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Book review

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that the contingency inheres not in the fact that an obligation may have to be met in the future, but in the possibility of loss or expense in connection with that which will be acquired as the result of placing the liability on the books.

The arguments which have been advanced in connection with the foregoing apply with equal force to certain contingent liabilities for damages. Frequently, such liability is covered by insurance and the ultimate loss, if any, will hinge on the ability of the insured to make out a satisfactory case against the insurance company or on the financial responsibility of that company.

Taxes, meaning additional assessments, to be slightly humorous, may be regarded, without fear of challenge, as a certain liability, once a tax return has been questioned by a reviewing authority. The amount only is in question. The only tangible thing the taxpayer receives in exchange for his money is a receipt, if one disregards "life, liberty and the pursuit of happiness," which are guaranteed to him by the Constitution.

There is a very good point in the Institute's reference to real estate bonds and mortgages, although the steps suggested with respect to protection might be questioned by those who are versed in real estate procedure. The point is that if "A" mortgages his property to "B," and afterwards sells his property to "C," with the amount of the mortgage as a part of the consideration received, "A" later may be held for the amount of the mortgage, if his mortgage obligation is not canceled of record.

This whole discussion, in so far as it relates to contingent liabilities, is a plea not for treating lightly the subject of contingent liabilities, but for investigating thoroughly and expressing accurately in foot-notes relating to such matters, enough of the facts to enable the reader of a balance sheet containing such foot-notes to reach a correct conclusion as to their significance.

Foot-notes are not too popular with clients. Often a client objects, with a measure of justification, to some of the foot-notes which are proposed. A client may have no choice but to submit to a foot-note where it is required, but he is entitled to have the story told with all of the pertinent facts.

Book Review

Harrison, G. Charter. *Standard Costs, Installation, Operation and Use.* (New York, The Ronald Press Company, 1930. 308 p.)

Magazine articles, professional papers before various accounting and business societies, and discussions before other groups, indicate the interest in standard costs. The fact that a number of large and important corporations have installed standard cost systems may be regarded as reasonable evidence of the value of such systems. The author, because of his years of experience in this field, should be well qualified to produce a book on this subject.

Business conditions in recent years have brought increased keenness of competition, with smaller profit margins, and intensified the need for cost systems which will aid in controlling costs. The standard cost system is presented by the author as a means or method of predicting costs in advance, for checking actual costs against the standards set, and for determining the causes of variations.

The introductory material points out the advantages of standard costs. It is stated that they provide the means not only of controlling costs, but of actually reducing costs. A prime advantage is the reduction in the clerical force necessary to operate the standard cost system as compared to other methods of cost accounting. The standard cost system is compared with the older job-order cost plan, the disadvantages of the latter being emphatically pointed out. The job-order plan had difficulty in handling burden charges until the predetermined burden rate idea, which is involved also in the standard cost plan, was developed. Other disadvantages of the job-order plan are the delay in furnishing information, difficulty of indicating inefficiencies and showing the causes thereof, and the high cost of operating such a system. The author, naturally, is very enthusiastic about standard costs, so much so that apparently he sees little or no value in the job-order cost system. Admitting the advantages of standard costs and the disadvantages of the job-order system, there probably are those who believe that the latter plan has merits and can be used to advantage in numerous instances.

The standard cost idea is based on the principle of exceptions. Definite standards are set, based on a comprehensive study of the operations, the formulation of material specifications, time studies of the various operations as a means of determining piece work and day work rates, determination of the amount of burden and other expenses that should be incurred, and the profit margin to be obtained. Attention is concentrated on the variations from these standards which have been set, and the causes for the variations found by analysis.

The standard cost system in operation usually is designed to give certain daily reports. Promptness in reporting conditions often is the prerequisite to controlling costs and locating and correcting inefficiencies. Cost and profit variation analyses, efficiency and labor reports, and various other daily, weekly, or monthly statements may be prepared to call attention to and aid in the correction of inefficiencies.

An introductory chapter is devoted to budgetary control, and then follow chapters explaining the methods of setting standards, the technique and statement work of standard costs, the development of cost variation formulas, which are useful in analyzing the variations from standard, and the installation of standard costs. The two chapters preceding the last illustrate the standard cost procedure as applied to wholesaling and to manufacturing. The last chapter deals exclusively with the analysis of cost variations.

A clear understanding of standard costs cannot be obtained by a first or casual reading of *Standard Costs*. The accountant in the field, who has had occasional contact with standard costs, may add to his knowledge considerably by a careful study of the book. The executive or cost accountant in daily contact with a standard cost system will find much in the book to assist him to a better understanding of standard costs. Both executives and accountants should find the book a desirable reference source.

New Partners

Announcement is made of the admission to the firm, as of June 1, 1930, of Messrs. Pearce C. Davis, of Seattle, Washington, and George P. Auld, of New York.

Mr. Davis has been connected with the organization since August 1, 1912, beginning his service in the San Francisco office. On June 1, 1917, he was appointed manager of the Seattle office. Mr. Davis has been active in both civic and educational affairs in Seattle, where he has developed a wide circle of friends and acquaintances.

Mr. Auld joined the Haskins & Sells organization in March, 1924. Prior to that time he had been successively Navy Supply and Accounting Officer, Chief Accounting Officer of the Navy, and Accountant General of the Reparation Commission. In 1924 he assisted Mr. Owen D. Young in the installation of the Dawes Plan. Mr. Auld is the author of "The Dawes Plan and the New Economics," and various articles on reparations and international economics.

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