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Book Reviews

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MODERN ACCOUNTING SYSTEMS, by WILLIAM D. GORDON and JEREMIAH LOCKWOOD. *John Wiley & Sons, Inc.*, New York. Cloth, 464 pp.

Modern Accounting Systems is one of the "Wiley accounting series" edited by Hiram T. Scovill, head of the accounting department of the university of Illinois. The authors are assistant professors of accounting in the Wharton school, university of Pennsylvania, and the introductory chapter is ascribed by the authors mainly to Professor Moxey of the same institution. It hardly needs saying then that the book is a text for students in higher accounting to show them the practical application of general principles to certain specific lines of business. This is quite in accordance with the present trend of accounting literature. General principles have long been established, and have been stated and re-stated, till one reviewer at least fairly hates to open a new book on accounting. It was, therefore, something of a relief to discover that Professors Gordon and Lockwood take for granted the reader's knowledge of general principles of accounting and get down without delay to specific application of that knowledge.

The introduction explains the basic plan of the book and is also its apologia. The plan in brief consists in applying general principles, first, to the simplest system involving only cash transactions, then to the more complex which must take account also of materials, supplies and merchandise, and finally to the most complicated of all, municipal accounting based on budgetary control. The axiom is laid down that in order to make such application intelligently one must first learn how the business is conducted and for what purposes the accounts are required; and it is implied at least that such understanding should be acquired as far as possible by the student before he is graduated. If this sounds like a platitude to some of us, let us remember the day when we tackled a new business for the first time and no doubt wasted our own and perhaps our client's time learning how to apply our general knowledge to the specific case. There was no other way to learn in those days, but in these when accumulated data in all lines of business are at the service of business education there is no excuse for it.

It may surprise some readers that the authors begin with building and loan associations as the simplest system, proceeding from them to insurance companies, banks, stock brokers, department stores, gas companies, railroads and finally municipalities—which are all that is covered by the book. A little reflection and reference again to the introduction justify them. The plan of the book is based on the system of conducting the business. Barter being obsolete, it is clear that a transaction involving cash only is the simplest form of doing business. According to its size and the number of transactions a business may vary greatly in the amount of details, but whether it is a village building and loan association with fifty members or a city institution with ten thousand, a country bank run by one or two men or the National City bank of New York, the basis is the same, the receipt and disbursement of cash. In slightly higher degree come the insurance companies, which must also account for reserves, stock-brokerage offices with their securities "long and short", while in department stores, gas, i. e. manufacturing, companies and railroads various other factors affecting the profit and loss must be taken into account. Finally when we come to municipalities operating on a budget system we must account not only for actual but also for anticipated transactions.

In each part under the headings as stated above the authors give brief and clear explanations of the purpose, organization and procedure of the business, followed by a general description of the accounting system used in typical organizations. Charts furnish graphic demonstrations of the relations between different departments and books. As a means of testing the students' grasp of the text practical problems for solution appear at the end of each part.

A slight error appears on page 202 in the scale of commissions charged by stock brokers on the New York exchange. This scale was superseded by a higher one October 30, 1924, probably while the book was in press.

W. H. LAWTON.

COMMON STOCKS AS LONG TERM INVESTMENTS, by EDGAR LAWRENCE SMITH. *The Macmillan Company*, New York. Cloth, 130 pp.

In an interesting little brochure Mr. Smith has summarized a good deal of the discussion of the last two or three years on the comparative merits of bonds and common stocks as investments where the purchasing value of a dollar has declined. But Mr. Smith has gone further and attempts to show that even when the dollar appreciates in purchasing value the results in both income and value of security are better for common stocks than bonds in long-term investments. To this end he submits a number of tests covering about twenty years in different periods between 1866 and 1922 in which ten representative stocks are compared with hypothetical gilt-edged 4% bonds, the latter of course being based on the yield theory, not market value. To the obvious criticism that would be made at the outset, i. e. that the investigator is naturally biased by the subsequent history of the stocks selected, Mr. Smith states:

> "Not wishing to give him the advantage of any knowledge that we might have now . . . we forced him to a hit-or-miss policy which could only be regarded as reckless.
>
> "We assumed that he had only $10,000 and we made him pick out the ten industrial common stocks in which there had been the largest number of transactions during the week selected. This is not what a thoughtful investor would do—but it completely eliminates any chance of his making a selection based on happenings which could not have been foretold at the time the purchase was made."

After this rather naïve proposition the prudent investor may well be pardoned if he is prejudiced in advance against the author's conclusions. Nevertheless if he will read on to the end (and if he is somewhat advanced in years) he is likely to heave a sigh of regret that he didn't adopt this simple and "reckless" method of investment in his early years! But I hasten to add in fairness to Mr. Smith that on the previous page he says emphatically:

> "The methods by which the stocks were selected are not recommended to an investor actually investing today, but they are important in judging the results of the tests."

And what is more to the point of the book:

> "Sound investment counsel at the time purchases are made, and applied constantly to the holdings, would, without any doubt, have greatly improved the showing made."

That is the point. Mr. Smith submits a number of tests covering different classes of common stocks and in all cases apparently proves his thesis. As a clincher he shows by examples that losses in value on bonds are to be expected, bonds that at the assumed time of purchase were considered gilt-edged. From his data Mr. Smith then attempts to deduce a

> "Law of Increasing Stock Values and Income Return.
> (1) Over a period of years the principal value of a well diversified holding of the common stocks of representative corporations in essential industries tends to increase with the operation of compound interest."

That is, from the effect of reinvesting surplus on the part of the corporation and the increase in the way of stock dividends and rights to the stockholder.

> "(2) Such stock holdings may be relied upon over a term of years to pay an average income return on such increasing values of something more than the average current rate on commercial paper."

To this the author adds a corollary—

> "In the selection of securities for investment we must consider more than the expected income yield upon the amount invested, and may quite properly weigh the probability of principal enhancement over a term of years without departing from the most conservative viewpoint."

Which is, after all, no more and no less than what any good broker means when he recommends common stocks as a "business man's investment," that is, the investment of one's surplus without being compelled to rely upon its income for support. In such case the investor assumes the risks of lean years for the sake of the expected fat years on the general assumption that over a long term of years the total income and increase in principal value will exceed those from a "pure" investment in bonds. There is nothing new in this, of course. The stockholder reaps profits subject to the risk of loss; the bondholder is merely paid a stated rate for the use of his money and takes only the risk of part or complete bankruptcy, according to the traditional theory. What Mr. Smith shows is that the bondholder also takes the risk of a depreciating dollar which, as his tests would indicate, are not offset by periods of appreciating currency. Stocks, on the other hand, both as to income and appreciation, depend upon profits which will rise pari passu with depreciating dollars.

Whether he agrees with him or not the reader of this little book will thank Mr. Smith for his very fair and lucid study of a problem rather puzzling and complicated to the lay mind.

W. H. Lawton.

SPECIALIZED ACCOUNTING, by George Hillis Newlove and Lester Amos Pratt. *McGraw-Hill Book Co., Inc.*, New York.

The preface to *Specialized Accounting* states its major purpose as the "study of accounting principles definitely applied to various types of business activity." What these principles are or how they are applied is not very clearly brought out. Indeed the preface is about the only place where they are mentioned, which is perhaps as well, for the real fundamental principles on which accountancy rests are so few in number that it would hardly be possible to write a very extensive book on them. What this book, however, does do, and does well, is to describe and illustrate the accounting practice of a number of different businesses and industries, as well as to give brief and lucid descriptions of the methods and processes of the businesses themselves. The list is well selected and representative and may be grouped into: mercantile (commission merchants, department stores); manufacturing (from foundries, cotton, flour and cement mills); financial (trust companies, stock brokers, building and loan associations; fire and life-insurance companies); and natural resources (land development companies, timber, logging and sawmill companies, coal mines, oil producing companies).

There are three distinct sections of the work: first, a series of short lectures on the nature of the different businesses and their accounting practice; second, questions on these lectures; and, third, problems bearing on them, both of these latter being selected from questions used in the American Institute of Accountants and various state accountancy board examinations.

The most interesting feature is the lectures. As these average only seventeen pages each they are not exhaustive. Some things of importance are necessarily omitted, while other vital points are lightly touched on or under-emphasized. For instance, the handling of customers' accounts in department stores, probably one of the greatest achievements of mechanical accounting, is not mentioned. The cost of coal used at the mine is dealt with, but oil similarly used by oil companies is not even mentioned. Coal used is recommended to be charged to expense at the lower of cost or market, surely an odd method of dealing with supplies. It is also a little difficult to see why commissary stocks on an oil company's balance-sheet are current assets when office stationery is a deferred asset. The remarkable thing, however, is not that there are a few omissions or that some doubtful practices are put forward as well recognized, but that in such a mass of detailed information these things are so infrequent.

The questions and problems are well selected and if a student has worked out correct solutions to those given in the text he may look forward with equanimity to questions on special types of business in any reasonable examination. Whether or not he can find the answers to them all in the text is another question. They are certainly not answered specifically. It is undoubtedly much better for the student to think out the answers, even if he must have recourse to other authorities to verify them, than for him to learn specific solutions in a mechanical way.

This book should be of much value to a somewhat advanced student and will give an experienced practitioner a fair outline of any of the types of business activity treated with which he is not familiar. It is hardly fair in a work of this extended range and small size to expect that an experienced accountant familiar with any of the specific businesses covered will find much of great value in the chapter on that particular trade or industry. It should be a useful book for quick reference to an accurate and interesting, if brief, description of the trade or industry covered. For instance, an assistant about to begin the audit of any business covered could spend the preceding evening very profitably studying the chapter on that particular trade or industry.

For advanced problem work in schools or colleges much valuable material which might be used to supplement the regular courses is offered in the second and third sections.

The physical make-up of the book is excellent and the lectures are well indexed.

MAURICE E. PELOUBET.

BUDGETARY CONTROL FOR THE CLOAK AND SUIT INDUSTRY, by THEODORE I. SCHNEIDER. *Maxwell Keller Publishing Co.*, New York. Cloth, 145 pp.

The purpose of *Budgetary Control* is described in the foreword:

> "The information on 'budgetary control' presented in this book has been prepared as a guide for jobbers engaged in the cloak and suit industry. The statistical data have been compiled from records of actual performances of successful concerns engaged in the cloak and suit business. The combining of the data herewith presented with the results of one's own business operations will serve as a basis to anyone engaged in the industry for the preparation of a scientific budget plan covering future operations."

Mr. Schneider has carried out his plan admirably. Beginning with purchases he follows through the business cycle and makes plain the relationship between net sales and the different phases of operation. The user of the plan is expected to gather the data of his own business from past experience. Then Mr. Schneider furnishes him with comparative statistics which he has gathered from the trade at large thus giving the user both a means of comparison and a standard to attain. A particularly vital and interesting chapter is the one on velocity ratios, i. e., turn-overs in accounts receivable, inventories and investment, subjects to which the average business-man gives only spasmodic attention.

Practising accountants will find this a handy book of reference. We ought to have more like it. W. H. LAWTON.

GRAPHIC ANALYSIS FOR EXECUTIVES, by WINFIELD A. SAVAGE. *Codex Book Company*, New York. Cloth, 145 pp.

Acting on the premise that a picture conveys ideas and information more quickly and with less mental effort than pages of text and columns of figures, Mr. Savage offers to business executives a book containing a large number of graphic charts covering practically all phases of operation and finance. Full explanation of the meaning and use of each chart accompanies it, and given a good and accurate staff of accountant-draftsmen, it should be possible for an intelligent accounting officer to furnish the executives and directors with visual evidence of business operations when desired. The fact that the book is plainly an advertising medium does not detract from its usefulness. Many accounting texts have more or less to say on the value of graphic charts, but they seldom furnish enough information to enable an accounting officer to work out a set of charts for his own use. W. H. LAWTON.