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# Consolidating inventories

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of the capital stock would not be possible without creating some offsetting intangible asset like good will, or charging the difference to surplus.

The conclusion to be reached in the case under consideration would seem to be that premium on preferred stock liquidated out of common stock proceeds may, with propriety, be charged against the common stock account. The accountant who has to pass on a question of this kind will, if he is wise, see to it that the action and accounting therefor are formally authorized by a resolution of the directors. The resolution should set forth the capital value of the common stock involved.

## Consolidating Inventories

A CASE which recently was the subject of somewhat prolonged discussion at one of the Wednesday evening staff conferences has to do with the matter of consolidating inventories. The question which provoked the discussion was: "How should goods which are finished product to one company and material to another be combined in consolidations?"

The particular case which gave rise to the question was one in which various parts used in the assembly of a musical instrument were manufactured by various companies subsidiary to the assembling company. Many of the parts were of such nature that they could be, and as a matter of fact were, sold to companies other than the assembling company. The capital stock of the subsidiary companies is all owned by the assembling company. The question of inter-company profits included in inventories is not involved in the discussion of this phase of the situation.

The easiest solution is found of course in putting the inventories together for consolidated purposes in mechanical fashion. In other words, after the inventories of the separate companies have been set up according to material, goods in process, and finished goods, they are then combined according to these classes of inventories.

Immediately the objection is raised that this will not give a true picture of the situation from the point of view of the consolidation. It will not reflect the situation as it would appear, looking at the manufacture of the finished article as a whole. The reason is that there will be included in the finished goods caption, automatically, parts which to an outsider looking at the enterprize as one concerned with the manufacture of a single product would not be finished goods.

The practical question is that of whether or not the amounts representing parts included in finished goods would be sufficiently large to distort or mislead were such amounts to be included in the finish goods caption. Theoretically, in consolidation, parts are not finished goods. With respect to individual companies they are finished goods. They may be sold to customers outside of the family as readily, as in this case, to those inside. As a matter of liquidating value they are as susceptible of being converted into cash as are the articles of final product.

So one may argue back and forth on these questions without coming to a satisfactory theoretical conclusion. All of which demonstrates the desirability of being guided by practicability instead of tied to pure theory. The practical side of the question is: How should the matter be presented so that it will convey the true situation to "him who runs"? The answer to the question seems to be found in consolidating the figures mechanically, but setting out, by way of parenthetical explanation, in the finished goods caption the amount representing the finished parts of subsidiaries included in the finished goods.