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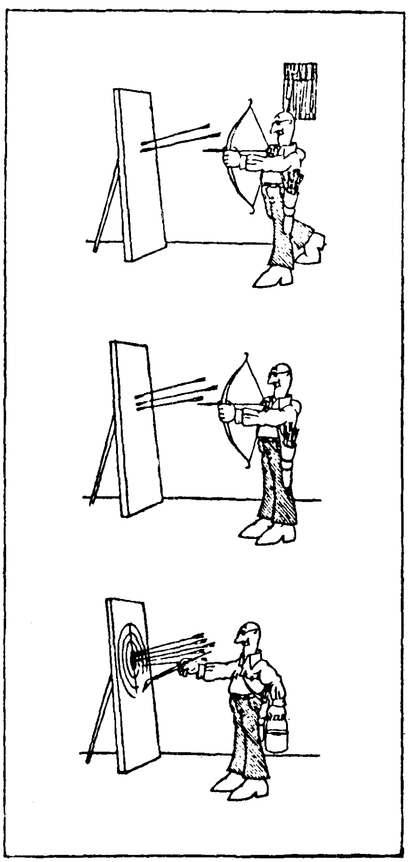
Inventories and investment values -- One century ago

Kenneth Oswald Elvik

were recognized by Paul Garner in his introductory article in the first issue of The Accounting Historian (Vol. 1 No. 1 January 1974. Reflections on the Uses of Accounting History)-

> "The broadly defined student of accounting history will soon find his paths leading to topics and materials in economic history, social and cultural development, semantics, literature, fiction, development of religions . . . . . ."

AN APPROACH TO RESEARCH



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Inventory and Investment Values—One Century Ago

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At both the beginning and intermediate levels of instruction in accounting, professors typically discuss a number of factors significant to the valuation of inventories. For example: purchase discounts, transportation to the buyer, and obsolescence. Deducting discounts, but adding freight costs is not a particularly recent idea, at least not in the accounting journal literature. Indeed, just one hundred years ago, those notions were put forth most eloquently:

> In the valuing stocks of goods their net cost should be set down after taking account of discounts allowed by suppliers. On the other hand, carriage on such stocks from the place of manufacture, etc., to the company's warehouse is a part of the cost, and should be added.[1]

The notion of lower of cost or market is not particularly new either, as the same author continues, along with a dash of conservatism:

> It is a sound rule to value stocks a little below cost, and uncurrent or unfashionable articles very much below cost.

The recording of an investment in stock at the total price, including a declared dividend subject to subsequent collection, may be compatible with income tax rules, but is not particularly attractive to most accounting professors. This situation, plus a recommended rule to follow, is also identified by our predecessor of the last century. He considers the rights todividends similar to rights to interest, at least in this context:

> Stocks and bonds held often cost a larger sum because when purchased there is a certain amount of dividend accrued on them. This should be severed from the prime cost, and paid out of the first dividend collected, otherwise a door is opened for benefitting revenue at the expense of capital.

All of this century old logic can be concluded with an appropriate quotation:

> Confound these thieving ancients for stealing all our modern ideas.[2]

[1]W.A.T., "Audits," *The Accountant,* December 17, 1881, p. 5.

[2]As quoted by Maurice Moonitz in "Three Contributions to the Development of Accounting Principles Prior to 1930," *Journal of Accounting Research,* Vol. 8, No. 1, Spring, 1970, p. 145.