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## Book Reviews

Walter Mucklow

L. D. Mapes

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## Book Reviews

VALUATION OF REAL ESTATE, by FREDERICK M. BABCOCK, *McGraw-Hill Book Co.*, New York. 593 pages.

To one who has for many years been closely connected with real estate of many kinds, devoted to many purposes, the question has frequently arisen, Can it be valued?

The author of the present volume describes himself as having been in the past a partner in a consulting firm, and being at present an associate in the bureau of research of the university of Michigan, diverse experiences which should lead to a happy combination of practice and theory.

The book deals with methods of valuing real estate, the correctness of those methods depending entirely upon the arguments presented, not on the sanction of authorities, and the author lays some stress upon the fact that the book treats of valuation methods rather than valuation data, a distinction of importance, for the former may be regarded as permanent, while appraisal data are subject to change with the passage of time and with varying conditions.

The author states "there is but one theoretically correct method of valuation . . . described in the following manner:

"The theoretical method of valuation commences by studying the future utility of the property—that is, by forecasting the returns to be expected from the entire productive unit, the returns to land being residual under the highest and best use, and the building returns, if the building is not the highest and best use, being made residual after the land return. The method proceeds, by discounting, to a calculation of the present value of the net returns, the building returns being for finite building lives, and the land returns being extended to perpetuity. In the method, the building value is so determined that the predicted building return provides both interest and a return of the capital value over the building life. Rates are determined in the market."

In the introduction it is admitted that appraisal can not be an exact science, but rather one of judgment, and the methods suggested are for the purpose of enabling the appraiser to form a sound judgment. Not only has the present to be considered but, frequently, the past and always the future. In addition is the unique condition that real estate can not be moved but must be used *in situ*.

Necessarily, the question of what constitutes "value" is discussed, together with its relation to cost; and the nature of the various data and the way in which they are affected by local trends, population, social factors, architecture, mortality of buildings and management, are all considered.

The theory of valuation is based on: (1) economic thought and observed economic facts; (2) the valuation procedure which these imply or call for; and (3) comments and collateral conclusions; while the mathematics involved include those relating to compound-interest functions and to probabilities.

The author discusses the correct methods of valuation under seven heads. The correct methods are illustrated by applying those which are appropriate to seven different cases, namely: (1) a store and office building; (2) a parking lot; (3) hotel property; (4) theatre property; (5) factory property; (6) house property; (7) a library.

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The methods of estimating the earnings and expenses in each case are discussed and explained, and illustrated by schedules, and these are followed by estimates of the above various classes of property under varying conditions, set out in sufficient detail to enable the reader to follow the calculations without effort. These appraisals include examples on leased lands and on those held in fee simple and the examples are taken from buildings erected in various places.

The last part of the book contains a discussion of some of the details of valuation procedure, such as depreciation, obsolescence, life of buildings, risk and interest rates, determination of fractional rates, land value by comparison, valuations exclusive of land, valuations for specific purposes and notes on the accuracy of valuations.

While much has been written on the subject of land valuation in the past twenty years, it is probably true that, even today, the great majority of appraisals are made by the comparison method, based upon similar properties in adjacent or similar neighborhoods, while appraisal companies, making many of the larger and more important appraisals, usually emphasize the "cost of reproduction", "new" and "sound value" as the factors which may be accurately measured or determined and from which others may be calculated.

There can be no doubt that much rule-of-thumb work has been done in the past and is still being done, which emphasizes the desirability of having some means of checking results so obtained. It is not improbable that some of the more old-fashioned valuers may be inclined to laugh at some of the refinements suggested by the author. They may say it is impossible to make any prediction of what results will be twenty, thirty or fifty years hence; that interest rates can not be determined, and that depreciation is a delusion and a snare. Even so, an appraiser has to express an opinion—even as has the accountant—and to state what he believes; therefore it is worth much for him to have some means of confirming his results and some method to place him in a position where he is ready always to give an answer to every man that asketh him a reason of the hope that is in him.

This book presents such a method; it is logically arranged and clearly expressed, while the numerous examples and charts which illustrate it are well designed and well presented: to anyone who is concerned with such valuations it offers great value, for it is a scholarly production. The general practitioner in accountancy usually accepts gratefully—and too often blindly—any appraisal which is offered to him which has an official appearance and which appears to be reasonable. The question whether or not an accountant which concern himself with such appraisal is akin to the question as to the extent to which he should be responsible for inventories. However, the appraisal of real estate is far more complicated than determining the values in an inventory, and depends upon many factors—such as interest rates, depreciation, obsolescence, etc., which form a portion of the accountant's regular diet.

WALTER MUCKLOW

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PRACTICAS, ORGANIZACIÓN Y CONTABILIDAD BANCARIAS  
(Banking practice, organization and accounting), by ROBERTO CASAS  
ALATRISTE. Editorial "Cultura," Mexico City, Mexico, 1932. 350 pages.

The foreword states that the book is an elaboration of a series of articles which were to have been published several years ago in a Mexican magazine

by the Association of Mexican Bankers. Only a part, however, of these articles appeared in print and the author has taken this opportunity to revise and augment them, and to introduce provisions called for by the new monetary (banking) law of July 25, 1931, amended later by the law of March 9, 1932.

The book deals with the law and banking methods of Mexico only. Nevertheless, as treatises on bank accounting are rare in the Spanish language, people of other Latin-American countries who are interested might well profit by a perusal of it. The author is a member of the faculty in the banking school of the Bank of Mexico, specializing in the higher branches and, therefore, his book is written somewhat in text-book style, but it is not too verbose. It is well indexed.

He presents first a study of the functioning of a credit institution, referring frequently to the law, giving chapter, title and article, but confining himself for the most part to banks of deposit and discount. He next explains the component parts of a balance-sheet, from which he leads up to the balance-sheet of a banking institution in particular, where, after considering the form, he takes up the verification of assets and liabilities and the calculation of the necessary reserve.

There are several charts which show the organization of a bank of deposit and discount, the postings of deposits and cheques, and the books thought to be essential in recording the transactions. The work is not overloaded with superfluous forms, but those presented seem to be ample for the purpose.

Separate chapters deal with the several departments for cash, deposits, credit, foreign exchange and collection. The transactions and relative accounts of each are set forth in considerable explanatory detail.

Taken altogether, it is a satisfactory work.

L. D. MAPES.