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Book Reviews

F. G. Colley

W. H. Lawton

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Book Reviews

AUDITING, by W. H. BELL, *Prentice-Hall, Inc.*, New York.

The average practitioner will find in Mr. Bell's volume *Auditing* a treatise of much practical value. The treatment of his subject in the able manner in which it is presented leaves no doubt as to his intimacy with actual working conditions of the present-day accountant and immediately strikes home and confirms ideas as to plan and procedure of audit or investigation which must come to the mind of the experienced man when once upon the field of action. In short, he portrays a living picture of conditions as they are and outlines concisely, but comprehensively, what to do, when to do it and how to do it, in a systematic and chronological order. He stresses the all-important requirement of a knowledge of relative worth and importance to the object of the audit or investigation, of the various factors requiring the accountant's attention and consideration for the achievement of the results sought, with due regard to time and expense in the accomplishment. The work is by no means elemental—a thorough knowledge of accounting theory is assumed to be had by the reader. The general free flowing style, conciseness and lucidity of expression invite continuing interest in topics which as a rule are drily presented.

The introductory chapter deals with a definition of auditing, purposes of auditing, classes of audits and special examinations, and the qualifications and legal responsibility of the professional auditor. This is followed by a chapter on preliminary arrangements such as work to be done, requirements of the report, fee, etc. The third chapter treats of the distinctive features of balance-sheet audits, how to begin the audit, audit programme, working papers, order of taking up work, verification of cash, negotiable instruments and securities, general ledger trial balance, confirmations, minutes and division of work between seniors and juniors. The volume continues with three chapters on original records, tests thereof, footings, postings, the journal, sales record, vouchers for petty cash, accounting methods of the latter and auditing procedure. Cash receipts and disbursements are discussed comprehensively and forms of fraud and their prevention are pointed out. The paragraph on the auditor's attitude in fraud cases is noteworthy, particularly for those who are inclined to jump to conclusions and thereby are apt to find themselves in an embarrassing position, and through probable publicity do harm to the high reputation of the profession. Nine chapters deal with the balance-sheet items and their verification, both assets and liabilities, and one chapter discusses examination of operating accounts in balance-sheet audits and in complete or detail audits. The concluding chapter treats of the composition, preparation and presentation of the report. The chapters on operating accounts and reports are very general, in decided contrast to the comprehensive discussion devoted to balance-sheet features. As a supplement, under part II, there are nineteen audit cases and 173 questions, by John A. Powelson. This feature should prove of interest to students and beginners, with a view to developing self-confidence as the latter approach their initial assignments.

The manner of presentation of these cases and questions, however, is that of the professional questioner, and on this account they may lose some of their lustre. Nevertheless there are those who revel in this style.

The solutions and answers to the cases and questions are to be published separately.

F. G. COLLEY.

MANAGEMENT THROUGH ACCOUNTS, by JAMES H. BLISS, *Ronald Press Co.*, New York. Cloth, 851 pp.

Much has been said in past years of the necessity of good accounting as a guide for the executive and operator. Most of it has come from the public-accounting profession with now and then a plea from the higher executives for less technique and more light. Slowly but surely the true function of accounting as both recording the past and pointing out the future path of business has been developed, so that the old-time impatient tolerance by the management for the dead expense of the accounting department is giving way to hearty appreciation and coöperation. It was bound to come. The accountants were the first to see and urge the "vital connection between management and accounts" (in the words of the author of the book under consideration) but it has taken many years of study and experience for them to evolve methods which would commend themselves to business executives. It cannot be denied that many of us have only ourselves to blame for the fearful and wonderful compilations of statistics which were veritable works of art but conveyed practically no information of any value to the bewildered manager. In the racy language of a well-known magazine writer we "says words but they don' mean nuthin'!" Never will I forget the humiliation of that moment in an early day of my experience as an auditor when a director, after perusing a beautifully constructed balance-sheet, some eighteen by twenty-four inches, handed it back to me with the quizzical remark, "That's a fine looking document; now I wish you would tell me in plain English what it means!"

"What it means" is the key-note of Mr. Bliss' book, *Management Through Accounts*. To repeat his own words:

"Throughout the volume the underlying purpose is to show the vital connection between management and accounts—to indicate how accounts should be handled to produce reports and statistics of the utmost practical value to managers, and how managers should analyze and interpret these reports and statistics so as to discern the various trends of their business and be in a position to apply whatever measures are called for by the situation as thus revealed." (pp. iii-iv)

It will be observed that the book is thus addressed to the accountant on the one hand, and to the management, on the other, by one who may aptly be styled the liaison officer between departments in a large corporation. As a textbook for students I should give it a high place. When one considers that from the tenth to the thirtieth chapter we have complete descriptions of all asset and liability accounts, including net worth, and from the thirty-seventh to the forty-seventh, an equally complete description and analysis of income and expense accounts, one should not ask for a much better course in higher

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accounting. Add to these, what is usually not found in stereotyped textbooks, nine chapters on the meaning and use of accounting statements and statistics in managing a business, six chapters covering the principles of cost accounting, including the difficult and perplexing subjects of by-products and joint-products, chapters on departmental, branch and inter-company accounts, concluding with helpful hints on planning accounting classifications and systems, and one has a remarkably complete and compact guide whether for training students for a C. P. A. examination or for general business.

Mr. Bliss says in his preface that he is "aware that many of the viewpoints expressed in this work are more liberal than is commonly found in academic circles at present." This is true, notably in the matters of inventory valuations and the inclusion of interest on capital employed as costs. But the aftermath of the great war has greatly modified practical views of formerly sacrosanct theories of inventory valuation, and there is no real opposition to Mr. Bliss' treatment of interest when considered purely as a matter of statistical information in pre-determining costs. The great majority of our accounting teachers are fortunately also practitioners, or at least ex-practitioners, and I am quite confident they are not hide-bound, and will heartily welcome Mr. Bliss' book to the classroom. To be sure, there are some fundamental principles as unalterable as the laws of the Medes and Persians (none of which, I hasten to add, is questioned in the slightest degree by Mr. Bliss), but I venture to say there is no profession on earth to-day so free from "the dead command" as accountancy.

One is struck with the persistent note of protection of the working capital. This is well. We all know in how very large a percentage of business failures the cause is ascribed to insufficient working capital. Probably all business concerns have at some time suffered more or less embarrassment for lack of working funds. Few accounting writers, however, have taken the trouble to point out the hidden leaks which drain away working capital almost imperceptibly until the damage is irreparable. It is hard enough to induce the average business man to allow proper and sufficient reserves to be set up on his books by the usual arguments—that it is correct accounting, that it shows the true surplus, etc.—but Mr. Bliss furnishes an argument appealing directly to the pocket-nerve when he shows how effectively such reserves protect the working capital from depletion.

The author has carried out his underlying purpose admirably. To the accountant-reader there may seem to be undue repetition at times, but if a fault at all it is on the right side since it hammers home vital principles and facts—and it must be remembered the book is not for the trained accountant only. There is some inconsistency in placing federal income taxes in the non-operating section of the income statement while treating state income taxes as operating expenses. The author would make the distinction that a state income tax is in lieu of a property tax while the federal tax is the government's share of the net income. But we have high judicial authority for the doctrine that a tax on income is a tax on property. Neither tax can be calculated until after the net profits have been ascertained, so why not treat them alike?

The make-up, paper, printing and the binding are of high standard. I wish I could say as much for the proof-reading.

W. H. LAWTON.