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Mr. Paton's article in the December number of The Journal of Accountancy discusses the relative advantage of the three well-known bases on which inventories are usually compiled, (1) original cost; (2) reproduction cost; (3) liquidating value. There is another base not mentioned by him which is sometimes preferable to any of the three named, viz., value to the owner in his going business. This going value is applicable to materials and supplies as well as to equipment, although with limitations. Numerous instances will occur to the reader. The complement of this fact is seen in the losses resulting from fire, flood, theft, etc., due to the interruption of business. In every going business the materials and supplies on hand have a maximum value for the business as great as the loss which would be entailed by their sudden destruction. For example, coal on hand is worth to factories and public utilities wholly dependent on it for their operations the replacement cost plus the direct and indirect loss which would be entailed by a short shut-down during the time required for replacement. Although this is a real value which should not be lost sight of in the search for a scientific minimum it would not be a proper base for an inventory. But in most lines of business there is material and equipment which has substantial service value which might well be included in the inventory of a going concern even though its cost has been written off and its selling value is negligible. In such a case a distinction might be made between the complete inventory and the balance-sheet inventory. For example, from the standpoint of conservatism it is very commendable practice for a manufacturing company owning valuable patents to write them all down to one dollar. But that is not very satisfactory to the stockholder to whom the reports are made. He wants to know the fair appraisal of this going value and so be prepared to compare the value of his ownership in one company with that in another. The same principle applies to all intangibles.

The fundamental rule, one of common sense, should be this: The base to be used in an inventory is usually the one which is related to the immediate future of the property. If the business is to be liquidated and the physical property disposed of as scrap, then evidently scrap value should be used. If the business is permanent and there is no near prospect of replacement, the depreciated cost generally should be used. If replacement is within sight, the replacement value—less depreciation—should be used. But if there is doubt about the continuation of the business the inventory should be on the two bases of going value and liquidating value.

In my own practice I had the case of a picture business which had no accounting system and no inventory. It was known only that the working capital had disappeared and embarrassment was threatening. Should the business be continued or liquidated? The answer depended on the inventory, and the inventory value depended on the base used. Original cost, reproduction cost and selling price would each be unobtainable except by a very rough estimate, and the results of the three would have ranged very widely and would have led to opposite conclusions. The value of the inventory to the business itself as a going concern supplying regular commercial customers was plainly indicated as the proper base. This inventory indicated no profit, and consequently the business was liquidated.

I do not undervalue the advantages of uniformity in methods and nomenclature. It would be a great advantage to have all inventories made at cost or market whichever was the lower; but this is a case, it appears to me, where the attainment of the advantage of uniformity is not feasible without sacrificing much more than is gained. A foot-note will generally serve to unite the advantages of standard practice and the adaptation of the inventory base to the immediate circumstances.