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Relation of Field Warehousing to Accountancy

BY A. T. GIBSON

A tendency which is growing rapidly among businesses of every description is that of regarding the accountant as an advisor, particularly in matters of business finance. His experience in the production of cost systems has taken him into the very heart of manufacturing and the variance in methods of diverse industries has given him first-hand information which is obscured from the man who is more or less isolated in one line of endeavor.

There is no particular advantage to an accountant in knowing what this or that concern made or lost this year or any other year, but there is a distinct advantage in his knowing how any company financed itself into a position to do a certain amount of business, because any usable information of this kind may enable him to advance a plan that will benefit other clients.

There is a development in the warehouse industry with which it is believed every accountant, public or otherwise, should be thoroughly conversant. It is field warehousing, and while several hundreds of manufacturers are now employing this means of financing large inventories it is still a subject of growing interest upon which little, if any, literature has yet appeared for the general reader.

The value of public-warehouse receipts in the financing of domestic as well as foreign merchandise is, no doubt, well known. The warehouse receipt has been developed into a credit instrument through recognition of the fact that title to the merchandise covered by the receipt falls to the party indicated on its face in the case of the non-negotiable receipt and to the holder in the case of a negotiable receipt. As a result of this particular virtue, banks and other commercial-finance institutions lean very strongly toward warehouse receipts as security for bankers' acceptances as well as for any other form of credit.

While the metropolitan public-warehouse company is able to serve the manufacturer or the producer with respect to commodities in the process of distribution it has heretofore been unable to release working capital that is tied up in large inventories at the plant or in the producer's warehouse.

With the advent of hand-to-mouth buying nearly every manufacturer has found that one phase of merchandising has been practically reversed since the world war. Where the retailer frequently used to anticipate his demands for from six months to a year, he is now found buying from day to day, week to week, or at best from month to month. This tendency has placed the jobber in a more or less similar position and the result is that the manufacturer has to rely on his own ability to anticipate demand and keep an adequate inventory at all times to take care of any reasonable day-to-day demand.

Naturally, this condition of hand-to-mouth buying has placed demands on the average manufacturer's working capital that keep him busy to know where to turn next, despite the fact that he may formerly have considered himself comfortably financed. His exact position is that of doing the same amount of business with a much slower rate of turnover. If he brings more capital into his company to do the same volume of business it shows a decrease in his earnings and if he does not he can not meet a hand-to-mouth-buying market.

To cope with this situation there has been developed a system of creating a public warehouse in the manufacturer's own plant by leasing that part of his plant in which his inventory is kept.

By introducing a field warehouse into his factory any manufacturer of merchandise for which there is a ready market may obtain bona-fide public-warehouse receipts which will enable him to borrow the highest percentage of value of the goods represented at the lowest possible rates of interest. In this way he relieves his working capital greatly and still has the necessary inventory from which to draw as desired.

The matter of releasing goods from an inventory that is being field warehoused is comparatively simple even though the manufacturer does not have free access to the merchandise while it is in the custody of the warehouseman. Goods are released, customarily, by repaying a proportionate amount of the money borrowed on them, but, of course, this is a matter of arrangement with the lender. As previously stated the warehouse receipt may be used as a basis for straight loans or bankers' acceptances, depending on the type of commodity represented.

Not only will the expert accountant find field warehousing a solution to the matter of financing substantial concerns which

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desire a greater turnover on their working capital in order to permit greater production, but he will also find it a most valuable solution of the problem of the manufacturer who, for various unforeseen reasons, finds that he needs a larger amount of money than is obtainable through open credit.