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Book Reviews

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Book Reviews

AUDIT WORKING PAPERS—THEIR PREPARATION AND CONTENT, by J. HUGH JACKSON. *American Institute of Accountants Foundation.*

Audit Working Papers, which is presented in a single volume, must be classed as one of the noteworthy contributions to accounting literature and it can be safely said that it covers a field heretofore only lightly touched.

Here is a book that should and will undoubtedly serve as a guide to the accountancy student, be he in a classroom or in the office of a firm of public accountants. It will prove to be a valuable aid in helping to make clear the complexities that confront a junior or semi-senior accountant, breaking into the ranks of senior assistant, in the preparation of orderly working papers. It will undoubtedly also be of great assistance to those who are engaged in the work of training students for future places of prominence in the profession. As one digests the material so ably presented, the thought occurs that Mr. Jackson's book would have greatly helped the practising accountants of today at the time when they were acquiring the groundwork of accountancy, had the book then been available. As a matter of fact, a study of the text and particularly the accompanying schedules is likely to cause many able and successful practising professional accountants to recall many an engagement in which the audit working papers did not approach the high standard set by the author. The work is an academic one, but the author does not lose sight of the fact that time is an essential factor in practically all engagements and the book clearly demonstrates the practical side of the matter of preparing working papers.

The book is much more than a mere treatise on working papers. In its arrangement it is divided into three main sections:

- (1) Text.
- (2) Bibliography and index.
- (3) Forms of working schedules.

The text, which extends to 167 pages, is most lucidly phrased and is of a character that will make the study of it a pleasure. It takes up the various titles of the balance-sheet in turn and describes their nature and the character of the audit records to be prepared. It also contains some special chapters of a more general character upon such topics as "indexing and filing of working papers" and "miscellaneous working schedules."

The bibliography is an important feature and is valuable, containing as it does "a complete course of study on the general principles and procedure of a balance-sheet audit," as well as "a complete reading course on accounting and kindred subjects." It contains, incidentally, a very full list of writings on no-par-value stock, at the present time a much discussed subject.

The working schedules are contained in appendices A and B. In appendix A there are set forth in detail the assumed figures of a hypothetical company which are presented in the form of photographic copies of typical working papers, very legibly written in ink. The schedules are illustrative of the working papers of an audit of an ordinary industrial concern and are indexed and cross-indexed in a thorough manner, as

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described in the text of the book. Appendix B contains 22 schedules illustrating alternative methods of preparing working schedules in addition to those presented in appendix A.

Each of the schedules contains a concise description by the respective assistants of the work performed in the verification of the items and, in some cases, of the system employed by the company where it is pertinent to the item under review; in many cases additional notations are made thereon by the author. The necessity of appending appropriate descriptive material by the assistant to the working schedules is emphasized in the text of the book, and one cannot but feel that the principal, upon whom would involve the reviewing of the working papers of this hypothetical corporation, as presented by Mr. Jackson, would need to ask few, if any, questions before being prepared to certify the accounts.

It might be said that the methods outlined comprise the ideal way of presenting the results of an examination and, therefore, will not always be duplicated by even the most conscientious accountant. On the other hand, it may well be said that the training which the young accountant is able to secure through the study of this work will result in many less "superseded schedules" and a material saving of time in presenting the completed work for review by the principal. We all know of the trial working schedules that find their way into the superseded papers with the waste of time entailed. After all, it is essential to inculcate certain methodical habits into the mind of the aspiring accountant at the teaching stage, and when once there are firmly ingrained in him sound principles of setting up the work performed, schedule by schedule as the items are verified, in a clear, orderly and sequential manner, it will undoubtedly be found that time will be saved both by the assistant and, what is more valuable, by the principal reviewing the papers.

The book is too replete with useful information and well expressed principles to permit of any extended quotations. The reviewer has, however, taken the liberty of making certain extracts which have forcibly impressed him:

On page 20 the following sentence appears:

"Standardization in accounting or auditing procedure as in other well organized agencies, usually represents the best thought and broadest experience in the organization where such methods are used, and ordinarily no one individual could evolve practices as good as those which have become standard usage."

Another occurs on page 200:

"*Good accounting* is the servant of the business, and accounting should never exist as 'art for art's sake.'"

Also at the foot of page 200 is found the following:

"Auditing is largely a matter of applying common sense to existing business facts and conditions, and therefore the successful utilization of absolutely standard forms of audit schedules is impossible."

On page 59:

"No schedule should be drawn up until the person who is to prepare it understands definitely what information is desired and until he has determined in advance what purposes will be served by the schedule which he is about to prepare."

The author states at the outset that his book, *Audit Working Papers, Their Preparation and Content*, should be read in conjunction with the federal reserve board bulletin, *Approved Methods for the Preparation of Balance-sheet Statements*, for the reader to acquire most completely the procedure of a balance-sheet audit. In the course of the work it is naturally necessary to go into many of the principles underlying auditing procedure and accounting practice and the author's wide academic knowledge combined with the exceptional circumstances in which the book has been prepared, namely, from a free access to the files of a very highly organized and completely equipped accounting organization, has resulted in the production of a work that is bound materially to help along the movement of educational advancement of the profession.

It might be well to call attention to one or two matters contained in the work, of themselves not of great importance, but which might be subject to question. On page 30 under the caption of "Accounts Receivable (less reserve for doubtful debts)," there is included, item 1, "Work in Progress for Public"; it would seem that this item should have been included under inventories, and should have been replaced by "Trade (or customers') Accounts Receivable." Furthermore, the inclusion under accounts receivable of "Directors', Officers' and Employes' Balances" is likely to be questioned, it being the opinion of the reviewer that these accounts should preferably be set forth under a separate caption.

The phrasing of the paragraph beginning at the foot of page 35 and continuing at the top of page 36 is believed by the reviewer to permit of a possible misunderstanding of the views of the author, particularly by the younger readers. By the coupling in one sentence of the possible discovery of clerical errors and the detection of fraud or manipulation of the accounts, an erroneous or misleading impression is liable to be gained by accountants whose experience in making balance-sheet audits is limited. The last sentence of this paragraph reads as follows:

"Unless such errors are of comparative importance the auditor will probably not alter the statements or accounts of the client."

In a book of this kind, which it is assumed is primarily intended for the younger and less experienced accountant, it is doubtful whether the above-quoted sentence would serve a useful purpose. The inference might be drawn that the detection of fraud by the auditor was a matter of minor importance and also that where fraud had been uncovered by the auditor no change was to be made *by him* in the accounts, even though a loss had definitely been sustained, provided such loss did not bear a reasonable ratio to the assets set forth.

These comments are not, however, intended to stress what is, after all, a slight difference of opinion as to the proper wording of a single paragraph in an excellent work.

In conclusion the author and also the Institute are to be congratulated and deserve the thanks of the profession for the production of a volume which is destined to fill a long-felt want in the literature of accounting. It will be read with interest by many accountants who are not in public practice, and will surely become a necessary book of reference for public accountants and an important text-book in the hands of students.

JOHN B. NIVEN.

WHY MANUFACTURERS LOSE MONEY, by ROBERT GRIMSHAW.
D. Van Nostrand Company, New York.

After reading *Why Manufacturers Lose Money* one is inclined to wonder how manufacturers ever make any money at all. It amply explains a statement put out by life-insurance companies many years ago that only three out of a hundred business men in America retire with a competence. Indirectly the book indicates what an almost infinite capacity for mastering details is necessary to the successful business manager. Many readers have marveled at Mark Twain's lively description of what a good pilot had to know (*Life on the Mississippi*), but the task of a manufacturer is not a bit easier. The book is written in a concise and breezy style, and many of the author's comments and illustrations are pungent and witty. Improper accounting methods, too lax or too complicated, have their place as an important source of loss, special stress being laid on the folly of not knowing the costs of doing business (pp. 61-69). A book worth reading and inwardly digesting.

W. H. LAWTON.

GRAPHIC CHARTS IN BUSINESS, by ALLAN C. HASKELL, *Codex Book Company, New York.* 250 pages.

Although *Graphic Charts in Business* is a new book, it can fairly be regarded as an excellent condensation and revision of the author's early volume, *How to Make and Use Graphic Charts*. The latter contained over 500 pages and included a considerable amount of abstruse mathematics, particularly with regard to the plotting of equations. In this present issue an attempt has been made to deal only with those forms of graphic presentations which are useful in business. To users of these books, each has one outstanding virtue, and that is the fact that it is a genuine text-book. Not only are the various forms shown and the uses and limitations defined, but the reader is told precisely how to construct the form and how to employ it. After two introductory chapters the kinds of charts useful for business are listed and illustrated and then the book proceeds to a thorough study of each type. The chief argument of the book is its advocacy of ratio, or semi-logarithmic, charts. General hints and cautions are given and some attention is paid to the important topic of what facts it is essential to investigate and present. Specific users of charts are then discussed, among these being the accountant, advertising man, collection manager, cost accountant, credit manager, general executive, personnel director, purchasing agent, sales manager and production manager. The author's style is lucid and readable and the typography is excellent. The few misprints which have been discovered are not sufficiently serious to throw the reader far off the track. At the end of the book is a bibliography which seems to be complete, except for the names of the publishers, but the Codex Book Co. undertakes to procure copies of any book at current prices or to supply information as to any periodical. Mr. Haskell's book is well indexed.

HAROLD DUDLEY GREELEY.