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Book Reviews

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REPORTS OF THE AGENT GENERAL FOR REPARATION PAYMENTS, May 30, 1925; November 30, 1925, and June 15, 1926. Published by the Office of the Agent General for Reparation Payments, 33 Luisenstrasse, Berlin.

The three reports by S. Parker Gilbert deal with the operation of the Dawes plan from the date of commencement, September 1, 1924, to May 31, 1926. The subject is a formidable one. The reparation problem, now working in orderly fashion through the Dawes plan toward solution, remains the key problem of world reconstruction. Its economic, political and social ramifications are almost limitless. Depending for the course which its solution takes on conditions outside as well as inside Germany, and reacting in the process of solution on those various conditions, it presents a bewildering front to the student. No single group of phenomena gives adequate basis for general conclusions. For an understanding of those highly important groups having to do with economic conditions inside Germany and with the actual administration of the plan Mr. Gilbert's reports are indispensable. Admirable in substance and in tone, they offer unmistakable evidence of the competency and breadth of view of the American agent general and the international organization of which he is the head.

The reports consist of meaty historical summaries and economic studies covering a wide range of topics. To do justice to them within the ordinary limits of a book review would be impossible. Historically they start with the "transition period" of the first two months. Those were the crucial days of Owen D. Young's great administration of reparations under the modest title of agent general ad interim, when the world machine had to be started up through a highly complicated set of simultaneous acts by a highly cautious set of interested parties. Following the chief events of that period—the agreement by the bankers and the reparation commission on the terms of the German loan and the relinquishment by the allies of their grip on Germany's economic nerve centers—the reports treat of the gradual disposition of a variety of difficult questions connected with the rehabilitation of Germany and the application of the plan. Methods of coöperative control by German officials and allied commissioners as outlined by the plan for the railways, the assigned revenues and the industrial debentures, have been developed; the credit policies of the new Reichsbank, on the foreign control board of which Gates W. McGarrah of the Chase Bank sits as a member, have been formulated and perfected and the position of the bank consolidated; the arbitral tribunal, now headed by Thomas Nelson Perkins of Boston, has rendered a number of decisions, some favoring Germany and some the allies. The German budget remains in balance, the mark is stable and reparations have been regularly paid, in coal, chemicals and other materials, in furnishings to the armies of occupation and in cash.

The transfer committee, of which J. E. Sterrett, the distinguished American accountant, is a member, exercises general supervision over the delivery programme. It has set up its own economic service, the researches of which are summarized in several valuable chapters carrying recent German economic history through the deflation crisis of last year up to the somewhat easier period of the spring of 1926.

The transfer committee, under the presidency of the agent general and aided by the allied commissioners and the German government, is a great international coördinating body. It is and will remain an instrumentality of the first importance in world reconstruction. Its importance today lies in the psychological security afforded to all interested parties, and especially to the American investor, by the wide authority which it possesses but does not exercise. There are cogent reasons for believing that its importance will continue to be of that same character. Some economists, however, believe that the time will come when the payment of a large international debt will seriously threaten the currency of the debtor country. If these lugubrious prophecies prove accurate the importance of the committee will lie in the actual exercise of its power to suspend deliveries. Until France is restored this is a fearful power, and the quality of the membership of the committee must be protected. Probably the question most frequently asked Mr. Gilbert is which of the two conceptions of the future rôle of the transfer committee is correct. No one having any faint idea of the unavoidable day-to-day perplexities of an agent general for reparation payments will think it strange that Mr. Gilbert has refrained from answering hypothetical questions.

George P. Auld.

LIFE INSURANCE ACCOUNTING, by Charles E. Mather. *The Ronald Press Co.*, New York. 118 pages.

There are, apparently, few good books devoted entirely to the subject of life-insurance accounting. The tendency seems to be to assume that such accounting aside from its actuarial features is the same as any other accounting, easily planned and executed by means of a few more records, extended columnization, and the splitting up of accounts into a greater number of subdivisions or distributions.

The author of a treatise on life-insurance accounting, Charles Ernest Mather, in his preface calls attention to the general neglect of this branch of the subject by writers on accounting topics. He has performed a real service in writing this book. A volume on this subject was brought out last year by another writer who goes more deeply into the details of accounting.

The author has not attempted to make his book a complete textbook on the subject of life-insurance accounting nor to map out the entire procedure from alpha to omega, but has assumed a general accounting knowledge on the part of his readers. He has confined himself principally to defining the items included in the so-called convention blank required by the insurance departments of the various states. The receipts and disbursements, assets and liabilities, insurance exhibit, gain-and-loss exhibit, and many schedules of investments and other information are laid out therein in a standard manner.

The definitions are for the greater part clear and accurate, though there are some explanations and comments open to question, or the meaning of which might be puzzling to one seeking information, unless already possessed of some knowledge on the subject. An instance of the latter is the paragraph:

> ". . . most, if not all, of the stock companies undertake to share their profits with the policyholders but in this case they charge a little extra for the right to share in the profits; or to put it the other way, they ask a smaller premium from those who forego this right, pointing that the reduction of premium is in itself a form of anticipation of profits."

While this is strictly accurate, its meaning might not be clear at once to a beginner in the insurance business, that participating rates are higher initially than non-participating, but, by the companies doing a participating business, are compensated for by the dividends (or premium refunds) given back to the policyholder.

Undue stress is laid upon collecting enough from an applicant to cover the medical fee in case the policy is not taken. The really important reasons for taking settlements from applicants are, first and foremost, to protect them from the time they are accepted until the policy is delivered; and second, because the chance of delivery is increased if the assured has already paid a substantial part of the premium.

One writing a book of this character is confronted with the difficulty of presenting the subjects or articles in a comprehensive, explanatory and yet logical order, and while on the whole the set-up of Mr. Mather's book is good, there are some faults which do not diminish the value of information imparted, but do not make for orderly arrangement. Annuities and disabilities, for instance, are not mentioned in the paragraphs headed "Variety of contracts," page 9, but are referred to later on in the same chapter devoted to income (page 24) and disability payments (page 9), respectively. The income exhibit breaks into the chapter on pages 14 and 15 and splits in half a paragraph on "Writing the contract." On page 19 the impression is given that premiums in transit or in agents' hands are agents' debit balances, and, consequently, not admitted assets, but any misconception created is cleared away, and the reader set straight, by the lucid explanations under "Bills receivable and agents' balances," when he comes to page 66.

As before stated the writer has not intended to make his book a complete compendium. Therefore it is not to be expected that he should cover all phases of the business. There are, however, a few things omitted to which it might have been profitable to refer; for instance, the investigation (or, technically, "inspection") of risks offered, which is an important service to an insurance company, might have been mentioned on page 17; refund annuities, which do not terminate with the death of the original annuitant, on page 24; the fact that in most, if not all states, the writing of deferred dividend policies is now illegal, on page 45; that bonds without a maturity date—not being amortizable—also are to be taken at market value, on page 69, and that the temptation to accumulate too large a surplus is checked, not only by the companies' desire to return good dividends to the policyholders but also by the laws of most states, on page 87.

In valuing a work that has so much to commend itself, it is perhaps ungracious to find fault with certain of the author's recommendations as to keeping accounts or maintaining control, but the creation of more machinery than is required to arrive at results is what a distinguished insurance commissioner once styled, as a criticism, "tracing every penny to its source." The author outlines a control of the premium account and accounting for premiums by agents, with corresponding offsetting entries at the head office which possibly may be necessary to companies doing certain classes of life insurance, but which would not be essential to other companies doing a large life-insurance business in order to keep a reasonably good check upon its income.

The author also recommends a running bookkeeping control—in addition to card records—of supplementary contract instalments; keeping account of premiums collected by one agency, or at the home office, of premiums on which commissions are payable to agents at other points; a perpetual inventory of premiums to save taking one off at the end of the year; and the reconcilement at the year's end of the premium account with the insurance exhibit. Except so far as the matter may be judged by the question whether the "game is worth the candle," no criticism is offered against the methods proposed, as academically they are sound and produce an admirably finished piece of accounting. Some companies of considerable magnitude, however, are able by requiring a strict accountability for policies and renewal receipts invoiced out for collection to maintain a satisfactory check upon the sufficiency of premium income, with less detail than would be brought about by debits and credits to the account by the sundry and manifold changes in kind and premium paying methods, renewal receipts returned for cancellation or for collection at other agencies, policies returned for cancellation as not taken out or for imposition of a term rate charge, etc. Some companies, too, are able to disregard the reconciliation of the premium account with the insurance exhibit without loss of income thereby but on the contrary with saving in expense.

Keeping control of annuity, supplementary contract, and other instalment payments by means of an account perpetually in correspondence or balance with a card or book record of the individual cases (which must be maintained anyway) seems to involve much lost motion and consequently unwarranted expense.

With respect to a company keeping track of premiums collected at one point where commissions are disbursable to an agent at another place, this is taken care of in at least one company by the collecting cashier notifying the cashier of the original agency regarding the collection. To permit this the renewal receipt indicates the original agency.

Mr. Mather says that "group insurance . . . does not necessitate special accounting in the regular system of accounting." This is true in respect of the requirements of the convention blank under discussion by him, but he probably does not mean to convey the impression that no subsidiary accounting is to be performed, for apart from determining costs of the business, it is required for furnishing a separate gain-and-loss exhibit of the group business.

In the book under review it is recommended that when bonds are purchased where some interest is in default, or at least overdue, that amount of such interest due and accrued since the last payment be deducted from the "flat" price at which purchased and charged to interest account, the balance to be charged as the cost of the bonds. In the state of New York, such bonds would not be legal investments for life-insurance companies if the debtor companies were in receivership, which is usually the case where bonds are quoted "flat." Under insurance department rulings even the bonds not in default as to interest are not purchasable when, say, a railroad is in default in respect of its other bonded obligations. The federal tax officials too, if it were known to them, would not allow the deduction of interest of defaulted bonds as a deduction from the interest income of the year.

Students of accounting may study this little volume with profit, meanwhile bearing in mind that the tendency in modern business is to sacrifice detail unless it serves a valuable purpose. A certain amount of accounting control, checking or counter-checking is necessary not only to establish records, but to assure validity of charges, guard against error and fraud, and for moral effect. Beyond this, it should not go to a point where the expense renders it burdensome compared with the benefits derived.

Leon O. Fisher.

VITAL DEPARTMENT STORE STATISTICS, by Arthur Lazarus. *Dry Goods Economist*, New York. 167 pages.

Vital Department Store Statistics is full of meat, and besides the statistics gives very fair comments on the subjects analyzed. The variation of the matter indicates the methods of improvement in merchandising due to the balancing of business in departments whose work may be collaborated because of seasonal recessions in the businesses occurring at different times of the year.

This book may be considered as a pioneer effort in its field, and I assume that in subsequent editions opportunity will be given the author to elaborate in regard to information which was scarcely compilable at the time this edition went to press. Improvements may be expected so that the balancing feature can be better illustrated by the figures submitted. The reader is given an insight into the stabilizing and the flow of goods, manner of distributing selling expenses, advertising expenses, etc. It is notable that the "loading" of invoices has been seldom practised, according to reports submitted. There is no index, but the book is comparatively small, and the table of contents is probably deemed to be sufficiently comprehensive. The reviewer would, however, judge an index an improvement. Under the heading, "How shall we arrive at recompense?" one particularly interesting feature is the method of applying bonuses as discussed in the matter of salaries to the selling forces while at the same time apparently attempting a fair minimum wage.

The return evil is set forth in a manner that would startle the uninitiated, and I believe it should be stressed in future editions. Stock shortages has not received the attention that its importance demands, but the author must be congratulated on the volume of information contributed. The prorating of indirect expenses is well brought out, but the reviewer does not feel that interest should be considered as an expense but rather as a charge against profits. Rental may well be considered in lieu of depreciation or maintenance of property, but not, I think, both. Whatever is made on the whole by the department is interest return to the capitalist, and it seems to have the effect of clouding the issue to include interest as part of the cost of operation. Loading the department with nominal charges seems to have the general effect of raising prices without adequate reason. Cash discounts are most important, but should be true discounts and measured by due merchandising factors. The matter of turnovers is one which may be further developed in later editions, as much depends on it.

The book is a valuable addition to one's library, and is of interest not only to certified public accountants, but to department-store heads and executives, not to mention the students in colleges and universities taking up this class of work, as a great deal of the matter is taken from actual information supplied by department-store executives and accountants.

HENRY C. MAGEE.

FOREIGN EXCHANGE ACCOUNTING, by CHRISTIAN DJORUP. *Prentice-Hall, Inc.*, New York. 405 pages.

The title of *Foreign Exchange Accounting* is too modest; the author has given us, not alone a manual of the accounting for foreign-exchange transactions, but in addition descriptions, with forms and tables relating to the subject, of collateral transactions leading up to the exchange accounting, together with an illuminating discussion of the international significance of all these matters. Although principles are discussed there is no approach to doctrinaire argument. Here is no brilliant skimming of the surface, no frothy comment on obvious facts, but a most painstaking and thorough, and above all practical, manual for accountants and for those whose work is concerned with foreign exchange. The latest vagaries of European currencies are considered and it is difficult to conceive of any practical question associated with accounting for foreign exchange that is not answered by this book. One interesting chapter gives an exposition of arithmetical methods most used in computing foreign exchange. In this chapter the forms in which computations are stated are not a little inclined toward European style. Indeed the whole book is reminiscent of those German textbooks that are so well known as a monument to German thoroughness.

Unconsciously the author has relieved the severe gravity of his style by matter that calls up a wide grin; as on page 90, where the payment of the debts of foreign husbands of American girls is cited as a material factor in international finance. What a poverty-stricken lot those foreigners must be. Mr. Djorup will hardly reap a money return from his book at all commensurable with its merits—authors of technical books, especially those covering a limited field, do not. If the author considers the inspiration of a deep respect for his attainments and industry to be a partial reward he is pretty sure to get it from those who read his book and, reading, understand.

F. W. THORNTON.

QUESTIONS AND PROBLEMS IN ACCOUNTING, by RUSSELL A. STEVENSON and R. EMMETT TAYLOR. *The Macmillan Company*, New York. 234 pages.

Questions and Problems in Accounting is a compilation of test questions and problems, arranged by topics and with an intent to concentrate attention on particular and intricate situations. Not being tied up with any particular textbook it may be used as a "quiz" for school and college classes to advantage; and teachers pressed for time at the close of the term will find here plenty of material for an examination paper. Lest any clever student should hasten to anticipate the teacher I would add that there are no answers to the questions and problems!

W. H. LAWTON.