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Book. Reviews

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Book Reviews

COST ACCOUNTING TO AID PRODUCTION, by G. CHARTER HARRISON. *The Engineering Magazine Co.*, New York. 234 pp.

The aim of *Cost Accounting to Aid Production*, which is made up of articles which have appeared in *Industrial Management* revised and elaborated, is best stated in the author's own words:

"The methods formulated by the author and described in the following pages represent an absolute revolution in the basic conception of the functions of a cost system—whereas the common idea of costs is confined to the compilation of information as to past events, under the author's methods all costs are predetermined."—(p. viii, Introduction.)

In effect, Mr. Harrison gives methods of setting up standards of costs (based presumably upon past results, for we do not see how else such standards are to be accurately assumed) and of measuring actual efficiency by those standards. The methods are clearly described with the help of excellent graphs, and altogether it is one of the best books on the subject we have seen.

Why the author assumes that it is a "revolution" in cost accounting that he proclaims is a mystery. Nor are we quite prepared to accept his dictum that cost accountants are twenty years or so behind the times. A perusal of the 1920 year book of the National Association of Cost Accountants indicates that cost accountants are fully alive to the importance of using cost records as standards for future production. For that matter it may be confidently stated that all business men more or less consciously set up rough standards in the form of comparisons with past years. Of late the cost accountant has delved more into units and details—that is all. Even Mr. Harrison admits as a final conclusion (which is rather an anticlimax for the reader) that

"There is nothing particularly modern in the basic conception of cost predetermination."—(p. 229.)

Just so. Why, then, mar the effect of a good text-book by antagonizing the entire class of cost accountants to whom it would be of the most use?

W. H. LAWTON.

ANALYTICAL CREDITS, by ALEXANDER WALL. *The Bobbs-Merrill Company*, 1921. 258 pp.

Analytical Credits covers generally the field of commercial credits, making the study as nearly scientific as possible by substituting accurate analysis for mere guess-work.

The author first reviews the relation between credits and political economy. He further shows that political economy and business are inseparable—the former treats of the production, distribution and consumption of the wealth of the world; the latter embraces the forces that produce wealth, transport it, distribute it and, by good trading and manufacture, increase it. The origin of credit, the potential power which exists in credit, the creation of credit and the extent of the use of credit are each briefly discussed.

The author next emphasizes that commercial credit must be kept liquid, and that too great a reduction in trade losses will very likely mean the

refusal of much good business and its accompanying trade profit. A normal loss, which must be determined for each general type of business, should be accepted, and it is incumbent upon the credit man to do some coöperative thinking and to assist his risk, when necessary, in straightening out his business. By so doing the credit man may develop many profitable customers.

The sources of credit information, as discussed, will greatly assist the more inexperienced credit man, while the chapter undoubtedly contains information of value to anyone interested in the subject. The essential point in seeking credit information is to know what is desired, and to write letters accordingly. The promiscuous form letter is to be deprecated.

Inasmuch as credits are closely allied to collections, the latter subject is given ample consideration. Many suggestions and form letters are given. The letters seem to lack the personal touch and much of the appeal that goes with a real interest in the one to whom the letter is addressed. They represent, however, the several series ordinarily made use of, and a study of them will be both interesting and profitable.

The distinction between the trade acceptance and the open customer's account and between trade acceptances and bankers' acceptances is clearly made. The value of the trade acceptance as a credit instrument, as well as its limitations, is emphasized. The regulations of the federal reserve board regarding acceptances add interest to the chapter and will prove of value to anyone not familiar with this form of paper.

Approximately two-thirds of the volume deals directly with the financial statement of the risk and with the other information to be obtained from the one desiring credit. The author emphasizes that for credit purposes it is not sufficient to deal with absolute quantities of goods or money, as revealed by the financial statement, but the effectiveness of the management, that makes the development and the securing of profits possible, and also the general economic conditions of the times must be considered. From his own experience the author has formed the opinion that these separate elements should be considered as representing about forty, forty and twenty per cent., respectively, of the total facts upon which the decision as to credit extension rests. It is therefore essential, by skilful questioning, to obtain information other than a financial statement from the customer seeking credit, while the credit-man himself must be familiar with the economic conditions of the time.

Numerous forms are shown, all of which are illustrative of the information to be obtained from the risk, and some of which are those used by the New York federal reserve bank. Comparative statements are discussed, together with the essential divisions that must be made in such statements. The author's remarks concerning the reserves for depreciation and bad debts, the provision for taxes, etc., are not in accordance with the best accounting practice, and the very points criticized have been for years correctly handled by all the better accounting firms.

The current ratios of liquid assets to current liabilities, of receivables to merchandise, of debt to net worth, and of net worth to fixed assets are well discussed. These are termed the static ratios. But in addition to these

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the author shows the imperative need of the velocity ratios, namely, of sales to receivables, of sales to merchandise, of sales to net worth, and of sales to non-current assets. In many ways these velocity ratios assist in revealing the tendencies and the internal policies of the business and hence largely determine the advisability of extending credit.

The chapter on constructing credit barometrics will be found of especial interest to all who are desirous of developing, under the theory of the law of averages, a normal average or point of concentration for any one of the various ratios. The mechanics of computing the barometric is well illustrated. The chapters on a critical analysis and a constructive analysis of customers' statements should be of interest, not only to the credit-man, but to the accountant who may be called upon to prepare credit information for the use of a client.

The book is well written and is well printed. There is no index, but there is a full table of contents, and perhaps in a book of such subject-matter the index will not be greatly missed. The volume should prove of value to accountants, as well as to credit-men, for the analysis of financial statements, and of all the information incidental thereto, is very well done, and the type of information to be obtained of a client who desires to establish credit is clearly set forth. The volume should find a ready welcome from accountants throughout the country.

J. HUGH JACKSON.

ACCOUNTANTS' REPORTS, by WILLIAM H. BELL. *The Ronald Press Company*. 247 pp.

This very timely book deals with the preparation of accountants' statements from the standpoint of uniform practice with respect to content, form, arrangement and terminology. Accountants realize the futility of their work unless the results are presented in a comprehensive way to the client; the author therefore emphasizes the necessity of obtaining the client's viewpoint and of presenting all statements in such form and language as will be readily understood by the executive reading them.

The volume deals almost exclusively with the financial statement, the income and profit-and-loss statements and with some of the more important exhibits which may accompany them. The form and content of the balance-sheet are very well discussed in chapter II. Differences in practice regarding captions are discussed, as are also the several well recognized forms of balance-sheets. The author takes a definite stand in favor of that form of balance-sheet which groups current assets and current liabilities, respectively, first on the balance-sheet, though he readily admits that the "fixed assets—capital liabilities" form is so well established in practice that it will probably always continue to be used. When one remembers that the balance-sheet is the balance-sheet of the client, and that generally only the certificate is the property of the accountant, he will realize that so long as the balance-sheet reveals all essential facts the accountant may have little or nothing to say as to its general form. Excellent chapters follow on the income and profit-and-loss statements, on consolidated statements and on miscellaneous statements. Fifty typewritten statements are included in these four chapters and the author well illustrates the many types and forms of balance-sheets

and statements to be found in practice. These model statements, both as to form and as to content, should prove of inestimable value to young practitioners, and as well to older accountants who have never had the advantage of wide and varied practice. They are shown in typewritten form, making them even more helpful and valuable. In the sixth chapter the author discusses the comments that should be made on the balance-sheet items and gives specimen "complete" and "condensed" comments which may accompany the statements to the client. The last three chapters discuss certificates, presentations and mechanical features and office procedure. Simple forms of audit certificates are shown and ample discussion is given. Illustrations of the methods of beginning the formal report or presentation to the client are also given. The comments concerning safeguards against the misuse of reports are very much to the point, and should be noted particularly by the younger members of the profession.

The book is well written and is well printed. The author has presented the best practice of the day, and the clear and concise methods developed are the result of many years of experience with one of the greatest accounting organizations of the country, in supervising the form, arrangement and content of accounting statements. It would be well if more of the leading accounting practitioners could be persuaded to take time from their practice thus to enrich the profession and to build up a great professional literature.

J. HUGH JACKSON.

Hadfield & Rothwell and Frank E. Soule announce the consolidation of their practices under the firm name of Hadfield, Rothwell & Soule, with offices in the Hartford Connecticut Trust building, Hartford, Connecticut.

Pullen, Henderson & Co. announce the dissolution of partnership by mutual consent. A. M. Pullen continues the practice in Richmond and Raleigh, and A. T. Henderson continues the practice at Lynchburg.

Philip H. Gray and Clyde H. Hunter announce the formation of a partnership under the firm name of Gray, Hunter & Co., with offices at 40 North Dearborn street, Chicago, Illinois.

Philip Bernstein and Willbach & Co. announce the consolidation of their practices under the firm name of Willbach, Bernstein & Co., with offices at 1133 Broadway, New York.

Edward Fraser announces that he has withdrawn from the firm of Arthur Young & Company, and has opened an office under the name of Edward Fraser & Company in the Scarritt building, Kansas City, Missouri.

Arthur L. Risley & Co. announce the removal of their offices to 110 State street, Boston, Massachusetts.

Leslie, Banks & Co. announce the admission to partnership of Max Rolnik.