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Book review

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nently, owing to the fact that the total assets amount only to eleven and a half millions.

If the opinion of lawyers above quoted is correct, this corporation has an impairment of stated capital equal to seven hundred thousand dollars, because this is the amount by which the investment in preferred stock exceeds the surplus. While no reflection is inferred, the statement bears the certificate of one of the leading firms of public accountants. This may indicate, however, that even those accountants who are most zealous and conscientious in their professional efforts have not given sufficient consideration to the question of corporations having stock without par value and the relation of treasury stock in connection therewith.

It need not seem strange that public accountants are subject to criticism by

lawyers, bankers, and business men when they pass by matters of this character in connection with which it is their duty to be informed and to exercise intelligent judgment under the circumstances. Some consolation may, of course, be derived from the fact that many of these questions are in more or less dispute, and that influences in the corporation referred to may have been responsible for the form in which the balance sheet appeared. There is little doubt, however, that these matters fall within the province of the public accountant to consider and handle, and only by getting well into the subject and understanding it thoroughly may he hope to carry conviction as to the proper treatment of moot questions to those with whom he comes in contact, be they clients, lawyers, or bankers.

Book Review

BLISS, JAMES H. *Financial and Operating Ratios in Management*. (New York, The Ronald Press Company, 1923. 396 p.)

Too many superlatives, like too many capitals, in composition, are likely to defeat the purpose of emphasis for which they are intended. Superlatives are needed to do justice to the present book under review. It is a contribution which has not in excellence and comprehensiveness been approached, let alone excelled, in modern times.

Anyone who has followed accounting and related literature during the last decade must have been impressed with the smattering of treatment accorded to analysis and interpretation of financial statements and statistics. Either afraid of the subject or unqualified to tackle it, authors have generally contented themselves and imposed on the reading public by repeating and rehashing the conclu-

sions resulting from the sporadic, though praise-worthy, work done by one or two pioneers.

The author of the present volume has recognized the need for a complete consideration of the subject, gone courageously about the task, and done a fine job. He is entitled to praise and the everlasting gratitude of all progressive accountants. He has blazed a trail, the like of which will not be seen for some time to come.

Any review short of a digest would be inadequate to give more than a hazy idea of the valuable material with which the book bristles from cover to cover. It must be read to be appreciated. Any accountant who fails to read it and further to take advantage of its contents is passing up something which is like water to the thirsty desert wanderer; this notwithstanding that the book was prepared particularly for those in the field of management.

Some of the author's own words convey clearly his concept of the place which accounting plays in the general scheme of business:

"The primary function of accounting should be considered to be that of rendering a service to executives and managers—the service of supplying information which will enable them to guide and control their affairs more profitably, economically, and conservatively. In the development of any accounting and statistical system the objective in mind and the viewpoint from which to design the plans should be to supply those who handle the business affairs with useful information, which they will understand and use in the conduct of their business."

Further on the author gives expression to an assertion which, while perhaps a platitude, is worthy not only of more thoughtful consideration than it ever receives, but should serve as the motivating force for action more frequently than it does, to wit:

"The average business man does not realize the greatest value out of financial statements that come to his attention, even though he might be vitally interested in the affairs of the particular concern.

"There are two reasons for this situation:

"(1) The fact that the average man does not understand how to read and interpret financial statements in a way to get the most information out of them; and

"(2) As such financial statements are usually presented, considerable work is necessary in analyzing them. . . .

"When it is fully appreciated that well analyzed financial statements afford the best basis for judging the affairs of a company, from both the internal and external point of view, more attention will be given the preparation and use of such statistics in business. . . .

"Two definite suggestions might be offered which would enable public accountants to render business a greater service than they do at present:

"(1) The presentation of better-analyzed reports.

"(2) The accumulation of statistics on

various lines of business which might be used for purposes of comparison and might thus afford a basis for useful suggestions to clients.

"Accountants' reports should present to business executives as much analyzed and interpreted information as possible, or as might be appropriate in the particular circumstances. It is recognized that in some instances all a client desires is a certified balance sheet. In other classes of engagements, however, the accountant has large opportunity to convey to the client all the information which his analysis may make possible. There is so much detail work involved in the making of any audit or investigation, that business men are justified in expecting most complete and comprehensive services in the form of analyzed and interpreted information. The importance of this point is further emphasized by the inability of the average business man to read and fully interpret accountants' reports as usually prepared."

The book is so full of plain talk of this character that any attempt to give a picture of the contents, except by quoting from them here and there, fails miserably. Not only is the theory and application of financial and operating ratios well discussed, but part two contains a fine assortment of statistical tables setting forth a wealth of information not heretofore presented, in so far as the reviewer is aware, in any published document.

These tables cover statistics on such phases as surplus net profits earned on net worth, surplus net profits earned on sales, turnover of inventories, turnover of accounts receivable, turnover of fixed property investment, turnover of total capital used, the investment and sources of capital in various industries, working capital ratio, proportion of earnings left in the business, changes in financial position.

If any of these tables appear on their face to be unsound as to basis, a reading of the text clears away any criticism which might be offered. For example,

one finds, in glancing at the summary table on page 272, that it shows the turnover of inventory stated in dollars of sales per dollar of inventory. Immediately the careful observer notes the fallacy in this relation because of the fact that sales contain an element of profit, but experience in dealing with published figures makes one recall that it is next to impossible to obtain any information with regard to the cost of sales (which would show a truer relation) from published figures. Any attempted criticism on this score is anticipated by the author on page 270, where he shows his practical sense in the following:

"It is recognized that these statistics do not present the actual turnover of inventories, which should be figured in the manner outlined in chapter eighteen. However, this is the only measure which could be applied uniformly to published statistics, and is sufficiently sound to illustrate the wide differences between industries and the trends of turnover from year to year."

Since one of the prime values of statistics is found in comparison, so long as all figures are on the same basis, the basis appears to make little difference in bringing out trends.

In conclusion it may be reiterated that the only way to obtain an intelligent idea of this book is to read it. Any accountant who aspires to progress will not stop with the reading. He will make use of the information. The author has rendered a public service to accountants. May it be hoped that the seeds will fall in much fertile ground and bring forth fruit which will serve to advance the interests and improve the work of accountants, for which improvement there is such crying need.

We announce the organization, at our office at 30 Broad Street, New York, of a department specializing in audits and

examinations of bond investment, stock brokerage, and cotton and produce exchange houses, under the personal direction of Mr. T. N. Willins, resident partner, and Mr. E. L. Peed, supervising accountant.

Mr. S. George Hay, manager of our Providence office, has been granted the C. P. A. certificate of the State of Rhode Island. Mr. Hay also holds C. P. A. certificates of the States of Montana, Missouri, and Oklahoma.

Mr. W. L. Hagerty, assistant manager, Providence office, is also to be congratulated on successfully passing the recent C. P. A. examinations of the State of Rhode Island.

Mr. J. R. Wildman has been appointed a member of the Committee on Arbitration of the New York State Society of Certified Public Accountants. This Committee, of which Mr. E. L. Suffern is chairman, has been formed to co-operate with the Arbitration Society of America.

We note with pleasure that Mr. J. R. Hutson of the Baltimore office has been admitted to membership in the American Institute of Accountants.

Miss H. C. Haines, our office secretary at Salt Lake City, has our congratulations upon her success in passing the C. P. A. examinations of the State of Utah. Miss Haines has the honor of being the first woman in her State to obtain the C. P. A. certificate.

Our congratulations are extended also to Messrs. W. E. Nissen and W. L. Pitcaithly of the Denver office, who have successfully passed the C. P. A. examinations of the State of Colorado held in May, 1923.