ECONOMICS FOR THE ACCOUNTANT

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PREFACE

In these days any text-book in the social sciences or on the principles of business needs an apology. The student with equipment who has the time and opportunity to attempt to contribute to his science should hesitate before burdening the press with another text. I paused, therefore, before adding another text on the subject of economics, but after much deliberation decided that there was a definite need for a specialized analysis of economic theory for the accountant.

The economist and the accountant deal with substantially the same facts, even though they have different perspectives and somewhat different purposes. The economist is usually a dispassionate philosopher who looks on man's economic activities for the purpose of studying and explaining them. The accountant is working in the midst of business organization and is gathering and classifying facts for his employer. If he would do his work intelligently, he must have some understanding of the economic system in which his employer is functioning. There are many problems of interest to the economist that have only an indirect relation to the accountant's work. For this reason the ordinary text-books on economic theory include lengthy discussions on many phases of economics in which the accountant is not interested and give insufficient treatment to what he would consider more fundamental problems. It might be supposed that some of the more "practical" economic texts, such as are used in the business schools, might give the accountant what he needs. These so-called practical texts, however, usually collect and schematize certain useful facts that are mere commonplaces to the practical accountant. Moreover, it will soon be discovered that it is the most abstract and subtle economic reasoning that underlies the principles of accounting.

When this work was first being planned, it was suggested to me that there is need of an exposition of accounting for the economist. This book should also be of use to the economist who is interested in the theory of accounting. Moreover, any economist who gives consistent thought to accounting will find much of purely theoretical economic interest in the subject. He will find that he must be more careful in defining capital, interest, and profit and that he will have to make some important distinctions between the different kinds of cost. I feel that through my contact with accounting principles I have been able to present certain more or less important contributions to economic theory.

The student who expects to get the most out of this book should know something about accounting, and if he knows anything about accounting, he will necessarily have some grasp of the fundamentals of economics. In short, this book was not written primarily for the elementary accounting student although, in the absence of any other text of this kind, it could be used even by students of elementary accounting, if supplemented by classroom lectures.

There is one word in regard to the scientific method to be employed in the two studies, and especially in accounting. The economist's first problem is to determine "what is"; a description of "what ought to be" may follow, but it should be predicated on a knowledge of "what is." The economist may use his science for constructing methods of improving the welfare of society, but he thereupon becomes a reformer or even a propagandist. It is not contended here that an economist should not at times be a reformer or a propagandist, but it is believed that he should be careful to obtain the facts first. The accountant probably needs more warning on this score than the economist. The accountant may work for a producer or for a public body, but he should never change his definitions or adopt a revised set of principles. The concept of "cost" should never be changed so as to serve as a weapon for enforcing good financial policy or for effecting social reform; the accountant's definitions should be carefully thought out and rigorously adhered to. It is no sound argument against the principle involved in the inclusion of interest in cost that the application thereof would tend to inflate cost and allow the producers greater profits than they would otherwise enjoy. The amount of depreciation the accountant should charge should not be affected by the financial condition of the company or by the wishes of its directors. The accountant should tell the truth as he sees it and should be careful not to revise his classifications for some special purpose, no matter how justifiable the particular cause may seem to be.

The problem of interest as a part of cost is so much disputed, and the light that economic theory can throw on the discussion is so considerable, that a special appendix is devoted to the subject. The problem is discussed in Chapter X as well as in other chapters, but an entirely satisfactory discussion of this question was not possible until all the principles outlined in Chapters X and XI were set forth. Before this problem can be understood by the accountant, he must establish firmly certain careful definitions of the entrepreneur, the capitalist, capital, capital goods, cost, interest, and profit. Certain other