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Book Reviews

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MUNICIPAL BUDGETS AND BUDGET MAKING, by A. E. BUCK.
The National Municipal League, New York, 1925.

The preface to this little book describes it as one of a series of monographs dealing with the technical phases of local government and administration, whose purpose is to aid in the development of a science of administration by which the products of the older sciences will be made available to government. It has been prepared not only as a handbook for those engaged in municipal work, but as a textbook for schools and colleges. The appendix has a number of problems and topics for discussion, twenty-six in all. Among these topics are the place of unit-cost data in the budget, government subsidy and the budget, and the theory and practice of restricting the powers of the legislative body in its action on the budget as presented by the executive. As a more practical application of the study, the student is asked, among other things, to devise a set of expenditure-estimate forms for a city of 50,000 to 100,000 people and to prepare pro-forma budget from data furnished. The eight chapters carry the reader or student through the whole budget procedure from the make-up of the budget organization through the compilation of estimates, their review and fashioning into the budget, and the legislative action which shapes the appropriation, revenue and borrowing measures to the administration of the plan. The public accountant who is engaged in municipal work will find much that is helpful in the four chapters dealing more directly with the character and classification of the budget information, with data and forms, and with the administration of the budget plan. The book is by no means elementary, yet its language is simple and direct, making a pleasant two hours' reading for anyone interested in the financial phases of municipal government. Much practical matter will be disclosed to which the reader will gladly turn when he takes up the making of a budget or the audit of city accounts, classifications of expenditures and income which he can readily expand or contract to fit the work in hand, forms for data supporting estimates of requirements and budget schedules.

GEORGE REA.

SIMPLIFIED SCHOOL ACCOUNTING, by ARTHUR J. PEEL. *The Bruce Publishing Co., Milwaukee, Wis.* Cloth, 118 pp.

A handy little book intended to explain in simple terms and with easily understood forms a system of accounting for small school districts, but it is spoiled for practical usefulness by careless preparation. For instance: receipts from bond issues and short term loans are *not* revenues though the author classes them as such (p. 56); and if "the only debits" to revenue accounts are "refunds and adjustments" (p. 71), the school bookkeeper will be at a loss how to close these accounts at the end of the year. A still more serious blunder is the instruction that the sinking-fund reserve "is charged when payments are made from the general fund to the sinking fund" (p. 69). Realizing what a mess would result from these errors alone, I certainly can not recommend this book

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for the guidance of school superintendents and teachers who may be ignorant of the art of bookkeeping. It is a pity, for in the main the author has succeeded very well in his aim.

W. H. LAWTON.

ACCOUNTANTS' REPORTS, by WILLIAM H. BELL. *The Ronald Press Co.*, New York. Second edition. Cloth, 386 pp.

At the hands of so experienced an accountant and so able a writer as Mr. Bell we may expect a notable bit of work, and his book on accountants' reports does not disappoint expectation. That a second edition has been called for within three years is sufficient evidence of its popularity with the accounting profession and with students. In the present edition much new material has been added, new forms have been illustrated, and there is more detailed discussion of financial statements. The most notable feature is the inclusion of a complete audit report with comments, statements, exhibits, schedules and statistical tables. Reports are divided into four parts—the presentation, comments, certification and statements. The statements of course furnish the basis for the rest of the report, so the book takes up first the standard forms of balance-sheets and income statements, describing their comparative merits. After these accepted and customary forms, the author gives ample attention, with excellent illustrations, to consolidated statements and miscellaneous forms for special audits, and includes an illuminative chapter on graphic charts as an aid to making clear the information found in financial and statistical statements. In these days when income-tax returns form so large a part of an auditor's routine practice, it seems strange to find no form of report to cover this special work. There should be one. It is very seldom that a return agrees with the statements taken from the books, and realizing this fact the treasury department requires the taxpayer to preserve working papers showing the reconciliation of returns with the books. While this regulation may be met by furnishing a copy of working papers to the client, I think a formal report would be better. Such a report would contain not only a reconciliation statement for differing items but also comments on debatable points, indicating specifically the sections of the law and regulations supporting the auditor's contentions.

W. H. LAWTON.

INVENTORY PRACTICE AND MATERIAL CONTROL, by FREDERIC W. KILDUFF. *McGraw-Hill Book Company*, New York. Cloth, 446 pp.

I think it was the late Mr. Charles Vollum who once remarked that the average business concern took but two inventories in the course of its life—the first when it started in business, and the second, after bankruptcy! That times have changed and the “subject of inventories has risen from one of minor to one of primary importance” (to quote from the preface of Mr. Kilduff's book) is due principally to the income tax and to tremendous increases in the investments in inventories. Some credit also might fairly be given to the educative advice of public accountants, for the literature of accountancy for the last twenty years has consistently urged the importance of the inventory in ascertaining true profits. It can not be denied, however, that government fiat has accomplished at one swoop a reform that would have required many more

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years of education. Whether or not he realizes the importance of the inventory, the merchant or manufacturer must report it in his income-tax return. Nevertheless it is probably true that very many so-called inventories are pure guesses in spite of the rigid rules prescribed by the treasury department. Reluctance to incur the expense and loss of time involved in taking a physical inventory is the usual excuse but the real cause is undoubtedly ignorance of a proper system by which an inventory can be taken with the minimum of loss and maximum of accuracy. There is a need for a manual of this kind, and Mr. Kilduff has supplied it.

The book is divided into two parts, the first and main division covering the details of taking the physical inventory—that is, the actual counting, tagging, listing, classifying, and then pricing and valuing the items. The author lays particular stress on the importance of planning the entire operation and then maintaining the schedule as mapped out. This is something that anyone who has actually experienced the confusion caused by failure to follow instructions will fully appreciate. The second part is devoted to the control of materials or stock through the materials ledger supported by perpetual inventories. While this may appear beyond the scope of the main subject of the book, it is highly desirable if a concern can be induced to adopt it. It not only facilitates the checking of subsequent inventories, but it also furnishes valuable and continuous information during the periods between inventories.

To the accountant-reader the most interesting chapters will be those dealing with pricing and valuing the inventory. On a cost basis these procedures are merely a matter of studying invoices and payrolls, tedious but involving no particular complications; but the perplexities and complications encountered when the basis is cost-or-market, a basis now accepted as the most conservative, need no demonstration. The reader will find a clear and exhaustive discussion of the many difficulties sure to arise, and if he lays the book down with the disappointed feeling that after all the value of an inventory is largely a matter of opinion, it will be no more than what the author, in common with most experienced practitioners, frankly admits.

A very informative chapter is the one on the retail method of inventory, a method which is growing in favor but about which we have not had much scientific explanation. It is one that should particularly commend itself to accountants for the reason that it puts the inventory on the cost-or-market basis automatically, a point that I do not remember to have seen emphasized before.

I have said that Mr. Kilduff has supplied a much-needed manual but on second thought I should qualify this somewhat. It is without doubt a necessary and useful manual and reference book for public accountants, appraisers, or others with the technical training to understand and use it. The almost infinite amount of detail inseparable from the subject will daunt the average business man, especially of the smaller class. The accounting officers of large corporations have systems of their own from some of whom Mr. Kilduff has naturally obtained much of his information. But I heartily recommend the book to public accountants as a very practical guide in planning inventory-taking for their clients.

W. H. LAWTON.

STATISTICS AS APPLIED IN BUSINESS, by BENJAMIN FRANKLIN YOUNG. *The Ronald Press Co.*, New York. Cloth, 639 pages.

The purpose of this book is "to present the essentials of elementary statistical methods in such a way that their application to the individual concern may be readily grasped by practical business men, as well as by students of commerce preparing for a business career."

The volume contains five parts and an appendix. Part one classifies the fundamental elements which are generally applicable to all business organizations into three broad groups: (1) the personnel, (2) the finances, and (3) the operations. Each of these groups is subdivided into classes of facts. For example, under personnel are included three specific groups of facts: (1) the working force, (2) the wages, and (3) the employment conditions. Then consideration is given to the sources of statistical data and the methods of collecting such data. Part two describes the editing of initial primary basic records when they are received by the statistical department and discusses the types of basic records. Part three covers the presentation of statistical data. Three general methods of presentation are given: (1) the textual method, (2) the tabular method, and (3) the graphic method. Each method is described, and, while the author states that the method of presentation to be used in any particular case can not be designated in a book, he nevertheless describes each method so clearly that it should not be difficult for the reader to make his own selection in specific instances. Part four covers the analysis and interpretation of statistical data. This is the most technical portion of the book and is, therefore, the hardest for the lay reader to understand. Part five contains a chapter describing certain mechanical aids for statistical work, such as computing and tabulating machines. Additional chapters cover relations between statistics and accounting and the organization for a programme of statistics. The appendix contains a glossary of statistical terms, statistical reports and statements, some formulæ and mathematical calculations and a number of problems.

While this volume is essentially a text-book and is therefore of particular interest to the student or the person engaged upon statistical work, it may be read with profit by accountants and business men. The discussion has been presented for the most part in non-technical terms and is illuminated by the large number of illustrations given. These will be particularly welcome to the ordinary reader. One of the striking things about the book is that the presentation of the material is in keeping with the title. Each subject is taken up systematically. It is defined, classified, and sub-classified. Each classification is then described and finally a summarization is made of the whole subject.

W. B. FRANKE.

THE RETAIL METHOD OF INVENTORY, by MALCOLM P. MCNAIR.
A. W. Shaw Company, Chicago. Cloth, 143 pp.

In this book we have a compact and comprehensive study of the method of taking inventories at selling instead of cost prices, afterward reducing them to the basis of cost or market whichever is lower. As Mr. McNair points out this is not a new idea as it has been used in one form or another by some dry-goods department stores for twenty years or more. In the earlier years of the income-tax laws the treasury department refused to accept inventories

by this method, insisting upon the cost or cost-or-market basis in all cases, but after the disastrous experience of 1920, and through the efforts of trade associations and accountants, by 1923 the department was persuaded that the retail method was not only approximately correct in itself but in abnormal times practically the only method by which the inventories of trading concerns could be fairly valued at all, since another regulation prohibited the use of arbitrary market prices which was the only alternative when there was actually no market. To use cost prices simply meant inflated inventories and the payment of taxes on non-existent profits. The retail-method regulation naturally aroused the interest of other retailers who had not theretofore been familiar with the method, and it has been steadily growing in favor. As its name indicates it is at present a method applicable only by retailers—that is, broadly speaking it can be used successfully only where the cost and the selling price can be determined and fixed in advance. A more rigid system of fixing selling prices would make it practicable for wholesalers, and signs are not wanting that they are giving serious attention to it. Obviously it can not be adapted to manufacturing enterprises, at least not until much further progress has been made in stabilizing cost accounting.

Just what is the retail method of inventory? I quote Mr. McNair's formula as the best answer to this question I have seen, viz:—

“For each department, or for each classification of merchandise, inventory at the beginning of a period is entered at both cost and retail figures; and all purchases during the period likewise are entered at both cost and retail figures. To the total *retail* figures is added the sum of additional mark-ups, less additional mark-up cancelations. Thus there are available total cost figures and total retail figures for all merchandise handled during the period. The difference between the total cost and total retail figures is the amount of mark-up. This is computed as a percentage of the total retail figure; and the complement of this percentage, that is, the difference between this percentage and 100%, is the percentage which represents the cost of merchandise. From the total *retail* figure are subtracted net sales for the period plus mark-downs, less mark-down cancelations. The remainder is a book figure for the retail value of the merchandise that should be on hand. Then the actual physical inventory is taken at the retail figures appearing on the tickets on the merchandise in stock; and any discrepancy between the retail book inventory and the actual physical inventory is a retail stock shortage or overage, as the case may be. To the actual retail inventory figure is applied the complement of the percentage of mark-up in order to ascertain the cost-or-market valuation of the closing inventory.”

That is the formula for the actual stock taking, and if it were all it might be a fair question whether the method is any better than the customary way of pricing the inventory at cost or market. Mr. McNair answers that it is, in at least three particulars, viz:—(1) the protection against errors and the simplification of listing and pricing, in that plain figures are dealt with instead of the usual secret cost symbols; (2) the consequent saving in time; and (3) the facilitation of proper valuing on the cost-or-market basis since the use of the mark-up and mark-down figures automatically records depreciation. But it is more than a mere method of stock taking. If the mark-up and mark-down records are accurately kept the method also becomes a system of merchandise control. For the figures of book inventory obtained by the retail method (1) reveal and help to locate discrepancies in stock, (2) facilitate the

planning of sales, stocks and purchases, (3) afford a sure basis for insurance settlements, and (4) permit the determination of gross profit at any time without the necessity for a physical inventory.

There are some objections to the retail method of which the author states three as the main ones, viz:—(1) the inherent possibility of error in that the retail is admittedly an averaging method; (2) its dependence on the proper taking and recording of mark-downs; and (3) the volume of clerical work involved. Mr. McNair considers the first not serious in the light of reports to the trade associations and bureau which indicate that the inventories taken on both bases differ so slightly as to be negligible. The second he regards as rather a virtue in that it compels better accounting. The third applies practically only to the smaller business concerns. The larger ones must employ large clerical staffs whether they adopt the retail method or rely on cost-audits or perpetual inventory records. I think in many quarters there may be offered a fourth objection, viz., that mark-downs, especially at the close of a season, result in a valuation that is neither cost nor market but is what the merchant considers the worth of the marked-down goods to him. It is quite possible, for instance, for a department to offer at very reduced prices seasonal goods of an extreme style during the last few days of a season, hoping to get rid of them, but if it has an appreciable quantity left on its shelves at the close of the taxable period at a valuation say, of \$1 per unit, it is not likely that the treasury department would accept this value if the same goods were quoted at \$2 in the market. Mr. McNair touches upon this possibility (page 76) and argues that after all the real value is what it is worth to the merchant. We can readily agree with that as far as it concerns the merchant, but there must be some standard to go by, especially when we have to deal with the income-tax collector. Mr. McNair deals with the special problems to be treated in using the method, particularly the problem of changing to it from the usual cost-basis method, and describes the routine procedure with illustrations of proper forms. An appendix contains the printed and mimeographed regulations of the treasury department covering the use of the retail method, and there is a good index.

It is undoubtedly a book useful to the public accountant, and to any client who is interested in the retail method.

W. H. LAWTON.

INCOME TAX AND SUPER TAX, LAW AND CASES, by RONALD STAPLES. *Gee and Co., Ltd.*, London, E. C.

Mr. Staples is associated with the inland-revenue department of the British government, and while he warns that his publication must not be construed as stating the official attitude upon the matters of which it treats, yet it is perhaps permissible to conclude that the rulings shown therein are in accordance with that which is acceptable to Great Britain's taxing authorities. Like every book issued upon the subject of income and super taxes this volume is not one that will be used for other than reference purposes when a particular problem is faced by the taxpayer or his representative. That Mr. Staples has recognized this fact is evidenced by the elaborate indexing that he has employed. There is a table of subject headings; a table of statutes in respect of

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the act of 1918 with elaborate cross references to prior enactments; an index of the arrangement of sections of the act; a table of cases, meaning court decisions upon important points, as well as appendices showing table of rates of income and super taxes each year since the introduction of imposts, and finally a table of rates of depreciation agreed upon by the various industries and the board of inland revenue. The main body of the work deals with "income-tax and super-tax law and cases" and this subject is arranged in alphabetical order and contains some six hundred pages of valuable information. This book is of undoubted value as a work of reference but until one learns the trick of extracting the desired information some difficulty will be encountered by the uninitiated in getting the picture necessary to the solution of his problem. However, one equipped with copies of the several acts under which these taxes are imposed will find in its arrangement and its indexes a quick and authentic answer to any question arising.

STEPHEN G. RUSK.