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Book Reviews

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Book Reviews

C. P. A. LAW QUESTIONS AND ANSWERS, by JOHN C. TEEVAN. *The Ronald Press Co.*, New York. Cloth, 256 pages. 1935.

C. P. A. Law Questions and Answers, notwithstanding its title, deals solely with the commercial-law examinations of the American Institute of Accountants, beginning with the examination of November 13, 1925, and ending with that of May 17, 1935. Each question and the author's answer to it are printed without the citation of authorities, and in appendices are given the negotiable instruments law (statute), the uniform sales act and the uniform partnership act. The book is indexed under twenty main subject headings. This probably is a practical plan because any one using the book presumably would know the subject heading under which the topic sought would be found. The book is excellent for review or quiz purposes but it is neither intended nor suitable for original study. Memorizing its entire contents would not enable a candidate to pass the next examination, because the questions themselves are not repeated and the points of law raised in them have to be pretty well understood to be recognized and applied to new sets of facts or new arrangements of definitions in subsequent examinations.

In an interesting introduction the author contrasts the questions of the last ten years with the earlier Institute questions and finds an improvement in that the later questions cover a much wider range of law. The author failed to notice, or at least to comment upon, the fact that federal-income-taxation questions have not been asked since the examination of May 18, 1934. This will be an aid in further expanding the scope of subjects covered. The author's belief "that some of the law questions are unusually difficult for the average student of business" should not be disturbing to future candidates, because each examination paper states in a head-note: "Answers will be graded according to the applicant's evident knowledge of the legal principles involved in the question rather than on his conclusions." Thus a well reasoned answer to a seemingly difficult question should be given a good grade regardless of the conclusion reached. Fairness would require this, when law is so inexact a science that the United States supreme court sometimes divides five to four. What the examiners undoubtedly want is an answer based on the application of principles of law and not merely the candidate's conclusion as to what ethics or morality would in his opinion require in the circumstances of the specific case. "Reasons must be stated for each answer" means the application of principles of law. Incidentally, an elaboration or restatement in many words of the conclusion reached probably will not delude the examiners into mistaking it for the statement of a reason.

One of the valuable features of this book is the set of suggestions made by the author as to the technique, or mechanics as he terms it, of writing answers to examination questions. All of them are excellent, but the temptation to add at least two others is too strong to resist. First, when the candidate believes a contract, negotiable instrument or other document to be defective, let him state concisely why he so regards it, but let him refrain from listing all of the elements which are required for a perfect instrument. To list all of that irrelevant matter

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as a parade of his assumed knowledge is as childish a form of padding as is the repetition of the whole or part of the question itself. Doubtless many a good answer has been reduced to fair or worse by the dangerous practice of volunteering information, some of which may disclose that the candidate after all is not soundly informed. It is apt to prove disastrous over-selling. Secondly, while the answers should be submitted in numerical order, they should be written along the line of least resistance. Those which the candidate regards as easy should be answered first. That practice gives him a sense of accomplishment when he sees how many questions he has answered and it leaves him free to devote himself wholly to the questions which are troublesome. If he struggles too much with the latter type of question at the outset, he may not be able to complete his answers to the easy questions within the time limit and thus fail to submit a sufficient number of answers to procure a passing grade. Each answer should be begun on a separate sheet of paper; and except in the most unusual situation, let it be concluded on that same sheet.

The author's answers are sound and well written, although I do not agree with all of them. But has it not been admitted that law is not an exact science? Although the author states that his answers are not intended to be models as to form, it is to be regretted that he has not always given his answer first and then stated his reasons. Not only does an examiner dislike to have to read half a page or more before he discovers the candidate's conclusion, but the candidate is apt to write a better answer if he starts with his conclusion and then explains and defends it. If he wanders back and forth from one side of a question to the other, he may land in the middle without reaching any definite conclusion. Also, the head-note on the examination paper states: "Whenever practicable, give the answer first and then state reasons." I can think of nothing to be gained by failing to comply with a reasonable instruction imposed by the person whose good opinion the candidate is seeking.

It is a good and useful review book for candidates.

HAROLD DUDLEY GREELEY.

ANALYSIS OF FINANCIAL STATEMENTS, by HARRY G. GUTHMANN.
Prentice-Hall Inc., New York. 583 pages. 1935.

Analysis of Financial Statements is a revision of a previous edition, first published in 1925, which takes into account many of the important changes in corporation practice and finance which have occurred within the last ten years. The plan of the book is logical, general considerations occupying the first ten chapters and their application to specific types of business forming the remaining eight chapters. The general section of the book presents a good summary of generally accepted methods of analysis. There are numbers of illustrative examples and the different points which the author makes are supported by references to actual corporate reports or to recognized authorities. It is interesting to note that the author (page 5) takes much the same view of organization as that of Gilbert K. Chesterton who, in one of his characteristic attacks on modern society, said that organization was merely a substitute for the personal control of an enterprise and that the less there was of it the better. The author says: "Today the ability to analyze financial reports is essential to bridging the gap in personal relationships created by the size of our business units."

In a book of this size which covers such a wide field it is inevitable that one would disagree with the author on some points. For example, on page 17 he implies that the goal toward which the securities and exchange commission should work is a type of regulation and uniformity comparable to that exercised by the interstate commerce commission. Referring to the securities and exchange commission the author says: "Its power would appear to be sufficient so that it could require full information from industrial and other corporations on a plane somewhat approaching that set by the interstate commerce commission for railroads after 1906." Most observers of the workings of the interstate commerce commission, particularly in relation to uniform accounts, would hardly like to see this type of superficial uniformity imposed on business in general, and the record of the securities and exchange commission so far does not indicate that this is its aim.

Among the chapters devoted to special industries that on mining is one of the best. The author wisely refrains from any dogmatic statements as to just what should or should not be included in the report of a mining company, but he does show the relation between the statistical information generally included in mining-company reports to the financial statements and makes it clear to the analyst or investor that it is unwise to attempt to draw conclusions from either type of information considered separately.

The chapter on holding companies is also valuable as an exposition of current practice in that field.

While a number of the important developments of the last ten years have been covered in this book, those which have to do with the devaluation of the dollar, foreign currency restrictions, and the disorganization, in many countries, of the foreign-exchange market have either been overlooked or barely mentioned.

It seems strange that in a chapter on statements of insurance companies nothing should be said about effect of devaluation which causes the arbitrary transfer from the holders of bonds, debentures and other fixed interest securities to holders of equity securities of a large part of the assets of those companies which have issued securities of both kinds, without compensation for this loss to the holders of the securities carrying fixed rates of interest. One would think also that in a discussion of statements of insurance companies, particularly those having to do with life insurance, some mention would be made of the loss to policyholders (already felt in reduced dividends) and to stockholders brought about by the present treasury policy of forcing down interest rates and keeping them at an extremely low level, as well as the probable decline in price of bonds purchased at the present time carrying these low rates when interest rates rise as capital becomes more fully employed.

These criticisms are not intended to detract in any way from the statement that this is an excellent book on a difficult and widely inclusive subject but are merely to indicate that no matter how well prepared a book on financial statements may be it can not cover anything and can not be used as a substitute either for a careful scrutiny and analysis of day-to-day developments or for the exercise of the independent judgment of the individual analyst.

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