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Book review

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Recommended Citation

Haskins & Sells Bulletin, Vol. 09, no. 02 (1926 February), p. 15-16

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justly entitled to receive. The net assets of one corporation were sold to a purchaser for cash and shares in another corporation. The inventories were grossly overvalued by increasing both quantities and prices on the inventory sheets.

Overstatement of assets affects the profits or the surplus. Profits or surplus are overstated in an amount equal to the inflation of the assets. There would be no point in overstating one asset at the expense of another; nor would any benefit be derived from overstating the liabilities in an amount equal to the increase in the value of the assets.

Understatement of assets is a device to conceal shortages therein. An understatement of one asset may be accompanied by understatement of liabilities, reserves, or surplus, or by overstatement of some other asset. Tracing back through surplus, the understatement may be found to have originated in an understatement of income or overstatement of expense.

Little difficulty is found in detecting what are known as "open" shortages, which involve neither overstatement nor understatement. The wherewithal to satisfy the requirements of the balance at a given date simply is absent, or deficient in amount. While there are various devices used to misrepresent the substance offered in satisfaction of such requirements, these devices are easily penetrated and the misrepresentations quickly exposed. A custodian who is short and has not falsified the records stands little chance of escaping detection in case of verification of the balance with which he is charged.

The cases which offer difficulty in the matter of detecting shortages are those in which the shortage is concealed by misrepresentation affecting transactions which have occurred prior to the date of the accounting. Misrepresentation may consist of false entry of a transaction itself, of failure to enter a transaction, or of manipu-

lation of records underlying the general ledger for the purpose of concealing an irregularity which otherwise would result in an open shortage.

Overstatement of assets usually is conceded to be easier of detection as a practical matter than understatement. Overstatement usually should be detected by verification of balances at a given date, even though an attempt has been made to manipulate the general ledger accounts showing such balances. Understatement, while theoretically as easy of detection, requires verification of transactions, and their entry in the detail records, together with verification of the mathematical accuracy of such records. Practically, the verifications of transactions and of the accuracy of the records frequently are precluded by limitations of time and expense.

Overstatement of assets usually should be detected by a balance sheet verification or a balance sheet audit as it often is called. In accordance with the general concept of a balance sheet verification, the scrutiny of transactions during a period prior to the balance sheet date is not contemplated. Therefore, a balance sheet verification may not be relied upon to detect understatement. In a word, nothing short of a general audit may be expected to detect the understatement of assets whether such understatement is designed to conceal fraud or merely is the result of carelessness or of errors in principle.

Book Review

Boomer, Lucius M. *Hotel Management*. (New York, Harper & Brothers, 1925. 486 p.)

Numerous articles have appeared dealing with various phases of the hotel business and certain of its problems, but this book, as a study of the science of hotel management as a whole, is a pioneer. It has been

written by a recognized leader in the hotel world, the directing head of a chain of well-known metropolitan hotels.

The book is stated by the author to be addressed to investors, bankers, and others who have financial contact with hotels, as well as to persons actively engaged in the hotel business. It is divided into four parts, the first two of which, being extremely broad in scope, contain more of interest to the general reader than the last two, the primary appeal of which is to the person who is, or contemplates being, in the hotel business.

A conspicuous characteristic of the book is its readability. This quality results from the liberal citation of concrete examples to explain and relieve the enunciation of abstract principles, from the statement of facts and figures evolved by experience, and from the introduction of occasional quotations and anecdotes of general interest.

The practical hotel man will profit greatly by a study of the data presented relative to personnel requirements of a hotel, and of the diagrams showing suitable arrangements of certain of its physical equipment. He will also find material for much thought in the many quotations from the operating and service manuals of representative hotels.

Accountants will be especially interested in the chapters entitled "Accounting Control" (two chapters), "Cost Finding," "Budgeting," "Graphic Presentation of Statistics," and "Accounting and Finance Departments." Those on accounting control contain a comprehensive set of illustrative financial statements together with comments thereon, and some interesting collateral information of a statistical nature, such as the average rent expense per room per night of hotels of various classes. While from the viewpoint of accounting theory exception might in several instances be taken to the opinions expressed, the practical value of these chapters is undiminished.

The chapter on cost finding embraces a description of a system of "food control," illustrated with a number of relative forms. That on budgeting describes the procedure which may be followed in compiling a budget, and contains some of the forms which have been found to be appropriate in assembling the necessary data.

The chapters which have just been discussed are all found in the first two, or general, parts of the book. That entitled "Accounting and Finance Departments," on the other hand, forms a part of the more specific sections which compose the remainder of the book. This chapter deals with the personnel and functions of the treasurer's and accounting departments. It is supplemented by the reproduction of many of the forms used, in a section of the appendix. This appendix consists of several sections and contains a quantity of matter of direct practical value, among which may be mentioned a table of depreciation rates applicable to various classes of hotel property and equipment.

In conclusion, the practical nature of this volume, its breadth of view, the increasing magnitude and importance of the field to which it refers, its copious bibliography, and its great general interest combine to make it a signal contribution to current business literature.

S. B. STEVENSON.

News Items

Mr. Wildman addressed the January Forum of the New York Credit Men's Association on the subject of "Interpretation of Financial Statements."

Mr. G. P. Auld, assistant manager of our New York Broad Street office, addressed the Naval War College at Newport, Rhode Island, on January 15, on "The Dawes Plan and the International Financial Outlook."