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Book Reviews

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Book Reviews

HOTEL ADMINISTRATION—ACCOUNTS AND CONTROL, by DANIEL J. O'BRIEN and CHARLES B. COUCHMAN. *McGraw Hill Book Co., Inc.*, New York. 379 pages.

The authors of *Hotel Administration—Accounts and Control* have undertaken a large task in attempting to analyze the functions and activities and describe the operations of one of the largest of our industries. The necessity of keeping such a treatise within reasonable limits without sacrificing important material, adds to the difficulty of the task. In this book the authors have accomplished these ends with no small measure of success and have made a useful contribution to the literature in this field.

The book is intended to serve, in particular, three classes of readers: as a textbook for the training of accountants in hotel operation, as a guide to hotel managers in methods that have proven successful in many of the larger hotels and as an aid to the public accountant in auditing hotel records.

Recognizing that an understanding of the practical operations which result in the production of revenue and the incurring of expense is necessary to a proper grasp of the accounting system, the authors present a comprehensive picture of the physical plant and functional organization of the typical modern hotel establishment. The numerous classes of activities are defined. The accounting forms used to record them are described and fully illustrated by facsimiles of those used in actual practice, and the procedure necessary to bring these records together into the general books of account is clearly traced. The daily operating statements and the monthly balance-sheet and profit-and-loss statements, with supporting schedules, are presented in detail and the method of their preparation is carefully set forth.

The viewpoint is not limited to a single type of hotel, but embraces the large establishment which combines many different lines of business in its activities, as well as the small hotel doing only a transient room-service trade, and a separate discussion covers the special activities of clubs.

While the forms and procedures described in the text are generally those in use in the largest hotels, the authors have kept consistently in mind the practical needs of smaller institutions and have indicated alternative methods adaptable to organizations less highly departmentalized.

The authors have presented a very comprehensive description of the various processes of hotel accounting, but it may be considered that more space has been given to elemental explanation than is strictly required in a specialized treatise.

The pro forma financial statements included indicate a fairly close parallel to the *Uniform System of Accounts for Hotels* recently prescribed by the Hotel Association of New York City. However, in presenting suggested statistical statements the authors frankly venture on more debatable grounds. They include expenses in their statement of room cost which are of doubtful applicability.

The importance of safeguarding revenue and reducing expense to a minimum is emphasized throughout the book. Many possible causes of leakage and loss are pointed out in the discussion of the various activities and remedial measures are suggested. These measures are based on proper accounting controls and constitute an argument to the hotel manager for the adoption of an adequate accounting system.

Much of the material contained in the volume will be found helpful to the public accountant who may be called upon to undertake hotel audits, but of particular value is the chapter on "Audit schedule", in which special phases peculiar to hotel accounting are discussed and a programme of audit outlined.

An important element in determining the practical utility of a publication of this character is its typography. The book is inviting in this respect and comparatively free from typographical errors, although among the few that have been noted in its perusal, there is one that is likely to mislead. This is in the presentation, on page 245, of the formula for determining the factor to be applied in the fixed percentage method of depreciation. The text indicates that N is to be multiplied by the square root of V' over V , whereas the correct formula involves extracting the N th root.

The authors have succeeded in presenting a technical treatise in a readable form and the result has been to give to current accounting literature another valuable book showing the proper application of accounting principles to a particular industry.

F. H. HURDMAN.

COST ACCOUNTS, by L. WHITEN HAWKINS. *Gee & Co.*, London. 103 pages.

In *Cost Accounts* the author has directed his efforts to explaining the advantages to be obtained in the ascertainment of "job costs" for manufacturing and contracting concerns.

This is an English work consisting of 103 pages, divided into two parts. The first part deals with the elements entering into the costs, viz., material, labor and overhead charges. Each element has been carefully considered with regard to the accounting technique necessary for effective control, first in the cost books and in turn in the general books. The author has prepared a splendid graphic chart showing the relationship between the cost accounts and the general accounts. A study of this chart shows that, while the cost accounts are coupled with the corresponding general accounts, both ledgers are self-contained and deal with the same figures, but from a different point of view.

The system outlined differs from most published works on cost finding in that the method employed in bringing the cost accounts into agreement with the financial accounts is based upon a coördinating rather than an interlocking system. The author accomplishes this by setting up two pairs of nominal income and expense accounts: one pair in the cost ledger, the other in the general ledger. In the cost books these nominal accounts are reversed and become what are sometimes termed "applied accounts" (credits), the charge being made to the respective job accounts, and the sales (completed contracts or sales from stock) appear as a debit. In order to prove the accuracy of the results of all jobs dealt with, a manufacturing account is raised, into which the

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nominal accounts are closed, and from which, after giving consideration to inventories, manufacturing profits are determined. After closing the cost ledger the remaining open accounts represent inventories (raw material, work in progress, finished goods). The results shown by the manufacturing account should be compared with that portion of the trading account in the general ledger which relates to manufacture, viz., prime cost and oncost, or materials, labor and manufacturing expenses.

At this point it will be observed that by divorcing the cost accounts from the general accounts the clarity of the latter is not distorted, as is too often the case with cost installations which are based on the interlocking principle, and that the preparation of balance-sheets, operating and profit-and-loss statements is greatly simplified, when consideration is given to the highly involved analysis necessary where interlocking features form a part of the accounting mechanism. This applies either to the work involved in auditing for a period, or to the development of comparative figures by the general office. Furthermore, the cost accounts, in so far as regards utility to management by way of furnishing manufacturing statistics, cost data, etc., are not in the least impaired, but rather improved because of the flexibility obtained by the separate balancing of the ledgers.

The author's method of charging materials to their respective jobs, classification and allocation of labor, and calculation, application and distribution of burden is a matter of common practice in our own country in the lines of manufacture to which this type of costing is applicable.

Another noteworthy feature is the advocacy of predetermined or standard rates to be compared periodically with the actuals as developed. This is used as regards burden only, and in some cases might be applied to the direct labor.

In view of the above, the reviewer looked for an "idle time" provision in order that the actual burden developed by periods would be on the basis of the percentage of the plant and equipment in operation. Without this provision, the burden costs would fluctuate in proportion to the increase or decrease of production. He also considered the possible effect the basis as outlined (without idle-time provision) might have upon inventories appearing in the balance-sheet. No apparent provision was made either for idle time or for development of burden or oncost, by processes or by lines of manufacture, where one line might pass through a regular procedure, as against another line which might follow an entirely different manufacturing routine. Doubtless the author would take care of this in the case of an installation, since usually each cost system must be considered as an isolated problem.

The second part of the book is a detailed explanation of certain sections included in the first part. The author in addition deals briefly with single cost, process costs and the determination of loss in process through shrinkage, etc.

A specially outlined and unique illustration appears in the appendix setting forth the forms, ledger accounts and journal entries, which should be very helpful to anyone interested in the study of cost accounting.

The principles of development and control between the general ledger and the cost ledger are remarkably well described and illustrated, and it is the reviewer's opinion that this book can be used to practical advantage in outlining cost systems for many kinds of business.

W. A. MUSGRAVE.

The Journal of Accountancy

PROBLEMS IN BANKING, MONEY AND CREDIT, by JOHN M. CHAPMAN and RAY B. WESTERFIELD. *The Ronald Press Co.*, New York. 757 pages.

Problems in Banking, Money and Credit has been arranged for university and college courses in banking, money, credit and a wide range of related subjects. It contains a collection of problems which the student is expected to answer through research in the list of material for study listed at the end of the book, such as government reports, statistical services and books on economics. A large part of this work is devoted to the various functions of banks, a history of banking in the United States and foreign banking systems.

It is believed that this book by Professors Chapman and Westerfield, who are authorities on the subject of banking, money and credit, will prove of real value to students, as well as instructors, or to anyone interested enough to do the collateral reading required to answer the problems propounded. For the layman unable to devote the time to research, it is hoped the authors may be persuaded to prepare a second volume containing their solutions of the problems presented in this book.

F. H. HURDMAN.

C. P. A. REVIEW, by CLEM W. COLLINS. *John Wiley & Sons*, New York. 490 pages.

Candidates for accountancy examinations can not plead ignorance of formal test questions as an excuse for nervousness in examinations. Several bound volumes of questions set in examinations during the past ten years are now available, skilfully arranged by subjects, indexed and accompanied by bibliographies, so as to be of much value to students.

C. P. A. Review is one of the newest books of this type. Its author intends it for the use of fourth-year students in accounting, whose theoretical and technical equipment are presumably fairly complete.

The solution of past examination questions may be considered a tedious method of preparation, but the very compilation of a book of this kind by the head of the accounting department of a prominent university is evidence that the method is believed efficacious. Indeed, it is difficult to see how an intelligent student, who conscientiously applied his theoretical knowledge to a succession of these problems under each topical classification, with reference to appended bibliographies in cases of doubt, could fail to benefit.

Mr. Collins' book includes all the Institute examination questions from June, 1917, to November, 1925, and many other questions from examinations composed by various state boards of accountancy and from other sources.

A competent index, adequate bibliographies, keys to references and to authors quoted, and a foreword on "How to approach an examination," help to make the book valuable to those for whom it is designed.

J. L. C.