter 18, two methods are shown how a defaulting teller could cover a shortage charged against certified cheques, but both methods would create a double difference and not cover the shortage.

In the statements shown in chapter 30, a number of lines are misplaced or superfluous, and figure 57, a form of statement recommended to accountants, shows acceptances as contingent liabilities, and contingent assets and liabilities among the direct assets and liabilities, contrary to accounting and banking principles, while the statement recommended by the federal reserve board and supported by the American Institute is missing.

Chapter 31 could have been omitted to the advantage of the reader. It is full of meaningless remarks and written in such unintelligible language that even the author might find it difficult to explain what was in his mind. Progressive banks have been using ratios and statement analyses for many years and about fourteen different ratios are calculated and compared with the averages published regularly by the reserve bank.

The appendix contains a jumble of extracts of banking laws and the index is incomplete and carelessly prepared.

CHRISTIAN DJORUP.

AUDITING PROCEDURE, by WILLIAM B. CASTENHOLZ. *LaSalle Extension University*, Chicago. 430 pages.

The recently issued edition of *Auditing Procedure* is the second. The first was published in 1918. In addition to the 430 pages of text, there are illustrative audit working papers which purport to be typical of an average engagement. This book is written rather more interestingly than the average volume on auditing. One of its features is a list of questions at the end of each chapter entitled "Test yourself on essential points." Many of these questions are taken from C. P. A. and American Institute examinations.

The first twenty-four chapters are given over to an explanation of the method of auditing balance-sheet, income, and expense accounts of the average business. The remaining chapters discuss, principally, the essential features in audits of special business types. An unusual number of special businesses is discussed in these chapters and the important points in each have been brought out very clearly. The section of the book containing these chapters is particularly interesting and helpful.

In chapter 6 the author advocates that prepaid expenses be distinguished from deferred charges, and that they be included as a separate item in the balance-sheet, immediately following current assets. The question of whether or not prepaid expenses and deferred charges should be separated and shown under separate headings has resulted in considerable discussion among accountants in the last few years. In the opinion of this reviewer, the question is unimportant, but inasmuch as the items coming under each heading are somewhat similar, it seems unnecessary to attempt to classify them separately. The federal reserve board, of course, advocates including them under one heading. It is evident that in the author's own mind the line of demarcation is not altogether clear. For example, in one place he states that prepaid insurance (presumably computed on the short-rate basis) should be included in prepaid expenses rather than deferred charges, while in a later chapter he remarks that capital invested in fixed assets resembles prepaid insurance, in that it is a deferred charge to future operatione.

The author very wisely stresses the necessity of verifying the income-producing accounts. He remarks that "many auditors are so engrossed with the task of assuring themselves that all expenses have been properly accounted for, and that all assets and liabilities are correctly stated in the balance-sheet, that they overlook to a very large extent the income-producing accounts." This point is well taken and should give more than one reader cause for reflection. In view of the author's comments it is rather odd that the work programme, which forms a part of the audit working papers submitted as addenda, does not indicate that any particular attempt was made to verify income from sales, and that no schedule supporting the sales account is included.

W. B. Franke.

BANK SYSTEM AND ACCOUNTING, by Frank Loomis Beach. *The Ronald Press Co.*, New York. 359 pages.

The author of *Bank System and Accounting* has evidently gone to a great deal of trouble in collecting information as to various systems used by banks in different parts of the country in their various departments. In all he presents ninety-six illustrations of forms in use and accompanies them by ample narrative explaining their use. It is noted that this volume confines itself for the most part to describing various systems in use without attempting to explain in what circumstances each is most appropriate. Accordingly, the inexperienced reader, who is looking for advice, would have difficulty in arriving at the proper conclusion. There is a further danger in using certain of the forms, particularly the form of note which is most probably adaptable only to one particular state. Before any such form is used by a bank, it should be ascertained that the requirements of the state in which the bank does business are complied with. The author is to be congratulated in having provided a very interesting comparison of systems and practices, which he has found to be in force.

Andrew Stewart.

JUNIOR ACCOUNTING, by Samuel F. Racine. *The Western Institute of Accounting, Commerce and Finance*, Seattle. 236 pages.

Junior Accounting is a text-book for the student in accounting and a manual for the junior accountant to guide him in making audits by standard procedure as prescribed by the federal reserve board in its *Bulletin* of April, 1917. Its most valuable and practical feature is that, beginning with chapter 6, the author heads each chapter with an excerpt from the *Bulletin* covering the subject of that chapter—verifying cash, inventories, etc.—and follows it with more details and explanations of working procedure. While the *Bulletin* merely outlines to the trained auditor what should be done, Mr. Racine tells the neophyte further how to do it. An appendix contains pertinent problems and quizzes on each chapter.

W. H. Lawton.

ARITHMETIC FOR BUSINESS, by Benjamin B. Smith and Charles R. Hill. *Ellis Publishing Co.*, Battle Creek, Michigan. 391 pages.

A text book for schools requires but little comment in these columns. *Arithmetic for Business* is written, as its title implies, for the use of boys about to enter a business career and appears to cover very thoroughly the whole subject from simple arithmetic onwards—including the meaning and use of voucher cheques, financial statements, graphs, stock-exchange quotations, bond tables, compound-interest tables, taxation and insurance. It is copiously illustrated with examples. It is not one of those books dealing in short cuts and has the merit of insistence on thorough knowledge of the fundamentals before proceeding to the next step. It is an excellent book for the purpose intended.

Edward Fraser.

AUDIT NOTE BOOK, No. 3. *Gee & Co.*, London. 49 pages.
NO. 4 AUDIT NOTE BOOK. *Gee & Co.*, London. 30 pages.

Mr. Pixley in his *Duties of Auditors* (eleventh edition, page 447) states that "a note-book should be kept for each audit for recording entries relating to the details of the audit, . . . The note-book should be filed with the papers relating to each periodical audit." "In the note-book should be recorded, in as few words as possible, the work performed day by day on the audit by the auditor and his staff. The note-book serves a double purpose, firstly, the managing clerk can satisfy the auditor as to his having efficiently checked the details, and, secondly, it is a proof of the care exercised by the auditor, which can be produced later on should any charge be made against him of not having performed his duties in a satisfactory manner."

These note-books are similar to others which have been in general use, we understand, among English professional accountants for years past. Book No. 3 attempts, however, to provide for audits of a less straight-forward character, and also those relating to comparatively unusual types of business. This book provides space for various memoranda regarding the books of account, the verification work done on each and by whom, and other special matters relating to the audit. An interesting part of the note-book relates to the provision for various comments to the principal on such points as the system of internal check and organization generally, the receipt of monies, the passing of invoices and credit memoranda, the supervision of petty cash, the method of stock-taking, the general state of the books, compliance with statutory requirements, sufficiency of working capital and any other matters requiring special comment.

Several pages are provided for "notes and queries"; there are also sixteen pages of ordinary four-column working paper for including various special matters or summarized groups of figures. By the use of such a book it is intended to reduce the number of separate papers in an audit to a minimum.

No. 4 Audit Note Book is, in effect, a programme of audit. Rather detailed instructions are given regarding the verification work to be done, and ample space is provided for notes, for additions to the audit programme, and so forth. The forms of certificates to be obtained from officers or employees relative to inventories, capital assets, cash balances, etc. are also suggested.

While it is not probable that such note-books will ever find extended use in the United States, they are nevertheless interesting to the American practitioner both in showing what is being done by practitioners in Great Britain and also for their concise summary of audit procedure. These note-books may well be added to every accounting library.

J. HUGH JACKSON.