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## BOOK REVIEWS

**Cases and Materials on Law and Accounting.** By Donald Schapiro and Ralph Wienshienk.<sup>1</sup> Brooklyn: The Foundation Press. 1949. Pp. xxi, 935. \$8.00.

Alert law school curriculum committees of today increasingly recognize the law school's responsibility to afford the prospective lawyer an opportunity to make a more or less systematic study of accounting principles and procedures. To require one, two, three, or four semesters of college accountancy as a law school entrance requirement would not, I venture, meet the need. The college student too often learns accounting principles in the abstract, as ends in themselves, as it were; whereas, to quote from the authors' Preface, "the lawyer is likely to be concerned principally with narrow but contentious facets of accounting where premium is on suppleness of thought and accuracy of analysis rather than facility with a work sheet."

The question today is not so much *whether* we should teach accounting in the law school but, rather, *where* to bring it in and *how-much-and-what* to bring in. This volume of some 800 pages (exclusive of appendices) would bring it in by a separate 3-hour course on law-and-accounting in which the authors have found it convenient, as they state, to cover from 500 to 600 pages. As to the *how-much-and-what* problem, the volume's organization and contents are, broadly, as follows:

The first of the five chapters takes up the essentials of the book entries and accounts that underlie the balance sheet and income statements, as well as the formulation, organization and analysis of those financial statements. Here, mainly by expository text and to-be-worked problems, the student is introduced to the accounting equation, debit and credit entries, journal and ledger and their subsidiaries, real and nominal accounts, etc. Nine class hours are said to be given to this 80-page introductory chapter.

Chapter II, about 130 pages, deals with the measurement of receipts, costs and income. This material is presented mainly by case treatment. Most of the cases involve a dispute over a contract by the terms of which the amount that one party is entitled to get turns on the "gross receipts" or "cost" or "profits" or "earnings" of a transaction or venture; others are measure-of-damages cases for breach of contract, which involve inquiry into plaintiff's lost profits; others are miscellaneous—*e.g.*, pledgor versus pledgee over stock dividends, intra-family sales within

<sup>1</sup> Respectively, Instructor and Visiting Lecturer, Yale Law School.

a public utility system affecting the cost of consumer service. The issues in the cases presented involve consideration, *inter alia*, of depreciation, unrealized appreciation, inventory fluctuation, parent-subsidiaries consolidated earnings.

Space limitations imposed on this review prevent detailed description of Chapter III on corporate accounting (257 pages) which, to my mind, is the heart of this volume. By excellent selections of statutes, cases, S. E. C. decisions and releases, excerpts from accounting literature (including A. I. A. Research Bulletins), affidavits of accountants in litigation, editorial notes and problem questions, student inquiry is directed to: a quick glance at the S. E. C.'s role in compelling disclosure in registration statements and in periodic reports, *e.g.*, in a sale of securities against a "promoter" background, and in requiring an informative breakdown of cost-of-goods-sold in a Form 10-K report; dividend problems as affected (with or without specific statutory provisions) by competing concepts of capital, surplus and profits, with particular reference to paid-in surplus, watered stock and its dehydration, operating deficits and their "paper" elimination, wasting asset corporations with complicated stock structure, unrealized appreciation, good-will (and its amortization); treasury stock (balance sheet representation, the "power" to purchase, surplus or "profits" on resales); stock dividends; parent-subsidiary consolidation for dividend purposes (including illusory profits or asset-increase through intra-family transactions); recapitalizations (techniques of arrearage elimination, requirement *vel non* of fairness), concluding, for good contrast, with a well-chosen 33-page S. E. C. decision in a supervised holding company recapitalization. All this, as in other chapters, is accompanied by copious references to materials for further legal research.

Accounting in public utility regulation is the subject of the fourth chapter, 160 pages. Decisions of courts and of regulatory commissions (but not of the I. C. C.) are presented challenging inclusions in or exclusions from the rate base and challenging accounting practices that, directly or indirectly, bear on the problem of rate regulation, particularly administrative orders relating to write-downs and reclassification of accounts under uniform systems of accounts. Partial, but only partial, treatment is given to the "original cost" controversy,<sup>1</sup> as is true with

<sup>1</sup> As an aside, this material should raise in the student's mind the question as to just what is the role of the accountant testifying as an expert with reference to utility accounts. If, faced with a situation where the utility acquired the properties from a prior owner at a price above "original cost," the accountant purports to testify merely as to what would be the proper practice with respect to writing off (or not writing off) a comparable excess in nonregulated industries, that is one thing; but in a price-regulated industry, if the write-off is a prelude, realistically, to eliminations from the rate base, then the accountant testifying for or against the elimination of the excess purports to be a utility rate theorist. Has he particular qualifications for that expertise?

respect to the many and abstruse ramifications of depreciation in relation to rate regulation. An employee pension plan case (p. 604) serves to bring out the special relation of utility "reserve accounts" to consumer charges, and the appropriate periods for the charges. The chapter concludes with "special problems in utility accounting" for the student to investigate and work out.

The fifth and final chapter is devoted to trust and estate accounting—and almost exclusively to the perennial fight between income-for-life beneficiaries and remaindermen about who-gets-what in situations involving: death during interest-accrual or dividend-accrual periods, stock dividends; proceeds from sale of stock rights awarded to trust-held stocks, recapitalization of corporations in which the trust holds stock, delayed sale of unproductive assets, continued holding of hazardous investment, bond discounts and premiums (to amortize or not?), the "wasting asset" category and its refinements, depreciation charges against income from depreciable properties (and obsolescence). Finally, there is a beautiful section dealing with estate corporations that gives new twists to all the above problems, and raises new ones, when executors or trustees hold controlling interests in close corporations or form a corporation (with testamentary permission) to facilitate administration.

Taxation material is omitted; the blending of law and accounting in that sphere is left, appropriately, to the tax courses.

The authors' insight into the diverse subjects treated is impressive, as is the research, skill, care and time that they put into this work. This was not a rush job to catch the boom market. The authors have done a superb scholarly job. Most of the material in that volume I could not complacently see omitted from even a required law school course. But the question whether the material in this book should be offered in a separate course is another matter. I suggest that this material should go in the courses and into the case books on corporations, trusts and public utilities, by whatever names those courses go; if that were done, for the needs of most students there is enough accounting material in this volume (even though its content is more "law" than "accounting") to dispense with a separate course. Much of this volume's treatment of corporation law and trust law is better than what is sometimes found in case books in those subjects; to my mind, its emphasis is on crucial areas in those fields more deserving of class room time than some topics currently over-dissected in the class room. I suspect that most instructors (and that includes myself) spend too much time on topics like the "nature" of a corporation, personality, corporateness, de facto, ultra vires, watered stock. Likewise, instructors in Trusts might do well to devote more of their precious class hours to material like that in Chap-

ter V (Trust and Estate Accounting) and less to the distinguishing of a trust from a use, from a bailment, from an agency, etc. Certainly a course or seminar on Estate Planning (with the problem-planning-drafting-pedagogical techniques which we can no longer afford to forego in law school) would draw heavily on the material in Chapter V. By careful pruning, given appropriate flexibility on the part of the instructor, the chapter on corporate accounting and the introductory chapter on book entries (Chapters I and III) could be worked into the corporation course without adding another hour to that course. I have found, for instance, that by assigning a work sheet problem and employing student assistants to spend several hours in "laboratory" work with each student in the corporation class (and every law school class will normally contain a number of capable students available as assistants), I need devote only two meetings of the class to a coverage comparable to the authors' first chapter.

With Chapters I and III going to the corporations course, Chapter IV into public utilities and Chapter V into trusts, the omission of Chapter II would not be serious. That chapter involves, after all, the broader problem of "thinking ahead" when drafting any contract; this cuts deeper than "thinking ahead" about terms in the contract like "profits," "cost" etc. It is hard to say just where, if at all, in the law school the student can develop the skill to ask himself, when drafting, say, a lease with rental to be a percentage of gross receipts: what if coin-machines are later installed, under various arrangements with the machine owners?

If case books were available integrating this excellent material in their respective courses and if, nevertheless, the faculty were to decide that the opportunity should be open to the student to make still further intensive study of accounting, I believe that Amory's new "Materials on Accounting," by the same publisher, would better fit the bill. Amory's book, without losing sight of the lawyer's needs, is more weighted on the accountancy side—and shorter. But, at present, such integrating case books are not available. A number of instructors have prepared supplemental integrating accounting materials, especially for the corporation course, frequently in mimeographed form; but instructors in other schools may find those materials unavailable or unsuitable, and may find themselves in no position to make their own. Or they may object to changing the course as they now give it. In such a situation, this book would be the logical choice for a separate course in law-and-accounting; if such a course based on this book were not a success, blame would not rest with the book.

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**Juvenile Courts in North Carolina.** By Wiley Britton Sanders. Chapel Hill: University of North Carolina Press, 1948. Pp. 210. \$4.00.

Interest in the incidence of juvenile delinquency and in the effectiveness of the juvenile courts has increased immensely in recent years. Each episode of youthful misbehavior is exploited by the press and the public speaker with apprehensive talk about a "wave" of juvenile delinquency. Community concern with the "juvenile problem" is frequently vocalized in churches, before civic clubs, and at conferences. Unfortunately, however, in most states the information available on the organization and procedure of juvenile courts and the statistical data on delinquency has been too inadequate or unreliable to permit the public to reach an accurate conclusion either as to the prevalence of delinquency or as to the competence of the courts. The lack of a body of factual material has also made difficult the conduct of classes dealing with the diagnosis and treatment of juvenile delinquency. The book under review was written to help "to meet this need for reliable information about the juvenile courts in North Carolina and about the delinquent, the dependent and neglected, and other types of children who come under the court's jurisdiction."

The results of three related studies of conditions in North Carolina are here reported in separate sections of the book. Two of these are on children's cases handled during consecutive five-year periods and the third describes the organization and procedure of the juvenile courts. The value of the statistical data analytically assembled in this volume is enhanced by the fact that it constitutes a continuation of previously published statistical studies conducted by the same author according to a uniform methodology. With the cooperation of the State Board of Public Welfare, the author has secured transcripts of information contained in the official records of all children's cases heard by the various juvenile courts in North Carolina within particular periods selected for study. One of the previously published studies presented a social analysis of the county and combined county and city juvenile court statistics for the first ten years following the establishment of the state-wide system of juvenile courts in North Carolina, July 1, 1919, through June 30, 1929; a second study added another five years and embraced all city juvenile courts as well as those with county-wide jurisdiction. Part I of the present volume continues this analysis for a five-year period, July 1, 1934-June 30, 1939; a similar study covering the five-year period, July 1, 1939-June 30, 1944, is reported in Part II, which report supplies the most recent and most adequate analysis of children's cases in this state. Thus there is available a total tabulation of more than seventy-two thousand cases covering a quarter of a cen-

tury of juvenile court experience in North Carolina, and close to half of these cases were handled during the decade covered by Parts I and II of the volume under review.

While there are minor differences in the tabular arrangements, employment of the same methodology throughout these studies makes the major items readily comparable and facilitates the study of trends. Such comparative study reveals the surprising fact that, contrary to popular opinion, juvenile delinquency on the basis of official statistics is decreasing in North Carolina. But though this result may allay all apprehensions that the state is threatened with a "wave" of juvenile delinquency, it should be emphasized that this study reflects only official records and, therefore, it may well be that in accordance with the spirit of the juvenile court idea there has been an increase in the number of cases disposed of unofficially.

The third section of the book is based upon the answers to a questionnaire developed by the author and filled out by field representatives of the State Board of Public Welfare on all juvenile courts within their respective areas. The answers were secured during discussion sessions with the judges and chief probation officers. As a result of this procedure the reader is provided, not only with a detailed description of the organization and procedure of the 107 juvenile courts within the state, but also with revealing information about the background of the judges and probation officers, about their opinions with respect to the conditions and influences affecting the behavior of youth, and about the community resources for handling delinquency cases. The disposition of cases, dealt with in Parts I and II with particular reference to numbers handled during specified periods of time, is again discussed but in greater detail and with emphasis on the courts' procedure. Perhaps the most shocking revelation is the fact that shameful conditions and practices with respect to the detention of children for the juvenile court still continue in North Carolina in spite of the law which prohibits the jail confinement of children.

A summary of findings and recommendations and a detailed index add to the usability and value of the volume. The recommendations, based as they are upon scholarly study and long reflection, deserve the careful consideration of all persons interested in the welfare of the youth of North Carolina.

By directing the searchlight of a statistical study upon the juvenile courts in North Carolina and reporting systematically gathered details regarding their organization and procedure, the author has not satisfied the need for facts in this field but he has made a significant and highly commendable contribution. The importance of having reliable statistics

and factual information on juvenile court and probation work is perfectly patent. Only by persistent inquiry of this kind can facts be furnished to supplant speculation and provide a firm foundation for the construction of a proper policy for dealing with the juvenile problem.

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