Book Reviews

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COST ACCOUNTING—ITS ORGANIZATION AND CONTROL, by WILFRED AINSWORTH, *Sir Isaac Pitman & Sons, Ltd.*, London and New York. 96 pp.

The author's objective in writing this book can perhaps be best expressed in his own words:

> "The book has been written with a specialist purpose and in appreciation of the undoubted fact that successful adaptation is essential to successful cost accounting. The purpose has been therefore to explain not merely the main systems of costing but the particular circumstances under which they can successfully be adapted in relation both to final system and to the routine leading up to it. . . . Detailed costing routine, as indicated by forms and particular method, has therefore found no real place in these chapters, as this is amply catered for in many admirable and specialized costing works. The purpose has been rather to systematize adaptation, to show how, why and where a certain result may be achieved under certain conditions; and it has been the author's aim to lift costing out of the realms of mechanical and stereotyped application and show it as a living and active science, so that it may be of benefit not only to the man whose duty it is to carry out and control c sting routine but also to the man whose function it is to regard and act upon the lessons it may furnish."

In chapter I the growth of cost accounting is reviewed. In the opinion of the author, the apparent rapid progress in the development of cost accounting during recent years is due to an increasing appreciation by manufacturers of the possibilities of the science and the consequent increased scope that has been given to its practice, rather than to any outstanding advance in costing theory. The growth of cost accounting is discussed from the standpoint of the influence of economic principle and the limits of competition as affecting the flow of capital to and from different lines of industry. The author describes the function of costing to be (1) a means of ascertaining cost for determining selling prices and compiling actual cost of production and (2) a means for obtaining efficiency in production. He believes that the latter phase will assume an increasing importance and that "much of the distaste and suspicion attaching to costing is due to its inefficient adaptation or its elaboration under unsuitable conditions."

Chapter II is devoted to a description of the main costing systems. In introducing this chapter, the author observes that "costing is a science in which entire accuracy of result is impossible, and the fundamental aspect underlying costing application is therefore so to confine, in any system adopted, this factor of approximation in the final result that figures attain a certainty equal for practical purposes to the complete truth." Costing systems are classified as "single costing," "process costing," "contract costing" and "multiple costing," and the limitations of the respective systems and the conditions under which each may be successfully adapted are discussed. The author points out that under some conditions a combination of methods may be used, and to illustrate his point, appends three interesting forms used by the ministry of munitions of Great Britain for compiling shell costs during the war.

The allocation and distribution of cost expenditure to the system is the subject of chapter III. Nothing new to the experienced cost accountant appears in this chapter, but the author shows in an interesting way the conditions under which the various methods of distribution are applicable to certain operating conditions.

In chapter IV the author deals with the ascertainment and classification of cost expenditure and presents an elementary discussion of the basis of classification of cost expenditure, applicable to varied conditions. He touches upon the subject of overhead chargeable to capital improvements carried out by the company's own force and the allocation of overhead to service departments and its redistribution to production departments.

Chapter V is devoted to an interesting discussion of cost in relation to output and capacity. The author reviews briefly the problem of segregating the cost of idle capacity, the circumstances in which such segregation is advantageous and where it may be unnecessary. In treating the various methods for disposing of differences between earned and actual overhead, the author advocates the transfer to profit-and-loss of any balance of unearned or over-absorbed burden, but does not refer to the rather important effect which over-absorption or under-absorption of burden in costs may have upon inventories at the close of the year. In developing the subject of cost in relation to output, the author reviews the methods adopted to increase output by the introduction of piece work, premium and bonus systems of pay.

Chapter VI embodies a discussion of the place of capital in cost and price. By way of introduction cost expenditure is classified under three headings: viz., (1) charges which are definite and measurable—wages, materials and direct expenses; (2) charges capable of theoretical measurement only—depreciation; (3) charges the inclusion of which is debatable—interest on capital employed. Obviously the influence of capital is felt only in the last two classifications. The author states that depreciation is determined largely by theoretical means and therefore its determination offers opportunity for manipulation of costs and profits. He takes the view that "it may in special circumstances be found advisable to base depreciation figures on replacement values as against actual purchase values where these have moved considerably and permanently," but in the opinion of the reviewer, this statement is at least open to debate. In reviewing some of the arguments which have been advanced in favor of the inclusion in cost of interest on capital employed, the author also shows the effect on profit-and-loss of such bookkeeping procedure, and discusses the subject from both the theoretical and practical viewpoints.

The closing chapter of the book (chapter VII) is devoted to the subject of costs control which is dealt with as a function of managerial policy in relation to production and finance. The author presents an outline of procedure for maintaining control of costs and stores through usual private ledger accounts leading up to the preparation of monthly statements of operations and financial condition. He offers a word of caution against pitfalls due to clerical errors or failure to report stores consumed, resulting in incorrect balances for stores and work in progress, and advocates the introduction of standard costs as a measure of actual performance.

The last three chapters form much more interesting reading than the earlier chapters in the book. The volume will be found of interest to cost accountants, especially the younger ones, who wish to approach the subject of cost accounting from the point of view of an author whose stated purpose is to show how the main systems of cost accounting may be adapted to certain given conditions.

STANLEY G. H. FITCH.

ESTATE ACCOUNTING, by HAROLD DUDLEY GREELEY. *The Ronald Press Co.*, New York. 110 pp.

This book, small in size, convenient to handle and easy to read, is packed full of information. Its statements of fact and its explanations and instructions are presented with refreshing terseness and clarity. The arrangement is logical. It was a fortunate procedure to devote the very first chapter to the definitions of words used throughout the book. Some of the words are highly technical as, for instance, "quarantine" as used in estate accounting. In the case of other words more generally used, it will be found that it is helpful to read the carefully prepared and concise definitions.

The definitions are followed by a short chapter in which is presented an outline of the administration in the usual course from the decedent's death through the final accounting to the distribution of the assets. This summary is illustrated by a chart, a very satisfactory method of presenting the descriptive matter in graphic form.

The foundation having been laid in the short chapters on definitions and outline of administration, the author proceeds to treat in logical sequence the various features of the work of an executor, administrator or trustee, such as the issue of letters, the inventorying and care of assets, the payment of debts and expenses, the distribution of legacies and the intermediate and final accounting.

In each chapter the subject matter under consideration is dealt with in three parts—"law and practice," "current bookkeeping" and "accounting." This plan of following the exposition of a subject with clear-cut directions as to the procedure for recording the transactions and accounting for them finally is, in the opinion of the reviewer, to be commended. It enables the reader, as he proceeds, to follow each section through to a conclusion much more easily than if the bookkeeping and accounting had been reserved for consideration as a whole in later chapters.

The chapter on testamentary trusts deals with estate transactions often involved and frequently calling for careful consideration before a final determination as to their disposition is made. Most of these problems arise from the necessity of differentiating between principal and income.

Inheritance taxation is reviewed in the final chapter of the book. The writer points out that the federal government and forty-six states impose inheritance taxes of one form or another, with considerable overlapping and double taxation. Obviously only a brief summary can be given in a book of this character, but it is sufficient to warn the estate representative and also to indicate that a general reform or simplification of the laws, federal and state, is needed in order to standardize procedure and avoid injustices.

This volume should be read by accountants, lawyers and estate representatives, all of whom will find it useful, not only for its exposition of the law and procedure, but as a book of reference in their day-by-day work.

WILLIAM M. LYBRAND.

PRINCIPLES OF AUDITING, by ERIC L. KOHLER and PAUL W. PETTENGILL, *A. W. Shaw Co.*, Chicago.

Messrs. Kohler and Pettengill in their new book, *Principles of Auditing*, deal with a phase of accounting on which many books have been published. They have handled their subject, however, in a manner somewhat different from previous books, in that, in addition to a short treatise on "standard" methods of auditing, they have incorporated in the same volume a complete set of working papers covering an actual engagement. The various steps in the conduct of an audit of the books and accounts of a business are discussed and the instructions on the correct methods of audit procedure are supplemented by actual working papers.

The volume is a valuable contribution to accounting literature because of the clearness and simplicity with which the subject is presented. It is written in plain, understandable language. However, it lacks the completeness which makes a work of its character useful to the accountant as a book of reference. It touches only lightly on some of the most important subjects. For example, inventories (on which subject alone complete books have been written) occupy but a scant eleven pages. Also, expositions of principles involved are sometimes rather meagre. Nevertheless, sufficient progress is made in the complexities of auditing to make the book of interest to all students of accounting.

One interesting and profitable portion of the book is that which contains problems based for the most part on the subject matter preceding. These are all practical problems, similar to those facing practising accountants daily, and are most instructive. It would seem, however, that these could have been made even more effective by having the answers available in another portion of the book.

In brief, it is a short, concise volume with the working papers probably the most interesting and instructive feature. There is great need for more uniformity in accounting practice, and *Principles of Auditing* sets a good model for such standards.

F. G. COLLEY.

BOOKKEEPING AND INTRODUCTORY ACCOUNTING, by HENRY W. SWEENEY, *McGraw-Hill Book Company, Inc.*, New York. 545 pp.

This is a correspondence course text-book for beginners in the study of bookkeeping with some introduction to higher accounting. It differs from most of its predecessors in that it starts with the profit-and-loss statement and the balance-sheet, the ultimate goal of all bookkeeping, and then takes up the accounts usually to be found in these vital business documents. The author enlivens a rather dry subject with much discussion of the why and wherefore, interspersed with bits of historical information not often found in such elementary books. Undoubtedly the average extension-course and college student is of an age to appreciate this; otherwise I should question the value of so much space given to elementary bookkeeping. An old manual, now out of print, in my library compresses within fifty pages all the rules and principles covered in the five hundred pages of Mr. Sweeney's book; the rest is drill, drill, and still more drill. But Mr. Sweeney says his book has been used successfully for three years in correspondence study and class instruction, which is after all the real test.

Each chapter closes with a series of review questions whose usefulness in my opinion is negatived by stating the answers. It would be better to let the student show his understanding and assimilation in his own language. Otherwise there is a strong incentive to skim the text and memorize the review answers. But this is partly off-set by the problems also set at the end of each chapter.

W. H. LAWTON.

THE PRINCIPLES OF INVESTMENT, by JOHN EMMETT KIRSHMAN, *A. W. Shaw Company.* 902 pp.

On the jacket to this volume, it is stated that "the author presents a comprehensive, authoritative, well organized analysis of the actual working principles of investing both individual and institutional funds." In the preface the author describes his work as "an attempt to set forth in a clear and straightforward manner the underlying principles governing the entire process of investment." The contents of the book justify each of these claims but it is evident that no review can deal fully with so broad a subject, especially as the author quotes freely from statistics, from history and from many authorities.

Part I deals with the evolution of investment, the motive for investment, the methods of securing income from investments and the differences between investment, speculation and gambling. The author gives three methods of computing income from investments: first, by periodic interest payments, second, through appreciation and, third, by accretion. Appreciation is said to occur when the risk is decreased (or the credit improved) while accretion is due to market fluctuations. This distinction suggests that these conditions are regarded from the standpoint of an economist rather than from that of an accountant.

The discussion on gambling is confined to "financial gambling" and while various authorities are quoted, the conclusion is that the speculator is one who invests with knowledge and intelligence while the gambler simply takes a chance.

Two chapters are devoted to the supply of and the demand for investment funds, dealing with national savings and accumulations on the one hand and, on the other, the various existing needs for additional capital.

The author next deals with the return on invested capital. This matter includes a discussion on the nature of interest, and is followed by a chapter on the prices of investment securities, which involves some consideration of taxes.

Part II treats of the risk of investment, which is described as being composed of three distinct parts—the credit risk, the market risk and the unpredictable risk. The first of these has to do with the maker of the security; the second with the condition of the investment market; while the third is due to disturbances in natural or political conditions.

The credit risk is described as containing four elements, those relating respectively to the contract, the asset, the income and the good faith of the maker.

The evolution of the contract, the mortgage, the bond and capital stock is considered and the varieties of each are described. The asset element of risk deals with the pledging of assets as securities for loans and discusses in detail the variety of such assets. Under the head of the income element, is considered the earning power of the borrower. This leads to a general discussion of the various ratios, factors and margins of safety usually considered in regard to the different classes of enterprise. The element of good faith is largely a personal element and affects all obligations from those of a nation to those of an individual.

Part II closes with a detailed account of various methods of rating as adopted by recognized authorities.

Part III is devoted to the field of investment and deals with United States government bonds, bonds of the several states in the union, municipal securities, railroad securities, public-utility securities, industrial securities, real-estate securities and foreign investments. Under each class the history and present conditions are described and illustrated by numerous examples, the discussion occupying over one third of the entire volume. There is included a tabular statement of all the "regulatory bodies in the United States with a partial analysis of their jurisdiction and powers." This portion of the work contains much interesting matter and such subjects as depreciation, valuation, earnings, etc., are dealt with in quite full detail.

In part IV, price movements and their causes are considered. These movements are dealt with under three headings:

(1) The great bond cycle, namely from 1864 to 1873; from 1874 to 1902 and from 1902 to 1921.
(2) Major cycles in stocks and bonds.
(3) Minor cycles and speculation.

Each of these is discussed historically and explained with many illuminating examples.

Part V, on the elements of an investment policy, opens with a discussion of the ideal investment and the contributing factors of safety, of yield and of marketability, together with possible appreciation or accretion as described above. Consideration of diversification of investment and of shifting of securities naturally follows and leads to an account of the channels of exchange or means of purchase and sale.

The section is closed by two chapters on the individual investor and institutional investments, respectively. The former contains much sound advice; it quotes and enlarges on the eleven warnings given by the secretary of the treasury; while the last chapter describes briefly the investments of savings banks, commercial banks, insurance companies, trust funds and corporate surplus.

The appendix consists of definitions of various technical expressions—it might be described as a glossary of the Wall street dialect.

Taken as a whole, the work contains a large amount of information which is well stated and clearly set forth, while it is entirely free from anything approaching dogmatism. I doubt if any other one volume contains as much information of interest and of value to a student of economics and to the investor, whether that investor be an individual, a corporation or a banker or trustee. The aim of the author appears to have been to include all available facts bearing upon his subject and to exclude all debatable theories. He has endeavoured to exalt his subject and suppresses his own opinions—in all this he has succeeded apparently to the exclusion of a single capital "I" from cover to cover.

WALTER MUCKLOW.