The fundamentals of accounting

Cole William Morse
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THE FUNDAMENTALS
OF ACCOUNTING

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HOUGHTON MIFFLIN COMPANY
BOSTON • NEW YORK • CHICAGO • DALLAS • SAN FRANCISCO
The Riverside Press Cambridge
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The Riverside Press
CAMBRIDGE, MASSACHUSETTS
PRINTED IN THE U.S.A.
PREFACE

The most striking development in the educational field of late is the rush of students to the commercial departments of our secondary schools and our colleges. Whatever else is or is not taught in such departments, accounting (in the colleges) or bookkeeping (in the secondary schools) is taught. All over the country, moreover, correspondence schools and evening schools are teaching accounting. Thousands of students of accounting are graduated from one or another kind of school every year, and yet professional accountants are constantly calling for good men and cannot get them. This is not because the demand is tremendous, for the number of practicing accountants in the country is not large, but because the supply is small. Comparatively few who study accounting prove competent for responsible positions.

Accounting requires a certain type of native mental capacity, as well as a certain amount of training. That type of native capacity happens to be rare. Two essentials for accounting, as distinguished from bookkeeping, are a highly developed analytical faculty and a good imagination. The first is rare at best, and it does not commonly go along with the second. It is futile to try to produce accountants from material that is lacking in either faculty. Any teacher of the subject should understand at the start that of the many who fancy themselves called few will ever be chosen. Yet though few can ever be accountants, every person charged with executive responsibility should know the fundamentals of accounting, for he cannot understand the reports of his own business (if he has a good accountant) unless he knows what the accountant is talking about, and he cannot direct even elementary accounting (if he has not a good accountant) unless he knows what constitutes good accounting. Every student of public affairs, moreover, should be able to interpret financial reports, both public and private, and know what business facts lie behind them. The study of accounting, therefore, is not futile even for those who cannot be accountants.

A result of the rush of college students to commercial studies,
and away from the humanities, is alarm on the part of college authorities regarding the mental training that under the new régime their students will get. However regrettable may be the neglect of the humanities, because of the limitation of the field to which the new studies largely confine themselves, there need be no loss of mental training. As philosophy and mathematics are disciplinary studies, and in the old program are desired not only for their content, but for their disciplinary value, in the new program accounting may, so far as discipline is concerned, take their place. It is a compound of philosophy and mathematics — that is, the only method of teaching it that makes either successful accountants or successful interpreters of accounts is the method of teaching philosophy and mathematics. Accounting must proceed by reasoning, not by rule: it is not a body of arbitrary facts, true merely because they are true, and therefore to be memorized: it is a body of plain common sense, developed out of hard thinking about facts that have been, and imagination to see what future need will arise for record to-day of facts that are. It calls for mental activity of the highest type: it is not *virginibus puerisque*.

Yet its value both as a disciplinary study and as vocational training depends wholly upon the method of instruction. No one will ever use accounts successfully who is not able to think in abstract terms about them, for like mathematical terms and philosophical concepts they are to great extent abstractions — except the simple bookkeeping items of cash, accounts receivable, etc. One reason, moreover, why, with thousands of students graduating in accounting annually, professional accountants are not able to get good men is that so much of the work of the students has been of the memorizing rather than the reasoning variety. The students have taken accounting as if it were a body of scientific facts to be memorized rather than a philosophy of accounting conduct.

The method of this book is the philosophical. It starts with the simplest obvious fact needing record, property and ownership, and from this develops the need of particular accounts. Not for several chapters is any need found for the always confusing nominal accounts, and then they develop naturally after the statistical need for them has arisen. The technique of bookkeeping does not appear until the ninth chapter, and then it results from a
need of labor-saving devices. This technique is dwelt upon only enough to show the feasibility of most of the information that the accountant desires. Indeed, though bookkeeping is the tool of accounting, it is a tool so simple in principle that to ask any one who does not intend to be either a bookkeeper or a professional accountant to spend many months in studying it is almost an educational crime. Indeed, the whole method of procedure is based on the fact that nothing is of interest until some need of it, or curiosity about it, is felt.

Though the book deals with fundamentals, it is not superficial; for fundamentals are always the contrary of superficialities. As far as it goes, it is complete. It does not avoid a matter because it chances to be abstract or difficult; if it did, it would have neither disciplinary nor practical value. It attempts to give all the fundamental considerations of accounting. What more there is to accounting is the application of these principles to situations in which careful analysis, based on detailed knowledge of the particular business, has found a way of application, sometimes through a maze of complexity of business relations.

On the part of the senior author, the selection of material and the method of exposition follow twenty years of University experience in teaching accounting. The junior author, on the other hand, who has but recently been a student of accounting, under methods of instruction similar to those incorporated here, and of late has been assisting the senior both in some of his teaching and in the practice of accounting, brings to the collaboration the combined point of view of the student, the young instructor, and the practitioner.

To give concreteness to the principles worked out here, appended to every chapter are questions and problems which test the reader's ability to apply his principles. These are intended not for repetitious drill, but as illustrations of how the principles apply to concrete facts. If any one wishes drill, he can easily make additional problems for himself. Those given afford large variety.

W. M. C.
A. E. G.

Cambridge, Massachusetts
November 22, 1920
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