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Book Reviews

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Book Reviews

FACTORY OVERHEAD, by FRANK WEBNER, *The White Press, Inc.*, Washington, D. C. 456 pp.

The author makes no claim to the presentation of anything especially new. His purpose seems to have been to treat both the theoretical and practical sides of the question and to emphasize the need of intelligent analysis of the factory expenses and the use of analyses by factory executives. Executives, especially those without modern cost systems, would do well to read chapter II—"Human element." This chapter points out the necessity for sympathetic consideration on the part of executives, something which is very often lacking. The following quotation from this chapter states a truth which applies to the majority of factory executives:

"The average superintendent fails to get more than a small part of the vital facts and statistics that he should have to control the activities of his plant intelligently. The desire to avoid the expense of the necessary system, that will bring such vital statistics to the superintendent has created this condition. Even where a works manager's inertness does not take the form of open rebellion to the introduction of a cost system, it may yet be fatal because of his reluctant adoption of modern methods, because of his strict adherence to the tenets of the stone-blind 'practical' man who never does anything unless it is mouldy with precedent."

On page 32 the author points out that piece-work does not fix labor costs. Overhead is really a part of a man's labor cost and if a piece-worker consumes too much time he is a costly worker in spite of a fixed piece-rate. Chapter VI—"Convergent methods"—contains some good descriptions of the various methods of determining costs and the advantages and disadvantages of each. One looking for wage-payment methods which will increase production and lower costs will find some good suggestions here. In dealing with overhead analysis the author says:

"Overhead is an inevitable incident of production, but a most elusive incident, almost impossible of proper determination and distribution unless the plan of accounting be intelligently devised and as intelligently and faithfully carried out."

He then gives examples of what is meant and draws conclusions from them.

The chapter on power cost points out the various items of power cost with an elaboration of the indirect items. It also describes methods for determining the basis of distribution. There are good points in the chapters on material and on waste and discrepancies. Most manufacturers should give more attention to determining what wastes there are and how to reduce them. Fixing the cost or determining the value of salvaged material and "co-product" more commonly known as "by-product" is treated in chapter XI. This is often a very perplexing problem. Some may find the solution to their problems here. Chapters XIII and XIV deal with plant investment and interest. It would be difficult to bring out anything new on the subject of interest on investment, but one who wishes to study the subject will find

some material here. The author questions some distinctions drawn by an author of prominence. Those interested in this subject will find something of interest and possibly of profit in the different viewpoints of the two authors. Chapter XV draws a clear distinction between maintenance cost and depreciation. Chapter XVI gives a very extensive table of depreciation rates. Chapters XVIII to XXV deal with the segregation and allocation of department overhead.

I can endorse the statements contained in the last paragraph of the preface:

"The aim has been to tell why and how at every step and to state the case in language as non-technical as possible. For this reason the book should prove a valuable manual of instruction and, it is hoped, of inspiration to any of the vast army of direct or indirect producers who are, or aspire to be, leaders in their work."

C. B. WILLIAMS.

CONTRACTORS' ACCOUNTING PRACTICE, by WILLIAM M. AFFELDER,
The Ronald Press Co., New York. 386 pp.

It would be expected that a man occupying the position of Mr. Affelder should know his subject thoroughly. It would not necessarily follow that he would show equal ability to convey his knowledge to others. But Mr. Affelder knows and can tell what he knows so that the veriest tyro can read and understand. Here is a book that covers the practice of accounting for contractors from A to Z, a system so flexible that it may be applied with equal facility to the laying of a sidewalk or to the building of a railroad. Not only does it cover the needs of the contractor, but it also outlines a system of accounting for the owner and for the architect, which, dove-tailing more or less with that of the contractor, should go far to eliminate misunderstandings and disputes.

The book is divided into four parts, the first three dealing with accounts for contractors and sub-contractors, and the last with those for owners and architects. Part I outlines the field conditions underlying the accounting system, giving the reader a bird's-eye view of what the contractor must expect to encounter and prepare for both as to the work and to the accounting therefor. Part II covers the range of general accounting for the contractor's office, beginning with a discussion of the accounting system and underlying principles, and following through with explanations of the purpose and use of each book and account. Specimen journal entries and pro-forma ledger accounts furnish concrete guides to the bookkeeper. Part III deals with the cost accounting system, an important part of a contractor's records since he must depend largely upon it for data for future contracts. Differing basically from cost-finding as practised in manufacturing and trading, this part will be of particular interest to cost accountants. Part IV outlines a system of accounting for owners and architects. It is simple and yet most effective not only as a record for the owner or architect, but in a way it may be regarded as a "control" over the contractors' system. An appendix contains forms of contracts, agreements, bonds, and a useful table of experience giving the life, depreciation, upkeep, etc., of a long list of contractors' equipment.

W. H. LAWTON.

AUDIT PROGRAM AND SPECIMEN AUDIT, by D. CARROLL ELLMORE.
Office Supply and Printing Co., Sheboygan, Wis. 72 pp.

Audit Program and Specimen Audit consists of some seventy pages of exhibits and working forms, the purpose of which is to enable the accountant to know exactly what has been done in the course of an audit, and also to assist in finding readily any figures relating to the work. The material, which is prepared in typewritten form, is of working-sheet size. It includes thirteen pages representing the final statements to be rendered to the client, twenty-seven pages (green in color) illustrating the programme of audit, while the remaining pages, approximately thirty in number, illustrate various schedules and working exhibits.

Since the primary duty of the auditor or his assistant on every audit is to produce a sensible set of working papers which will enable the one who is reviewing the work to see at a glance all its essential aspects and, as well, the main changes in the accounts which have taken place during the period under review, any form of working schedules or any arrangement of working papers which clearly and concisely gives this information must be considered satisfactory. Since, also, it is possible that there is considerable difference of opinion concerning the method of preparing these papers and the form they should usually take, it is not possible to criticize too minutely a work of this kind. In the large, the author seems to have designed his schedules in accordance with accepted practice, and the verification work suggested by the audit programme follows recognized auditing procedure.

A great deal might be said as to details. The balance-sheet is shown in entirely too much detail, and it is questionable whether or not as a practical matter all small income and expense adjustments of the current year should be shown in the surplus account. It would appear that the author has so endeavored to be theoretically correct that he has lost all sense of practical proportions. One wonders why December 31, 1921, dividends on preferred stock are charged against the 1922 accounts instead of the 1921 accounts. A number of similar points might be raised. One might also question the desirability of giving to the client the number of statements suggested. The author first suggests eight statements consisting of thirteen pages of schedules, and later adds approximately a dozen additional exhibits which "would probably be presented to our clients." This, of course, is largely determined by what the client desires, his familiarity with accounting and auditing procedure, the size of his organization, and similar matters. It may be that small clients would desire to have as many as twenty schedules and exhibits presented as a result of the annual audit; it is equally certain that the ordinary large Eastern manufacturer would prefer only his certified balance-sheet or two or three pages of exhibits at most.

An interesting part of the work is the way in which the programme of audit is interwoven with the working schedules. The author has followed the plan of taking the items as they appear in the balance-sheet, and then presenting first the programme of audit for one item, for example, cash. Several pages of audit programme may be required to outline the work which should be done. He then follows the audit programme, with a page or two of exhibits to show the way in which the work would be scheduled. This arrangement, again, is a matter of opinion and of preference. Personally, I

should prefer to have the audit programme complete by itself, rather than to have the programme of audit and the working exhibits so interwoven. The separation of the audit programme and the working schedules makes for much easier indexing of the working papers. Furthermore many public accounting organizations use no programme of audit at all; whereas others, by slight revision, use the same programme for a number of years or periods. In any case, the programme is more easily referred to if filed separately from the working schedules.

With reference to the work as a whole, there is only one severe criticism to make of it. This relates to the advertising aspect of the publication. Whether done intentionally or not the author has from beginning to end advertised his own organization, even to such an extent that the author's preface appears on the letterhead of the firm. Here is set forth the nature of the firm's work, the location of its various offices, the names of the partners and similar information. Throughout the seventy-two pages of programme of audit and working schedules the partners' names are combined to make the name of the business under audit. Even granting that this is not entirely wrong, it is assuredly very undignified and wholly out of place in the case of a professional concern.

J. HUGH JACKSON.

MATHEMATICAL PRINCIPLES OF FINANCE, by **FREDERICK C. KENT**,
McGraw-Hill Book Co., Inc., New York. 250 pp.

This book is intended for use as a text in the theory of interest and in insurance probabilities, but accountants who make use of the methods of actuarial science either so frequently that they wish to master the fundamentals of the subject, or so infrequently that they require a reference book for the occasional refreshment of memory, should find the book useful, as the statements of procedure are clearly expressed, and as the appendix contains logarithmic and interest tables. Incidentally, many people may find the book useful because of the unusual feature of including interest and annuity tables at a number of fractional rates. Since the book has been written for use as a text, it should be reviewed from that point of view. Texts on mathematics of finance are required by two types of schools: universities offering day courses to regularly enrolled students working for a degree, and business colleges and evening schools of commerce. Students in schools of the first type usually bring to the course a recent and fairly thorough training in algebra and higher branches of mathematics. Students in schools of the latter type usually do not. The reviewer believes that this text is almost ideally adapted for use in schools of the first type, but doubts whether it is as well adapted for use in schools of the second type. Many of the formulas, while simple from the standpoint of students with some knowledge of algebra, would be quite too hard to be grasped by men who have forgotten or never studied the subject. Moreover, while day courses in the universities are usually devoted to the subjects of insurance and interest, students in evening courses, particularly those preparing for the profession of accounting, need training in other subjects. A book can hardly be written to meet equally well the needs of both types of schools, and the book under review is adequately commended by the statement that it appears to meet the needs of one.

H. A. FINNEY.