

**COST  
ACCOUNTING  
FOR INSTITUTIONS**

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Cost Accounting for Institutions by William Morse Cole

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# COST ACCOUNTING FOR INSTITUTIONS

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BY

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## INTRODUCTION

The first fact to realize with regard to a plan of cost accounting is that no *a priori* determination of exact methods can be made for any establishment. No two establishments are alike in all details, and a perfect plan for cost accounting in one will fail of perfect fitness in any other. Certain principles are fundamental, however, and may be indicated in a general plan. Discussion of these general principles unattached to a specific organization, on the other hand, would hardly be quite serviceable, for the principles so discussed would lack concreteness and definiteness to readers not already familiar with the application of such principles to specific cases. In this book effort has been made to discuss general principles and to apply them for illustration in certain specific types of institution—usually the most complicated type likely to be found in most communities. Yet the application here indicated may not fit exactly any particular institution even of that type, for certain assumptions must be made in the distribution of costs, and not all of these particular assumptions may hold valid in a particular case; but the author hopes that the careful and intelligent reader will be able to adjust the accounting plan here outlined to any particular circumstances of his need.

The plan outlined will appear to most persons extremely complicated and abounding in red tape. As expounded here, the plan undoubtedly is so; but many plans are much more simple in operation than in theory. It may take a page of text to describe a process performed in a few seconds of bookkeeping, and many varieties of transaction

must be suggested in such a treatise as this even though only one of them will be applied in any specific case. In order, again, to make the treatment comprehensive, effort has been made in this book to provide for virtually all types of contingency and of variation from the simplest type of organization, and therefore the discussion here is meant to cover at the same time the simple, the somewhat complex, and the extremely complex conditions of any establishment. Obviously a treatment intended to be comprehensive for such conditions must be in itself complicated, even though its application in a single case may be simple both in theory and in practice.

A glance at the forms and schedules may, again, suggest a vast amount of detail and of clerical labor in the keeping of records; but if one examines them carefully one will note that, although many of them are used daily or even oftener, others are used only weekly, some only monthly, and others only annually. If they could be arranged so that one would see at once only those in use at any particular time, one would observe that the number is not great, the labor is not prohibitive, and the cost is practically insignificant.

If any one should hesitate to introduce a cost-accounting plan in an institution for fear of the cost, he might substitute, for continuous use of the forms and accounts here indicated, an occasional or periodic use of them and so learn certain averages and standards. If, for instance, it were deemed inadvisable to keep a constant record for each meal of the special or occasional foods consumed, one might well use the forms here shown for certain specified periods, such as one week in a month or four isolated months in a year, and use the results for establishing ratios and averages. Similarly, one might keep temporarily certain subordinate-ledger accounts for details of expense

within departments (such as freight and supplies) and learn about what proportion of the total charges on those scores are attributable to certain departments, and then use those ratios, without further detailed accounting, over long periods. The system here shown, in other words, may be used in part without nullifying its value as a system. It is here made complex only that it may be made comprehensive. The text, again, suggests monthly closing of accounts. The plan is equally workable, though it cannot produce results so satisfactory, if accounts are closed annually.

A few illustrations of the possibilities of simplifying the plan shown herein are suggested by observation of the subdivision of many accounts. For hospitals, separate accounts are recommended for several kinds of nurses (superintending, graduate, special, and those in training), for orderlies, and for ward employees. Obviously, if one is not willing to go to the expense of making this separation, one may combine them all into a single account—though this by so much reduces the possibility of making a comparison of costs with hospitals where the conditions of nursing are different or the classification is more detailed. Similarly, separate accounts are shown here to cover maintenance of equipment, in the housekeeping department, for the dining-room, for the bedrooms, and for the general household. In many institutions this subdivision would be hardly worth while. In the accounts for libraries, again, separate wages costs are kept for administrative officers, cataloguers, order clerks, delivery clerks, etc. Commonly this subdivision would not be necessary. Every consolidation of accounts simplifies the accounting process, but by so much limits the information which the accounts may give; and therefore in this book divisions which under any ordinary circumstances are thought to be worth while are given in detail—not because the division is recommended in every case, but



merely in the desire to have it noted for the case when it is necessary, and with the thought that wherever it is undesirable consolidation will suggest itself as obvious.

Most of the illustrations used are for conditions likely to arise in hospitals; but most other institutions are subject not only to many conditions similar to those in hospitals, but also to other conditions which, though not similar in outward characteristics, are nevertheless capable of expression in the accounts by the application of similar principles. It is believed that few problems will arise in other institutions not capable of solution by the application of the principles indicated for hospitals. Nevertheless certain suggestions are made not only for specific accounts likely to be required in institutions other than hospitals, but also for the content of those accounts. In one or two instances illustrations are given of the method of drawing conclusions from such accounts in ways somewhat different from those desirable for hospitals. It would have been possible, of course, to treat every particular of the accounts from the point of view of hospitals, then from that of educational institutions, and lastly from that of hotels or clubs, and to gather into one place all lists of accounts, all forms, and all comments relating to any phase of the accounting; but that would have produced a treatise which would hardly be usable except for the theoretical student; for the treatment of accounts for no institution would be in connected form. For this reason the illustrations are taken for each chapter as a whole from the circumstances of hospitals, and then variations or additions for other institutions are suggested in a supplementary discussion.

No attempt is made in this book to describe the ordinary processes of bookkeeping, or to direct a person untrained as a bookkeeper in the method of making entries. Cost accounting cannot be done by persons who cannot

"keep books." So far as any higher type of bookkeeping is required here than that familiar to bookkeepers in institutions, the information regarding it should be easily obtainable from books dealing with the subject. This plan presupposes the bookkeeper's knowledge of special-column cash books, of voucher registers, of subordinate ledgers, and of controlling accounts. Some one in any institution should have a general knowledge of bookkeeping and accounting principles; but he needs no more technical or detailed knowledge than can be obtained from the general chapters in the author's book entitled "Accounts: Their Construction and Interpretation," and from the treatment there of one or two special subjects (such as accounting for investments) related to institutional affairs.

The general principles here worked out have been recommended by a committee of persons interested in institutional management. Appendix E gives a copy of the report of that committee (on uniform accounting for institutions) at the Lake Placid Conference in June, 1912. The author is indebted to the persons whose names appear in that report, and to many others, for valuable suggestions.

