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Book Reviews

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ACCOUNTING PROBLEMS: INTERMEDIATE, by CHARLES F. RITTENHOUSE and ATLEE L. PERCY. *McGraw-Hill Book Co.,* New York. Cloth, 429 pages.

Accounting Problems is a text-book of problems and exercises in accounting for second-year and advanced students. It is divided into two parts. Part I consists of model forms of financial statement, trial balances, balance-sheets, profit-and-loss statements and transcripts of journal entries, taken from various business firms and corporations. It also contains standard forms adopted or recommended by the federal reserve board and by bankers. The authors use the term "model," but active practitioners may take exception to some of the forms. For instance, in the profit-and-loss statement of the Harmon-Streeter Co. (p. 33) dividends apparently take precedence over the provision for sinking fund for bonded indebtedness.

Part II consists of about four hundred problems and questions in accounting theory and practice, many of them being original problems derived from the experience of the authors (who are certified public accountants), but the majority of them are taken from various American Institute and state C. P. A. examinations. They are classified to correspond to the usual curricula in accounting courses, a great advantage over the customary method of drilling students haphazard with questions taken at random from published examination questions. No solutions are furnished, but the student is given a few hints now and then as to what the question is aiming at, and cross-references to preceding model statements and ample bibliographies at the end of each section indicate where underlying principles and procedure may be found. This is an excellent method for laboratory work.

Altogether a helpful book for the teacher and a most useful one for the student preparing to take the C. P. A. examination.

W. H. LAWTON.

ACCOUNTING THEORY WITH SPECIAL REFERENCE TO THE CORPORATE ENTERPRISE, by WILLIAM ANDREW PATON. *The Ronald Press Company,* New York. Cloth, 508 pages.

It is to be expected, perhaps, in these days of somewhat bewildering changes of attitude toward the established order of things, that we should be presented with an attempt at a new, or as Dr. Paton says, "a restatement of," the theory of accounting. As its sub-title indicates, the author of *Accounting Theory* reverses the traditional attitude of Sprague, Hatfield, et al., which views the business enterprise from the proprietary standpoint and, basing the theory on sole proprietorship, seeks to apply it to all other forms of ownership. Instead, Dr. Paton adopts the managerial point of view as exemplified in corporate ownership and endeavors to apply it to other forms. In order to do this he adopts the premise that a business enterprise is a distinct entity "although not without important qualifications." Succinctly, as the author says,

> "In other words, the view that the balance-sheet is composed of *three* distinct categories, *assets, liabilities* and *proprietorship,* and that the first two of these classes are of importance primarily in that their difference discloses the last, is abandoned, and the theory of the accounting system is presented in terms of *two* fundamental dimensions, *properties* and *equities*" (p. iv).

In short, for the classic equation of the fathers—

Assets=Liabilities plus Proprietorship,

Dr. Paton would substitute—

Properties (Assets)=Equities.

"Equities" is a shorter and more inclusive title for the right-hand side of the balance-sheet, expressing the idea that each account, including those indicating net worth, under this head states its equity or claim on the assets. It is therefore more accurate than the customary "liabilities," and much less cumbersome than the correct but lengthy title, Liabilities and net worth." As a manner of nomenclature it would be welcomed by the profession no doubt, though it is not at all likely that it will supersede the time-honored present title in the business world. As a scientific term it is accurate and has its proper place in a scientific theory. The curious thing is, however, that if we admit the author's premise—that the business itself is an entity or personality—there is apparently no logical reason why the old title, "liabilities," should not be retained. If it is assumed that the business is entirely distinct and separable from the proprietor, then it would be a perfectly logical deduction that the net worth is the amount owed by the business to the proprietor. But this is of minor importance.

What is important and fundamental in the discussion that follows in the book is the conception of the business as an entity in itself. Granting that premise, Dr. Paton has built up a very logical and consistent theory of accounts applicable as well to the corner grocery as to the United States Steel Corporation.

Incidentally, in view of the author's keen sense of logic, I confess some surprise at Dr. Paton's criticism of our English cousins in the matter of balance-sheet form. Dr. Paton accuses them of inconsistency because they adhere to the universal practice of stating debits and credits on the left and right sides respectively of individual accounts, but reverse the practice in the balance-sheet (p. 102, footnote). On the contrary it seems to me they are both consistent and logical. A balance-sheet is nominally supposed be a list of balances taken from the ledger as of the date of closing, and the English custom logically lists them on the same side as that on which they appear in the ledger-accounts. The universal custom shows those balances as they will appear the day after, when the ledger-accounts are re-opened. When we remember, however, that the balance-*sheet* in old days was merely a transcript of the balance *account* actually carried on the ledger for closing and re-opening purposes, it is easy to understand how the universal practice arose. It is no doubt the preferable form—one naturally lists his assets first and then the liabilities or claims against them—but it does not follow that the English custom has no theory to support it. W. H. Lawton.

STORES AND MATERIAL CONTROL, by MADISON CARTMELL. *The Ronald Press Co.*, New York. Cloth, 459 pages.

Probably less attention is paid to stores than to any other department of average manufacturing organization. The production manager, under whose authority this department naturally falls, is averse to spending any more money than he can help on "unproductive labor" as he regards it. Yet consider—

> "The requisition or inquiry for the thing wanted first comes to the clerk in charge of the controlling stores records. He ascertains from the records whether the article called for is in stock and if not whether it is to be purchased or manufactured. If the article is to be purchased the purchasing department is called upon to procure it; if it is to be manufactured the control department sets in motion the requisite order and accompanying papers to initiate its manufacture . . .
>
> Thus the control department is the agency through which pass all details of orders for articles to be made by the various departments of the plant. It receives the production order requirements from the clerk or the head of the division in charge of the stores records, plans the work, and schedules and routes it through the shops." (p. 17)

This bare statement should suffice to make it plain that a properly organized stores department, i. e., a *control* of materials and supplies in their procurement by purchase or by manufacture, their easily accessible storage, and their delivery for consumption by the shops or by the selling department, is as vital to the smooth running of the enterprise as the financing or selling department. It also affords ample warrant for the size of this book which is devoted solely to the procedure of establishing efficient control of materials and stores.

Stores and Material Control will be welcomed by public accountants specializing in cost accounting and may be profitably studied by those who confine their practice to auditing. Mr. Cartmell writes from his experience as industrial engineer and as cost accountant, a combination that guarantees breadth of view as well as attention to details. The latter is the distinctive feature of the book, and will probably be its greatest value to the reader. Theoretically we all know that any good system of cost accounting implies a proper method of accounting for the materials and stores used, and no doubt most of us could answer glibly an examination question on the subject. But how many can wisely undertake to install a complete and workable system with all the multifarious details which are covered in this book or even to audit an existing system intelligently?

To be sure Mr. Cartmell does not confine himself to accounting for storeskeeping. A good part of the book is given to the procedure and methods to be followed in handling, standardizing, storing, issuing, etc., the materials themselves. By paying special attention to procedure of large plants, the author lays down basic principles which apply as well to small organizations, and permit of easy and logical development upon business expansion.

There are interesting chapters on taking inventories, and on the legal aspects of purchasing, with reference facilitated by a good index and practical working forms illustrating methods. W. H. LAWTON.