

University of Mississippi

eGrove

---

Deloitte, Haskins and Sells Publications

Deloitte Collection

---

1-1-1978

## Accounting practices 1978--Forest products industry : illustrative items of current interest from published annual reports

Deloitte, Haskins & Sells

Follow this and additional works at: [https://egrove.olemiss.edu/dl\\_dhs](https://egrove.olemiss.edu/dl_dhs)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Deloitte, Haskins & Sells, "Accounting practices 1978--Forest products industry : illustrative items of current interest from published annual reports" (1978). *Deloitte, Haskins and Sells Publications*. 29. [https://egrove.olemiss.edu/dl\\_dhs/29](https://egrove.olemiss.edu/dl_dhs/29)

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Deloitte, Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# Accounting Practices 1978 – Forest Products Industry

Illustrative Items of Current Interest  
from Published Annual Reports

# Accounting Practices 1978 – Forest Products Industry

Illustrative Items of Current Interest  
from Published Annual Reports



## INTRODUCTION

This survey of the 1977 annual reports to shareholders and the replacement cost disclosures included in the 1977 Annual Reports to the Securities and Exchange Commission on Form 10-K for twenty-five companies in the forest products industry is designed to assist our professional personnel in finding examples of accounting practices and disclosure techniques used by forest product companies.

The twenty-five companies included in this survey were selected based on a composite evaluation of several general business and industry rankings of domestic companies in the forest products industry. Certain of the selected companies have significant operations not only in the forest products industry but in other lines of business as well.

The illustrations shown herein do not necessarily represent authoritative support for the underlying accounting procedures or reporting practices, and their status must be considered in view of recent pronouncements and interpretations of the Financial Accounting Standards Board, the Securities and Exchange Commission, and the American Institute of Certified Public Accountants which could affect the manner in which certain items are reflected or disclosed.

Although this survey is intended principally for internal reference purposes by personnel of Deloitte Haskins & Sells, it may be made available to persons outside the Firm having an interest in the accounting practices and reporting techniques of companies in the forest products industry.

DELOITTE HASKINS & SELLS

September 1978

FOREST PRODUCTS INDUSTRY

SURVEY OF  
ACCOUNTING PRACTICES AND REPORTING TECHNIQUES\*

INDEX

	<u>Page</u>
COMPANIES INCLUDED IN SURVEY.....	3
<u>ANNUAL REPORTS TO SHAREHOLDERS</u>	
ACCOUNTING POLICIES:	
Summary of Accounting Policy Disclosures.....	4
Consolidation.....	7
Foreign Currency Translation.....	10
Inventories.....	13
Property and Related Depreciation.....	21
Timber and Timberlands.....	27
Intangibles.....	32
Research and Development Expenditures.....	36
Retirement and Pension Plans.....	38
Income Taxes.....	46
Extraordinary Items.....	57
Lease Information Disclosure.....	58
1977 ACCOUNTING CHANGES.....	68
SEGMENT REPORTING.....	73
DISCLOSURE OF SELECTED QUARTERLY FINANCIAL DATA.....	80
REPLACEMENT COST DISCLOSURES IN THE ANNUAL REPORT TO SHAREHOLDERS.....	88
SELECTED FINANCIAL STATISTICS (Survey weighted average):	
Ratios and Percentages.....	93
. Current Ratio	
. Acid Test Ratio	
. Accounts Receivable Turnover Ratio	
. Fixed Assets to Long-Term Debt Ratio	
. Equity to Long-Term Debt Ratio	
. Price Earnings Ratio	
. Doubtful Accounts Receivable Percentage	
. Equity as a Percentage of Total Assets	
. Return on Invested Capital	
. Profit Margin	
SELECTED BALANCE SHEET ITEMS AS A PERCENTAGE OF TOTAL ASSETS....	94
<u>ANNUAL REPORTS ON FORM 10-K</u>	
REPLACEMENT COST DISCLOSURES.....	95

\*To facilitate comparison with 1977 disclosures the 1976 information has been adjusted to reflect the mergers of Hoerner Waldorf Corporation and Southland Paper Mills, Inc. into other forest products companies.

COMPANIES INCLUDED IN SURVEY

	1977.....			RANK WITHIN SURVEY			RANK IN FORTUNE 1,000....		
	NET SALES	TOTAL ASSETS	INCOME	NET SALES	TOTAL ASSETS	INCOME	NET SALES	TOTAL ASSETS	INCOME
Boise Cascade Corporation.....	\$2,315.8	\$1,799.0	\$115.6	6	7	7	107	107	104
Champion International Corporation.....	3,442.3	2,464.7	138.6	4	5	5	68	66	82
Chesapeake Corporation of Virginia.....	151.7	167.2	10.3	25	25	24	820	611	603
Consolidated Papers, Inc.....	332.6	239.8	26.4	23	23	20	516	499	356
The Continental Group, Inc.....	3,660.9	2,723.8	143.8	3	4	4	58	60	76
Crown Zellerbach Corporation.....	2,307.2	1,736.2	109.2	7	8	9	108	114	116
Diamond International Corporation.....	978.8	636.2	46.9	14	17	18	245	264	245
Federal Paper Board Company, Inc.....	397.3	339.5	13.8	21	22	23	457	393	533
Fibreboard Corporation.....	228.0	189.6	6.5	24	24	25	645	573	732
Georgia-Pacific Corporation.....	3,675.0	2,929.0	262.0	1	3	2	56	54	36
Great Northern Nekoosa Corporation.....	923.8	805.2	77.3	15	14	13	259	227	162
Hammermill Paper Company.....	787.0	532.6	19.6	17	18	21	289	301	430
International Paper Company.....	3,668.9	3,839.6	233.7	2	2	3	57	41	41
Kimberly-Clark Corporation.....	1,725.5	1,651.3	130.7	10	9	6	146	118	88
Louisiana-Pacific Corporation.....	794.5	678.2	60.1	16	15	16	286	251	205
The Mead Corporation.....	1,821.8	1,374.0	98.0	9	11	12	138	146	134
Olinkraft, Inc.....	381.2	460.4	34.6	22	20	19	473	330	304
Pottlatch Corporation.....	688.4	669.4	61.8	18	16	15	305	254	195
St. Regis Paper Company.....	1,996.3	1,927.4	106.8	8	6	10	129	96	122
Scott Paper Company.....	1,520.2	1,589.5	99.2	11	10	11	168	122	132
Southwest Forest Industries, Inc.....	610.3	397.3	16.1	20	21	22	336	358	488
Union Camp Corporation.....	1,081.7	1,130.1	114.7	12	12	8	225	169	106
Westvaco Corporation.....	1,000.6	885.7	61.9	13	13	14	241	210	194
Weyerhaeuser Company.....	3,282.8	4,038.0	303.9	5	1	1	74	40	33
Willamette Industries, Inc.....	653.0	502.8	48.1	19	19	17	319	310	242

(In millions of dollars)

SUMMARY OF ACCOUNTING POLICY DISCLOSURES

ACCOUNTING PRINCIPLES BOARD OPINION NO. 22

Accounting Principles Board Opinion No. 22 recommends that a section entitled "Summary of Significant Accounting Policies", or similar terminology, be included as an integral part of the financial statements. The Board suggested disclosing this section preceding the notes to the financial statements or as the initial note.

DISCLOSURE FORMAT

The following summarizes the presentations shown in the annual reports of the companies included in the survey:

	Number of Companies	
	1977	1976
Summary precedes the notes.....	5	7
Summary is the initial note.....	20	18

ACCOUNTING POLICIES DISCLOSED

The determination as to what accounting policies are to be disclosed will depend primarily on the individual significance of such policy as it relates to the financial position of the company.

The following accounting policies were disclosed by the twenty-five companies who presented a "Summary of Significant Accounting Policies":

	Number of Companies	
<u>Accounting Policy</u>	<u>Specific Title Used</u>	<u>Policy Disclosed</u>
Acquisitions and dispositions of property.....	2	18
Advertising and promotion.....	1	1
Amortization of leasehold improvements.....	-	3
Audit Committee.....	1	1
Business segments.....	1	1
Capital gains.....	1	2
Capitalized interest on funds borrowed for major asset construction.....	3	9
Consolidation.....	21	25
Deferred charges.....	2	4
Depreciation, depletion, amortization, cost of timber harvested and/or stumpage.....	9	23
Earnings per share.....	17	17
Foreign currency translation.....	4	6
Gain and loss on forward exchange contracts...	-	1

ACCOUNTING POLICIES DISCLOSED - (Continued)

	<u>Number of Companies</u>	
	<u>Specific Title Used</u>	<u>Policy Disclosed</u>
Goodwill or intangibles.....	4	11
Income taxes.....	19	20
Inventories.....	22	23
Investments.....	4	14
Investment credit.....	2	21
Leases.....	-	4
Pensions, retirement and/or profit sharing plans.....	13	14
Property, plant and equipment.....	16	20
Replacement cost.....	1	-
Research and development.....	6	7
Start-up and/or pre-operating expenses.....	4	10
Stock options and warrants.....	1	2
Timber and timberlands.....	6	16

SCOTT PAPER COMPANY

Except for its principles of consolidation, Scott Paper Company did not present its accounting policies together as a group but rather included its policies throughout the financial review section of its Annual Report. The following disclosure was made by Scott under the heading of "Accounting Policies":

Accounting Policies

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of all wholly-owned domestic and Canadian subsidiaries and Scott's share of the earnings of affiliates. These companies, including Scott's percentage of ownership, are listed on page 32 of this report.

Scott uses the equity method of accounting for its investments in affiliates. Under this method, as investments are made in affiliates, they are recorded at cost and subsequently adjusted each period to recognize Scott's share of the undistributed earnings of each affiliate. Scott's net investment in affiliates is shown as a separate item on the balance sheet and is shown in detail on page 25.

**OTHER ACCOUNTING POLICIES:** Other significant accounting policies are included in the section of the Financial Review to which they apply. These include Scott's accounting policies for taxes on income, leases, pension plans, inventories, capital expenditures, depreciation, cost of timber harvested and amortization.



CHANGES IN ACCOUNTING PRINCIPLES: In 1977, the Company changed its methods of accounting for investment tax credits and for capital leases. A description of these changes can be found in the sections of the Financial Review relating to Deferred Income Taxes and Investment Credits and Leases.

\* \* \* \* \*

Excerpts of other accounting policy disclosures are given in other sections of this survey.

## CONSOLIDATION

### DISCLOSURE OF CONSOLIDATION POLICY

All of the companies in the survey described their consolidation policy in the "Summary of Significant Accounting Policies" section.

### OPERATIONS NOT CONSOLIDATED

Generally the companies consolidated all of their significant, majority-owned subsidiaries except that certain companies did not consolidate:

- (a) Certain foreign operations  
Union Camp Corporation
- (b) Construction operations  
Weyerhaeuser Company
- (c) Financial operations  
The Continental Group, Inc.  
International Paper Company  
Weyerhaeuser Company
- (d) Real estate or land development operations  
Champion International Corporation  
Fibreboard Corporation  
International Paper Company  
Potlatch Corporation  
Weyerhaeuser Company  
Union Camp Corporation
- (e) Short line railroads  
Olinkraft, Inc.

Three companies stated that foreign subsidiaries' financial statements are consolidated or foreign investments are accounted for by the equity method as of a date other than the parent company's year-end:

- One-month lag for international affiliates
  - . Scott Paper Company
- One-month lag for certain subsidiaries
  - . Champion International Corporation
  - . Olinkraft, Inc.

The following are excerpts of consolidation policies disclosed by selected companies in their Notes to Financial Statements:

#### KIMBERLY-CLARK CORPORATION

**BASIS OF PRESENTATION.** The consolidated financial statements include the accounts of Kimberly-Clark Corporation (Parent Company) and all significant subsidiaries more than 50 percent owned and controlled by Kimberly-Clark Corporation. These subsidiaries are referred to as consolidated subsidiaries.

Kimberly-Clark Corporation uses the equity method of accounting with respect to significant companies whose operating and financial policies are significantly influenced by Kimberly-Clark Corporation, but only if such companies are at least 20 percent owned and are not consolidated subsidiaries. These companies are referred to as equity companies. The consolidated financial statements include Kimberly-Clark Corporation's share of net income of equity companies. Investments in such companies are stated on the equity basis.

Kimberly-Clark Corporation's investment in companies which are neither consolidated subsidiaries nor equity companies are stated at cost and included in other assets. Income from these companies is included in consolidated net income only as dividends are received.

#### OLINKRAFT, INC.

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include all domestic and foreign subsidiaries except two short line railroads carried at equity. The accounts of subsidiaries outside the United States have been consolidated based on fiscal years ending in November. All significant intercompany balances and transactions have been eliminated in consolidation.

#### ST. REGIS PAPER COMPANY

**CONSOLIDATION.** The consolidated financial statements include the accounts of St. Regis Paper Company and all significant majority-owned subsidiaries. Prior years' financial statements have been restated for the acquisition of Southland Paper Mills, Inc., treated as a pooling of interests. The consolidated statements reflect the elimination of intercompany items.

#### WILLAMETTE INDUSTRIES, INC.

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include the accounts of all majority-owned subsidiaries, and all material intercompany balances and transactions have been eliminated upon consolidation.

Investments in 50%-owned companies are accounted for on the equity method of accounting and are included in the consolidated balance sheets at the equity in underlying net assets of those companies. The assets of Brooks-Willamette Corporation which was 50%-owned, were divided between the stockholders on March 31, 1977. The Company acquired the particle-board operation at Bend, Oregon and Mobol Products, Inc. in Wilsonville, Oregon. The other stockholder acquired the lumber and plywood manufacturing facility at Redmond, Oregon. The remaining 50% interest in WesCor Corporation was acquired in the acquisition of Corco, Inc. on May 27, 1977 with the issuance of 522,934 shares of the Company's common stock. In addition to the investment in WesCor Corporation, Corco, Inc. operated five corrugated container plants in Ohio, West Virginia, Kentucky, Indiana and Michigan.

The division of the assets of Brooks-Willamette Corporation, and the acquisition of Corco, Inc. were accounted for on the purchase basis of accounting, and the earnings therefrom have been included in the accompanying statement of earnings since their respective dates of acquisition. Proforma results for the entire year with comparative figures for 1976, as if the companies had been combined during these periods, would not show significant differences.

## FOREIGN CURRENCY TRANSLATION

### TRANSLATION POLICY DISCLOSURE

Six of the twenty-five companies included in the survey continued to disclose their foreign currency translation policies even though FASB Statement No. 8 established uniform standards for translation of foreign currency transactions and foreign currency financial statements. This represented a reduction of one company as compared to the prior year report disclosures.

### EXCHANGE RATES USED

The exchange rates used to translate revenue and expense accounts by the six companies that disclosed their foreign currency translation policies are as follows:

	<u>Number of Companies</u>
Average of rates in effect during the year.....	5
Rates in effect during each month.....	1

All six companies indicated that income and expenses relating to assets and liabilities converted at historical rates of exchange were also converted at such rates.

### DISCLOSURE OF EXCHANGE GAINS AND LOSSES INCLUDED IN DETERMINING INCOME

Foreign exchange gains and losses included in net earnings were disclosed by the following seven companies in a footnote other than the "Summary of Significant Accounting Policies":

- . Champion International
- . Crown Zellerbach Corporation
- . International Paper Company
- . Kimberly-Clark Corporation
- . St. Regis Paper Company
- . Scott Paper Company
- . Westvaco Corporation

\* \* \* \* \*

Some excerpts of policies disclosed relating to the translation of foreign currency financial statements follow:

## DIAMOND INTERNATIONAL CORPORATION

### Accounting Policy

Accounts of foreign subsidiaries have been translated into U.S. dollars at approximate year-end exchange rates for current assets (excluding inventories), current liabilities and long-term debt; at historical exchange rates for inventories, depreciation and noncurrent assets; and at average exchange rates during the year for income and expenses (excluding inventories and depreciation). Translation gains and losses (which have not been material) are charged or credited to income currently.

## KIMBERLY-CLARK CORPORATION

### Accounting Policy

CURRENCY TRANSLATION. Marketable equity securities; property, plant and equipment; other assets and deferred income taxes of operations outside the U.S. are translated into U.S. dollars at rates of exchange in effect when acquired. Inventories are translated and valued so as to reflect the lower of cost or market in U.S. dollars. All other assets and liabilities are translated at rates of exchange in effect at the close of the period. Income and expense accounts are translated at rates of exchange in effect each month, except that income and expense accounts which relate to assets and liabilities translated at historical rates are translated on the same basis as the related assets and liabilities.

Gains and losses on forward exchange contracts used as hedges against purchase or sale commitments are deferred until the contracts are completed. Other exchange gains and losses are included in the determination of income for the period in which the translation rates changed.

### Currency Translation Footnote

Exchange losses reduced consolidated net income \$4.6 million and \$1.2 million in 1977 and 1976, respectively. These losses reflect the effect of changes in currency exchange rates on the translation of balance sheets of consolidated subsidiaries and equity companies. They also reflect the impact of rate changes on the settlement of commitments and receivables which are denominated in currencies other than that of the country in which an operation is located.

## SCOTT PAPER COMPANY

### International Affiliate Earnings Footnote

Scott's share of the earnings of its International Affiliates for 1977 was \$14,994,000, an increase of \$10,159,000. Changes in foreign currency relationships, which had a major negative effect on 1976 earnings

had only a minor impact on 1977 results. In 1976, earnings included exchange gains of \$5,921,000 from the translation of foreign currency financial statements and a loss of \$8,925,000 caused by consuming higher valued inventories translated at prior exchange rates. In 1977, there was an exchange loss of \$780,000 while the effect on inventories was a gain of \$61,000. The earnings by geographic region are shown below.

	.....(Thousands).....		
	.....1977.....		
	Earnings		
	Before	Exchange	Total
	Exchange	Adjustment	Earnings
Europe.....	\$ 5,991	\$(1,085)	\$ 4,906
Far East.....	6,379	(2,114)	4,265
Latin America.....	1,863	1,504	3,367
Canada.....	1,541	915	2,456
	<u>\$15,774</u>	<u>\$ (780)</u>	<u>\$14,994</u>

	.....(Thousands).....		
	.....1976.....		
	Earnings		
	Before	Exchange	Total
	Exchange	Adjustment	Earnings
Europe.....	\$(5,297)	\$3,966	\$(1,331)
Far East.....	3,722	1,460	5,182
Latin America.....	(2,013)	125	(1,888)
Canada.....	2,502	370	2,872
	<u>\$(1,086)</u>	<u>\$5,921</u>	<u>\$ 4,835</u>

European affiliates recorded the most significant improvement over 1976 due principally to higher sales volume and manufacturing cost gains by affiliates in Belgium and France. Exchange losses in the Far East were a result of the strengthening in 1977 of both the Australian dollar and the Japanese yen relative to the U.S. dollar. The improvement in Latin America was primarily in Mexico. The devaluation of the Mexican peso was the major factor in the negative performance in 1976 while substantial gains in operations marked 1977 performance.

#### ST. REGIS PAPER COMPANY

#### Foreign Activities Footnote

Foreign-exchange losses resulting from translation of foreign-currency transactions and foreign-currency financial statements into U.S. dollar equivalents amounted to \$2,800,000 in 1977 and \$3,400,000 in 1976, including foreign-exchange gains of \$3,000,000 in 1977 and \$800,000 in 1976 related to non-consolidated affiliates carried at cost plus equity in undistributed earnings.

INVENTORIES

Accounting Research Study No. 13, "The Accounting Basis of Inventories", and Accounting Principles Board Opinion No. 22, "Disclosure of Accounting Policies", set forth recommended disclosures for the reporting of inventories. Such recommendations include the accounting basis for inventories, the inventory costing method used, and disclosure of the effect of using LIFO (if used).

INVENTORY VALUATION AND COSTING METHOD DISCLOSURES

All companies included in the survey valued their inventories at the lower of cost or market.

Only one of the companies disclosed a liquidation of a portion of their LIFO inventories which resulted in an increase in net income.

Twenty-one companies disclosed the use of the last-in, first-out (LIFO) method of costing inventories for at least a part of their inventories.

The principal inventory costing methods used and disclosed by companies in their 1977 and 1976 reports are summarized as follows:

<u>COSTING METHOD</u>	<u>RAW MATERIALS</u>		<u>WORK IN PROCESS</u>		<u>FINISHED GOODS</u>		<u>PULP &amp; PULPWOOD</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
	(Number of companies)							
First-in, first-out (FIFO).....	1	-	1	-	1	-	-	-
Last-in, first-out (LIFO)	10	10	9	9	9	9	11	11
Average.....	7	4	3	3	6	3	5	3
Estimated cost.....	-	-	1	1	1	1	1	-
Combination of two or more of the above.....	7	11	10	12	8	12	8	10
Not disclosed.....	-	-	1	-	-	-	-	1



DISCLOSURE OF THE EFFECT OF APPLYING ALTERNATIVE METHODS  
OF INVENTORY COSTING TO LIFO INVENTORIES

The effect of applying an alternative method of inventory costing to the LIFO portion of inventories was disclosed by twenty-one companies as summarized below:

<u>ALTERNATIVE METHOD</u>	<u>LIFO PORTION OF INVENTORY</u>	1977 YEAR END INVENTORY WOULD INCREASE .....BY.....		1976 YEAR END INVENTORY WOULD INCREASE .....BY.....	
		<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>	<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>
<u>FIFO Alternative</u>					
International Paper Company.....	Raw materials, pulp and paper pro- ducts, lumber and certain operating supplies	\$113,000	31.0%	\$108,000	31.1%
Olinkraft, Inc.....	51% for 1977 and 57% for 1976 of total inventories	9,561	21.5	6,221	14.0
Union Camp Corpora- tion.....	Finished goods and raw materials	30,066	26.3	25,960	22.4
Weyerhaeuser Company.	Substantially all domestic raw materials, work in process and finished goods inventories	116,002	29.1	84,081	21.2
<u>Replacement Cost Alternative</u>					
Chesapeake Corpora- tion.....	All significant product and manufacturing materials (approximately 48% for 1977 and 52% for 1976)	1,286	7.7	1,589	10.3
Crown Zellerbach Corporation.....	Domestic distribu- tion inventories	14,034	4.5	11,966	4.1

<u>ALTERNATIVE METHOD</u>	<u>LIFO PORTION OF INVENTORY</u>	1977 YEAR END INVENTORY WOULD INCREASE .....BY.....		1976 YEAR END INVENTORY WOULD INCREASE .....BY.....	
		<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>	<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>
<u>Replacement Cost</u>					
<u>Alternative -</u>					
<u>(Continued)</u>					
Diamond International Corporation.....	Approximately 35% for 1977 and 40% for 1976 of the cost valuation of domestic inventories	\$ 31,263	22.7%	\$ 25,617	20.2%
Great Northern Nekoosa Corporation	Substantially all eligible inventories	26,400	27.7	24,900	25.7
Hammermill Paper Company.....	Approximately 55% for 1977 and 60% for 1976 of total inventories	31,650	30.5	28,094	30.1
Kimberly-Clark Corporation.....	Nearly all U.S. inventories which qualify to be valued at cost (approximately 33% for 1977 and 35% for 1976)	54,000	20.4	53,000	21.4
The Mead Corporation.	Finished and semi-finished products, and raw materials	92,318	41.1	80,681	53.6
Potlatch Corporation.	Most solid wood products (approximately 19% for 1977 and 29% for 1976)	23,090	29.4	19,279	23.3
Scott Paper Company..	Substantially all inventories	57,300	31.7	47,942	29.1

<u>ALTERNATIVE METHOD</u>	<u>LIFO PORTION OF INVENTORY</u>	1977 YEAR END INVENTORY WOULD INCREASE .....BY.....		1976 YEAR END INVENTORY WOULD INCREASE .....BY.....	
		<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>	<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>
<u>Replacement Cost</u> <u>Alternative -</u> <u>(Continued)</u>					
The Continental Group, Inc.....	All inventories	\$298,000	64.9%	\$239,000	61.5%
Westvaco Corporation.	Raw materials, finished goods and certain production materials	36,641	28.5	32,515	27.8
<u>Average Cost</u> <u>Alternative</u>					
Champion Inter- national.....	24% for 1977 and 14% for 1976 at LIFO	60,718	15.1	33,690	8.0
Consolidated Papers, Inc.....	Pulpwood inven- tories (approxi- mately 9% for 1977 and 1976)	2,008	5.1	1,849	4.7
Georgia-Pacific Corporation.....	Majority of inven- tories at manu- facturing facili- ties (approxi- mately 35% for 1977 and 36% for 1976)	40,000	8.9	33,500	7.9
Louisiana-Pacific Corporation.....	All inventories	43,860	33.8	32,360	26.3

<u>ALTERNATIVE METHOD</u>	<u>LIFO PORTION OF INVENTORY</u>	1977 YEAR END INVENTORY WOULD INCREASE .....BY.....		1976 YEAR END INVENTORY WOULD INCREASE .....BY.....	
		<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>	<u>AMOUNT</u> (000's omitted)	<u>PER- CENT- AGE</u>
<u>Average Cost</u>					
<u>Alternative -</u>					
<u>(Continued)</u>					
St. Regis Paper Company.....	Domestic pulp, paper and paper- board inven- tories	\$ 11,000	4.5%	\$ 12,000	5.9%
Willamette Indus- tries, Inc.....	All major classes of inventory (approximately 82% for 1977 and 86% for 1976)	22,758	42.4	19,805	40.6

The following are excerpts of inventory disclosures made by certain of the companies included in the survey:

DIAMOND INTERNATIONAL CORPORATION

Inventories Footnote

Inventories, classified by lines of business adopted for reporting in 1977, consisted of the following (in thousands of dollars):

	December 31,	
	1977	1976
Lumber.....	\$ 15,633	\$ 18,345
Retail.....	24,462	17,914
Packaging.....	44,805	40,455
Pulp and Paper.....	23,421	20,473
Specialty Printing.....	15,578	16,420
Other.....	13,892	13,217
Total.....	<u>\$137,791</u>	<u>\$126,824</u>

Since a significant portion of the inventory valuation is determined under LIFO using the dollar value method for natural business unit pools, it is impracticable to separate inventories into the finished goods, work in process and raw materials components.

If all inventories valued on the LIFO basis were valued at current costs, inventories would be \$31,263,000 and \$25,617,000 greater at December 31, 1977 and 1976, respectively.

HAMMERMILL PAPER COMPANY

Inventories Footnote

Inventories are valued at the lower of cost or market. Cost is determined as follows:

	<u>1977</u>	<u>1976</u>
	(Thousands of dollars)	
Current cost of LIFO classes.....	\$ 88,433	\$83,168
Less excess of current cost over LIFO inventory value.....	31,650	28,094
	<u>56,783</u>	<u>55,074</u>
Average current cost and other.....	46,852	38,190
	<u>\$103,635</u>	<u>\$93,264</u>

POTLATCH CORPORATION

Inventories Footnote

Inventory components are valued at the balance sheet dates as follows:

	<u>1977</u>	<u>1976</u>
Logs, pulpwood, chips, and sawdust.	\$10,698,577	\$20,483,862
Lumber and other manufactured wood products.....	10,728,193	8,996,928
Pulp, paper, and converted paper products.....	34,942,626	34,193,626
Materials and supplies.....	<u>22,115,499</u>	<u>19,179,777</u>
	<u>\$78,484,895</u>	<u>\$82,854,193</u>
Valued at lower of cost or market:		
First-in, first-out basis.....	\$ 6,966,975	\$ 7,356,919
Last-in, first-out basis.....	14,525,431	23,773,907
Average cost basis.....	<u>56,992,489</u>	<u>51,723,367</u>
	<u>\$78,484,895</u>	<u>\$82,854,193</u>

If the last-in, first-out inventory had been priced at current cost, the values would have been \$23,090,000 higher at December 31, 1977, and \$19,279,000 higher at December 31, 1976. In 1977, reductions in quantities of LIFO inventories valued at lower costs prevailing in prior years had the effect of increasing net earnings by approximately \$2,484,000 (\$.16 per share). There was no significant liquidation of LIFO inventory layers in 1976.

The above inventory balances were used in calculating cost of sales. The opening balance for 1976 was \$75,863,808.

ST. REGIS PAPER COMPANY

Accounting Policy

INVENTORIES. Inventories are stated at the lower of cost or market. Cost generally represents average cost except for domestic pulp, paper, and paperboard inventories, which are valued at cost determined on the last-in, first-out method. In general, for raw materials and supplies, market represents the current purchase or reproduction cost; for finished products, market represents the selling price less related selling and shipping expenses.

Inventories Footnote

St. Regis uses the last-in, first-out (LIFO) method of valuing domestic pulp, paper, and paperboard inventories. Had all inventories currently on LIFO been valued on an average-cost basis, which approximates replacement cost, inventories would have been approximately \$11,000,000 higher at December 31, 1977, and \$12,000,000 higher at December 31, 1976. Inventories consisted of:

	<u>1977</u>	<u>1976</u>
Finished products.....	\$ 88,212,000	\$ 77,193,000
Work in process.....	16,920,000	14,201,000
Raw materials and supplies.....	121,973,000	105,803,000
Logging operations in progress...	18,062,000	15,545,000
Total.....	<u>\$245,167,000</u>	<u>\$212,742,000</u>

WESTVACO CORPORATION

Accounting Policy

INVENTORIES. All inventories for which the last-in, first-out (LIFO) method is allowable for Federal income tax purposes, including raw materials, finished goods and certain production materials, are valued at cost (below market) determined by that method. All other inventories are valued at cost (below market) determined by the first-in, first-out (FIFO) or average cost method.

Inventories Footnote

Inventories at October 31 are composed of:

	<u>1977</u>	<u>1976</u>
	in thousands	
At current cost:		
Pulpwood and pulp.....	\$ 21,156	\$ 17,199
Paper and paper products.....	86,452	85,497
Production materials, supplies and other items.....	57,746	46,759
	<u>165,354</u>	<u>149,455</u>
Excess of current cost over LIFO inven- tory value.....	<u>36,641</u>	<u>32,515</u>
	<u>\$128,713</u>	<u>\$116,940</u>

PROPERTY AND RELATED DEPRECIATION

REPORTING FORMAT

Plant, property, and equipment, as presented in the annual reports to shareholders of the twenty-five companies surveyed, was shown as a single balance sheet item by six of the companies. All of the companies surveyed presented timber and timberlands in the balance sheet, with fifteen of such companies grouping timber and timberlands with plant, property, and equipment.

DEPRECIATION METHODS

The straight-line method for depreciation of property, plant, and equipment was used by fifteen companies. Ten companies disclosed the use of both the straight-line and unit-of-production methods for computing depreciation.

DEPRECIATION RATE COMPARISONS

<u>Company</u>	Percentage of depreciation, depletion and amortization expense to gross fixed .....assets.....		Rank Within Survey	
	1977	1976	1977	1976
Boise Cascade Corporation.....	5.55%	5.39%	8	9
Champion International Corporation...	5.03	4.84	14	18
Chesapeake Corporation of Virginia...	6.72	6.59	2	2
Consolidated Papers, Inc.....	4.28	4.15	21	21
The Continental Group, Inc.....	5.65	6.15	6	5
Crown Zellerbach Corporation.....	5.41	6.10	9	6
Diamond International Corporation....	5.76	5.04	4	13
Federal Paper Board Company, Inc.....	5.64	5.08	7	12
Fibreboard Corporation.....	5.31	6.16	11	4
Georgia-Pacific Corporation.....	5.68	5.72	5	7
Great Northern Nekoosa Corporation...	5.04	5.25	13	11
Hammermill Paper Company.....	4.39	4.08	20	22
International Paper Company.....	4.57	5.31	17	10
Kimberly-Clark Corporation.....	3.23	3.37	25	25
Louisiana-Pacific Corporation.....	11.68	9.94	1	1
The Mead Corporation.....	4.96	4.72	15	19
Olinkraft, Inc.....	4.43	4.92	18	17
Potlatch Corporation.....	3.85	6.43	23	3
St. Regis Paper Company.....	4.12	4.06	22	23
Scott Paper Company.....	5.24	4.22	12	20
Southwest Forest Industries, Inc.....	5.35	4.97	10	16
Union Camp Corporation.....	3.66	3.99	24	24
Westvaco Corporation.....	4.40	5.03	19	14
Weyerhaeuser Company.....	5.85	5.68	3	8
Willamette Industries, Inc.....	4.87	4.99	16	15



<u>Company</u>	Accumulated depreciation as a percentage of gross fixed assets		Rank Within Survey	
	1977	1976	1977	1976
	Boise Cascade Corporation.....	33.26%	37.43%	17
Champion International Corporation...	35.78	42.25	16	13
Chesapeake Corporation of Virginia...	35.24	44.27	15	11
Consolidated Papers, Inc.....	48.66	52.14	1	4
The Continental Group, Inc.....	48.05	53.81	2	1
Crown Zellerbach Corporation.....	41.25	48.83	9	6
Diamond International Corporation....	48.04	49.18	3	5
Federal Paper Board Company, Inc....	31.52	36.57	21	23
Fibreboard Corporation.....	44.68	47.52	6	7
Georgia-Pacific Corporation.....	32.32	36.58	19	22
Great Northern Nekoosa Corporation...	43.50	43.65	7	12
Hammermill Paper Company.....	39.55	41.37	12	14
International Paper Company.....	41.69	45.48	8	9
Kimberly-Clark Corporation.....	37.78	40.70	14	17
Louisiana-Pacific Corporation.....	27.90	33.44	24	24
The Mead Corporation.....	41.19	44.94	10	10
Olinkraft, Inc.....	29.55	40.16	22	18
Potlatch Corporation.....	31.91	37.59	20	20
St. Regis Paper Company.....	45.58	52.25	4	3
Scott Paper Company.....	39.88	40.86	13	16
Southwest Forest Industries, Inc....	28.23	27.23	23	25
Union Camp Corporation.....	40.92	46.99	11	8
Westvaco Corporation.....	44.90	52.81	5	2
Weyerhaeuser Company.....	32.93	39.93	18	19
Willamette Industries, Inc.....	27.10	41.14	25	15

#### CAPITALIZATION AND RETIREMENT POLICIES

Twenty companies specifically stated that normal maintenance and repairs were expensed and that betterments and renewals were capitalized.

Twenty-one companies indicated the accounting treatment used for reporting gains and losses realized on retirements of property, plant and equipment:

(a) All gains and losses included in income currently

Boise Cascade Corporation  
Champion International Corporation  
Chesapeake Corporation of Virginia  
Consolidated Papers, Inc.  
Diamond International Corporation  
Federal Paper Board Company Inc.  
Fibreboard Corporation  
Great Northern Nekoosa Corporation  
Hammermill Paper Company

Kimberly-Clark Corporation  
 Olinkraft, Inc.  
 Potlatch Corporation  
 Southwest Forest Industries, Inc.  
 Union Camp Corporation  
 Westvaco Corporation  
 Willamette Industries, Inc.

(b) Gains and losses on retirement of complete units included in income and on normal retirements applied to accumulated depreciation

Georgia-Pacific Corporation  
 St. Regis Paper Company  
 Weyerhaeuser Company

(c) Gains and losses from routine retirements or sales of plant assets are applied to reserve account

Scott Paper Company  
 Louisiana-Pacific Corporation

CAPITALIZATION OF INTEREST

Ten companies of the twenty-five companies surveyed disclosed a policy of capitalizing interest incurred to finance construction projects during the construction period. Seven of the ten companies disclosed the amount of interest capitalized during 1977, as follows:

<u>Name of Company</u>	Interest Capitalized During 1977	Ratio of Capitalized Interest to Income Before Income Taxes
(in thousands)		
Champion International Corporation.....	\$ 4,900	2%
The Continental Group, Inc.....	5,400	3
Georgia-Pacific Corporation.....	18,000	4
Louisiana-Pacific Corporation.....	530	1
Olinkraft, Inc.....	2,700	6
Union Camp Corporation.....	8,800	5
Weyerhaeuser Company.....	623	1

Boise Cascade Corporation and Southwest Forest Industries, Inc. both stated that they capitalize interest during construction but that the dollar amounts for 1977 were insignificant.

\* \* \* \* \*

Following are excerpts of policies relating to property and depreciation of several of the companies surveyed.

## CONSOLIDATED PAPERS, INC.

### Accounting Policy

PLANT AND EQUIPMENT - Plant and equipment is recorded at cost and is depreciated over the estimated useful lives of the assets using principally the straight-line method for financial statement purposes and accelerated methods for tax purposes.

The cost and related accumulated depreciation of all plant and equipment retired or otherwise disposed of are removed from the accounts. Any gain or loss is included in earnings.

Maintenance and repair costs are charged to expense as incurred and renewals and improvements which extend the useful life of the assets are added to the plant and equipment accounts.

## INTERNATIONAL PAPER COMPANY

### Accounting Policy

PLANTS AND PROPERTIES are at cost. With regard to the Company's oil and gas properties, the Company follows the full-cost method of accounting under which all direct costs incurred in the acquisition, exploration, and development of oil and gas properties are capitalized. In December 1977, the Financial Accounting Standards Board (FASB) issued a statement that would require all oil and gas producing companies to follow a form of the successful efforts method of accounting for such costs. (See Note 14 for the estimated impact of this ruling on the Company's consolidated financial statements.)

Effective January 1, 1977, the Company adopted, for financial reporting purposes, the Unit of Production method of depreciating its pulp and paper mills in order to more directly relate depreciation charges to wear and tear on facilities. The effect of this change on 1977 net earnings is not significant. Further, had this method been used in prior years, both its cumulative effect through December 31, 1977, and its effect on net earnings for the year 1976 would not have been significant.

Depreciation on other plants and properties is computed principally on a straight-line method for financial reporting purposes, based upon estimated useful lives. Straight line depreciation rates, for financial reporting purposes, are as follows: buildings 2-1/2 percent; machinery and equipment 5 percent to 25 percent; woods equipment 10 percent to 16 percent.

When appropriate, additional depreciation is provided on particular assets to recognize reduction in the estimated economic lives of such assets. For tax purposes, depreciation is computed utilizing accelerated methods.

Depletion of oil and gas properties is determined on the basis of the percentage of the oil and gas revenues earned during the period to the total estimated future gross revenues from proven reserves.

#### SOUTHWEST FOREST INDUSTRIES, INC.

##### Accounting Policy

#### DEPLETION, AMORTIZATION, DEPRECIATION AND CAPITALIZATION

Depletion costs are recorded as timber is cut based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. Logging roads are amortized over their useful service lives as timber is harvested.

Provisions for depreciation on all significant wood products plants and related equipment are computed on the units-of-production method using composite rates based upon the estimated service lives of the various units of property. Effective January 1, 1977, the depreciation method at the Company's Snowflake, Ariz. paper mill was changed from straight-line to units-of-production. Depreciation of other plants and equipment is computed on the straight-line method using service lives of three to forty years.

Normal maintenance and repairs are charged to expense as incurred and renewals, betterments and replacements are capitalized. The Company's property accounts are, for the most part, maintained on an individual asset basis. The cost and related accumulated depreciation reserves of property replaced or disposed of are removed from the property and accumulated depreciation accounts and the resultant gain or loss is recognized.

The Company capitalizes interest during construction based upon the interest cost incurred on funds borrowed to finance construction projects. Amounts capitalized are charged to the property accounts and are amortized over the service life of the asset constructed. No material amounts of interest were capitalized in 1977 or 1976.

#### WILLAMETTE INDUSTRIES, INC.

##### Accounting Policy

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment is carried at cost and includes expenditures for new facilities and those which substantially increase the useful lives of existing plant and equipment. Plants which are leased under long-term lease arrangements were capitalized in 1977 in accordance with the 1977 Financial Accounting Standards Board statement on "Accounting for Leases". The cost of these plants is not significant in relation to the total investment in property, plant and equipment, nor did the adjustments made in 1977 to reflect retroactive application of the statement have a material impact on net earnings for the year.

Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is credited or charged to income.

Depreciation is computed using the straight-line method over the useful lives of the respective assets. Leasehold improvements are amortized over the terms of the respective leases.

Property, Plant and Equipment Footnote - Property, plant and equipment accounts are summarized as follows:

	Principal range of useful lives	.....December 31.....	
		1977	1976
Land.....	-	\$ 7,252,191	\$ 6,081,261
Building materials manufacturing facilities.....	10-25	113,744,917	95,829,890
Paper products manu- facturing and converting facil- ities.....	10-30	200,788,548	145,903,922
Furniture and fix- tures.....	5-15	2,709,428	2,471,657
Leasehold improve- ments, net.....	Life of Lease	1,141,562	1,123,236
Construction in pro- gress.....	-	9,128,136	16,191,707
		334,764,782	267,601,673
Accumulated depre- ciation.....		(136,768,659)	(110,092,623)
		<u>\$197,996,123</u>	<u>\$157,509,050</u>

Estimated cost to complete construction in progress is approximately \$17,600,000 including projects for which commitments have been made but not started at December 31, 1977.

## TIMBER AND TIMBERLANDS

### BALANCE SHEET PRESENTATION

The results of our survey showed that fifteen companies disclosed timberlands under the major caption "Property, Plant and Equipment" on the balance sheet in the annual report to shareholders. Ten companies set out timberlands separately on the balance sheet.

Of the twenty-five companies surveyed, twenty-three showed timberlands net of accumulated depletion in the balance sheet. Of these companies, one gave parenthetical disclosure of the dollar amount of accumulated depletion.

Two of the surveyed companies included timber and timberlands at gross cost and one included the related depletion with accumulated depreciation.

One company, St. Regis Paper Company, set out timberlands and cutting rights at gross cost and gave the accumulated depletion and amortization as a separate line item.

### DEPLETION METHODS DISCLOSED

Depletion methods disclosed by the companies included in the survey varied with respect to the terminology used but appeared to be similar in the types of methods applied:

- . Twenty companies disclosed that they amortize timber costs over the estimated volume of recoverable timber.
- . Three companies (Consolidated Papers, Inc., The Continental Group, Inc. and Fibreboard Corporation) stated that the provision for depletion of timberlands is computed on the "unit-of-production" basis.
- . One company (Diamond International Corporation) disclosed that "Depletion of timber is computed based upon total estimated footages, at average rates, by area and species."
- . One company did not disclose the method utilized.

### TIMBER CUTTING RIGHTS/TIMBER PURCHASE CONTRACT DISCLOSURES

Eight companies specifically disclosed that they had capitalized timber cutting rights. Union Camp Corporation disclosed that obligations related to timber cutting contracts were stated at

present value and included in the balance sheet as a contra account. Champion International Corporation disclosed in its Long-Term Debt footnote the long-term obligations recorded for timber cutting contracts as follows:

	<u>1977</u>	<u>1976</u>
	(In thousands)	
Long-Term Timber Cutting Obligations(F):		
8.08% Effective rate, payable through 1997.....	\$94,000	\$96,000
7.125% Effective rate, payable through 1988.....	19,302	20,549

\* \* \* \* \*

Several of the twenty-five companies surveyed made disclosures relating to commitments for uncapitalized timber purchase contracts and timber cutting rights. These disclosures are summarized as follows:

	Number of Companies	
	<u>1977</u>	<u>1976</u>
Total dollar amount of future commitments.....	4	2
Expiration date of commitments.....	4	2
Number of acres covered by the commitments.....	4	1
Dollar amount Company is obligated to pay in subsequent years under such commitments.....	3	1

#### TIMBERLAND OPTIONS DISCLOSURE

Champion International Corporation disclosed the acquisition of options to acquire timberlands as follows:

#### Long-Term Debt Footnote

Under timber cutting contracts, with current minimum annual payments of \$12,377,000, the Company has the right to cut the timber and all future growth until the termination date of the applicable contract at which time the Company has the right to purchase the remaining timber for a normal amount.

## Commitments

The Company has purchased from Kimberly-Clark Corporation for \$11,400,000 options to acquire approximately 401,000 acres of timberlands in the upper peninsula of Michigan and in northern Wisconsin. The total option price is \$48,575,000, against which \$11,400,000 has already been paid and included in other assets on the Company's Consolidated Balance Sheet. These options are exercisable in series and expire from 1978 through 1982. If the first option is exercised, an additional \$10,521,000 may be paid for the purchase of land in 1978. The purchase price is subject to reduction in the event of early exercise of the options.

\* \* \* \* \*

## DISCLOSURE OF THE AMOUNTS OF WOOD CONSUMED FROM COMPANY-OWNED LANDS

The percentage of wood consumed from company-owned or controlled lands was disclosed by the following companies:

	Percentage of Wood Consumed From <u>Owned Lands</u>
Boise Cascade Corporation.....	21-76% (1)
Consolidated Papers, Inc.....	21
Crown Zellerbach Company.....	55
Federal Paper Board Company, Inc.....	35
Fibreboard Corporation.....	20
International Paper Company.....	45
Louisiana-Pacific Corporation.....	14
Olinkraft, Inc.....	50
St. Regis Paper Company.....	36
Westvaco Corporation.....	25
Willamette Industries, Inc.....	31

(1) Percentages given by area of the country.

Other disclosures included in certain company's annual reports concerning the source of wood supplies used in company operations are as follows:

## BOISE CASCADE CORPORATION

### Segment Information Footnote

The Company is an integrated forest products company. It is engaged principally in the manufacture, distribution and sale of wood products, building materials, paper and packaging products and the distribution and sale of office products. In addition, the Company grows and harvests timber to support these operations. Its manufacturing and distribution facilities and timberlands are located primarily in the U.S. and to a lesser extent, in Canada and other foreign countries.



## INTERNATIONAL PAPER COMPANY

### Timberlands Footnote

At December 31, 1977, timberlands owned in fee consisted of 7.2 million acres in the U.S. with an unamortized cost of \$386.4 million and 1.3 million acres in Canada with an unamortized cost of \$7.2 million.

Capitalized timber harvesting rights consist principally of timber cutting contracts in the U.S. where the gross price to be paid has been fixed.

The Company has timber harvesting licensing arrangements on a total of 12.5 million acres in the Canadian provinces of Quebec and New Brunswick plus additional harvesting rights measured in wood volume in the province of Quebec.

Legislation was enacted in Quebec in 1974 directed towards the eventual replacement of existing licensing arrangements by guarantees of timber supplies from public lands. These guarantees are in the form of grants of rights to cut standing timber sufficient to supply wood processing plants for as long as such plants carry on normal operations. Such grants are expected to be economically equivalent to the rights presently held.

\* \* \* \* \*

Other excerpts of timber and timberland disclosures made by companies are as follows:

## CHESAPEAKE CORPORATION OF VIRGINIA

### Accounting Policy

DEPRECIATION AND COST OF TIMBER HARVESTED. Depreciation for financial reporting purposes is computed principally by the straight-line method, based on the estimated useful lives of the assets. Cost of timber harvested, representing timber cut from company-owned lands and from short-term cutting rights, is computed on quantities cut from individual tracts at rates based on costs and estimated volumes of harvestable timber.

## GEORGIA PACIFIC CORPORATION

### Accounting Practices

DEPLETION, DEPRECIATION AND CAPITALIZATION. The corporation amortizes its timber costs over the total fiber that will be available during the estimated growth cycle. Timber carrying costs are expensed as incurred.

## UNION CAMP CORPORATION

### Timber Cutting Rights Footnote

The Company has the right under a timber cutting contract to cut and use or sell the timber and all future growth up to 1984 on approximately 201,500 acres of timberland in southcentral Alabama. Minimum timber quantities are required to be paid for in annual amounts of \$3,286,000 between 1978 and 1983 and \$1,378,000 in 1984. The aggregate payments will be treated as the cost of timber purchased. The Company's rights to the timber and the present value of its obligations under the cutting contract discounted at 5% have been included in contra accounts on the balance sheet.

## LOUISIANA-PACIFIC CORPORATION

### Accounting Policy

TIMBER POLICIES. Louisiana-Pacific follows an overall policy on fee timber that amortizes timber costs over the total fiber available during the estimated growth cycle. Timber carrying costs are expensed as incurred. Cost of timber harvested includes not only the cost of fee timber but also the amortization of the cost of long-term timber deeds and payments for timber removals under long-term cutting contracts upon which a substantial initial deposit has been made.

INTANGIBLES

AMORTIZATION POLICIES FOR EXCESS COST

The excess cost of an investment over a Company's equity in the related net assets (or the excess equity in the net assets over cost) was disclosed by the companies as follows:

	Number of Companies	
	<u>1977</u>	<u>1976</u>
Amortized over a period not exceeding 40 years (two companies in 1977 and three companies in 1976 disclosed that the excess arising prior to October 31, 1970 is not being amortized)....	6	6
Amortized over a period less than 40 years.....	5	3
Amortized over the remaining life of the assets to which such excess has been allocated.....	2	2
Amortization period not disclosed.....	2	2
Not amortized because assets considered to have continuing value.....	-	1
Not disclosed.....	10	11

PREOPERATING AND START-UP COSTS

Preoperating and start-up costs were disclosed by companies included in the survey as being treated principally as follows:

	<u>1977</u>	<u>1976</u>
Amortized over various periods up to 15 years.....	1	1
Amortized over a period of 7 years.....	2	2
Amortized over a period of 5 years or less.....	5	3
Amortization period not disclosed.....	-	1
Expensed as incurred.....	4*	5*
Not disclosed.....	13	13

\* One company, Kimberly-Clark Corporation, which disclosed for both years that such costs are expensed as incurred noted that in certain cases these costs are amortized over a twelve month period following commencement of operations and for some operations outside the U.S. longer amortization periods are employed.

Three other companies, Potlatch Corporation, Westvaco Corporation, and Olinkraft disclosed that preoperating costs are expensed as incurred except for those charges relating to major new facilities. Excerpts of these disclosures are included herein.

\* \* \* \* \*

Some excerpts relating to the treatment of excess cost and preoperating and start-up costs are stated below:

CHAMPION INTERNATIONAL CORPORATION

Accounting Policy

CAPITALIZATION AND AMORTIZATION OF CERTAIN COSTS. The excess cost of business acquired over amounts assigned to net tangible assets acquired subsequent to October 1970 is being amortized ratably over periods up to 40 years. Such excess applicable to businesses acquired prior to that date is not presently being amortized.

THE CONTINENTAL GROUP, INC.

Accounting Policy

The excess of investment cost over the Company's equity in net assets of subsidiaries and affiliates acquired prior to November 1970 (\$43 million) is not being amortized because, in the Company's opinion, there has been no decrease in the value of the related investments. The Company amortizes, over a period of not more than forty years, excess costs related to acquisitions of subsidiaries and affiliates subsequent to October 1970.

DIAMOND INTERNATIONAL CORPORATION

Accounting Policy

INTANGIBLE ASSET. The investment in excess of the acquired equity in a consolidated subsidiary relates to a foreign company. During management's 1975 review of the Company's international operations, a conclusion was reached that the intangible asset has a limited life, and accordingly amortization thereof commenced over a ten year period.

OLINKRAFT, INC.

Accounting Policy

PROPERTY, PLANT AND EQUIPMENT. Pre-operating costs are expensed as incurred except for those charges relating to major new facilities. Deferred pre-operating costs are amortized over a 60-month period. Startup costs are charged to operations as incurred.

## GREAT NORTHERN NEKOOSA CORPORATION

### Accounting Policy

EXPENSES RELATING TO PLANT EXPANSION. Certain costs, generally referred to as pre-start-up costs, including demolition, relocation, rework, sales/use taxes, training labor, and interest costs during construction are expensed. Abnormal production costs incurred during the start-up and breaking-in period are also expensed as incurred.

## KIMBERLY-CLARK CORPORATION

### Accounting Policy

START-UP AND PREOPERATING EXPENSES. In the U.S., start-up and preoperating expenses are normally charged to income as incurred or amortized over a period not exceeding 12 months following commencement of operations. Longer amortization periods are sometimes employed for operations outside the U.S., particularly in new or substantially enlarged companies.

## POTLATCH CORPORATION

### Accounting Policy

DEFERRED CHARGES. Deferred charges both tangible and intangible, are amortized over periods not exceeding the estimated period of benefit. When an acquisition is accounted for as a purchase rather than a pooling of interests, any excess of acquisition cost over the market value of the assets acquired is included in deferred charges and amortized.

PREOPERATING COSTS. Preoperating costs are expensed as incurred except for those charges relating to major new facilities. Deferred preoperating costs are amortized over a 60-month period following commencement of commercial operations of the facility. Start-up costs are expensed as incurred.

## SOUTHWEST FOREST INDUSTRIES, INC.

### Accounting Policy

DEFERRED CHARGES. Preoperating and start-up costs incurred in connection with major new manufacturing facilities are deferred and recorded as other assets. These costs are amortized on a straight-line basis over periods of five years or less. Costs deferred in 1977 were not material; costs deferred in 1976 were \$2,862,000. Preoperating and start-up costs deferred have an unamortized balance of \$3,341,000 at December 31, 1977.

WESTVACO CORPORATION

Accounting Policy

PREOPERATING COSTS. Except for those relating to major new facilities, preoperating costs are charged to income as incurred. Deferred preoperating costs are amortized over a sixty-month period following commencement of commercial operations of the facility.

WILLAMETTE INDUSTRIES, INC.

Accounting Policy

EXCESS OF COST OVER EQUITY ACQUIRED IN NET ASSETS OF SUBSIDIARIES. This amount results primarily from a series of acquisitions of Western Kraft Corporation stock initiated prior to October 31, 1970 and is not being amortized. Any costs of intangible assets resulting from transactions after that date are being amortized over the estimated period of benefit, not to exceed 40 years.

## RESEARCH AND DEVELOPMENT EXPENDITURES

### FASB STATEMENT NO. 2

Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs", which became effective for fiscal years beginning on or after January 1, 1975, requires that research and development costs be expensed when incurred and that such amounts be disclosed in the financial statements.

### EXPENDITURE DISCLOSURES

Ten of the twenty-five companies surveyed disclosed the dollar amount of research and development expenditures in their published annual reports. Seven of the ten companies disclosed the dollar amount in the notes to the financial statements. Three of the ten companies (The Continental Group, Inc., Kimberly-Clark Corporation and Weyerhaeuser Company) included research and development expense as a separate line item on their income statements, while one firm (Scott Paper Company) made the disclosure in the summary review of 1977 operations.

### POLICY DISCLOSURES

Since the adoption of FASB No. 2, accounting policy disclosures concerning research and development expenditures are no longer required. Nine as compared to eleven in 1976 of the twenty-five companies surveyed, including all but four of the companies that disclosed the dollar amount of research and development expenditures, stated that all research and development expenditures were expensed as incurred.

\* \* \* \* \*

Examples of some research and development expenditure disclosures are as follows:

#### BOISE CASCADE CORPORATION

##### Accounting Policy

RESEARCH AND DEVELOPMENT COSTS. Research and development costs are expensed as incurred. During 1977 and 1976, research and development expenses were approximately \$3,968,000 and \$3,296,000, respectively.

#### CONSOLIDATED PAPERS, INC.

RESEARCH AND DEVELOPMENT COSTS FOOTNOTE. Research and development costs charged to expense totaled \$2,185,000 in 1977 and \$1,930,000 in 1976.

CHESAPEAKE CORPORATION OF VIRGINIA

Accounting Policy

RESEARCH AND DEVELOPMENT COSTS. These costs, which are not significant in amount, are charged to income as incurred.

OLINKRAFT, INC.

Accounting Policy

RESEARCH AND DEVELOPMENT. Expenditures relating to the development of new products are charged to current operations as incurred.

WESTVACO CORPORATION

Research and Development Footnote

Expenditures of \$8,467,000 (1976 - \$8,536,000) were expensed as incurred.



RETIREMENT AND PENSION PLANS

Every company included in the survey disclosed that they had pension or retirement plans.

PLAN FUNDING DISCLOSURES

Twenty-three companies for 1977 compared to twenty-two companies for 1976 indicated that pension costs were currently funded. Twenty-four companies for 1977 and 1976 disclosed the status of vested benefits as compared with the value of pension fund assets as follows:

	<u>1977</u>	<u>1976</u>
Fund assets exceeded vested benefits.....	1	2
Vested benefits exceeded fund assets.....	21	21
Fund assets are approximately equal to the vested benefits.....	2	1

The amounts of vested benefits which exceeded the value of pension fund assets are summarized as follows:

Number of Employees (In thousands)	Number of Companies - 1977 Reports Number of Companies - 1976 is shown ( )						
	.....Unfunded \$0	\$26	\$51	\$101	\$151	Over \$200	Not dis- closed
	to 25	to 50	to 100	to 150	to 200		
1 - 10.....	5(4)	1					1
11 - 20.....	2(1)	(1)	1(1)				(1)
21 - 30.....	1(1)	1(2)	(1)	1			
31 - 40.....	1(1)		3(1)	(1)			
41 or more.....		(1)	1(2)	1	1	1(1)	1
Not disclosed..	2(3)						

Thirteen companies disclosed the date of the actuarial computation of vested benefits used in their annual report to shareholders.

ACTUARIAL GAINS AND LOSSES

Champion International Corporation was the only company to disclose its policy as to actuarial gains and losses - "actuarial gains and losses are generally amortized over a 10-year or 15-year period". In 1976, Champion disclosed that it amortized such gains and losses over a ten-year period.

PENSION COST DISCLOSURE

Although pension costs did vary from company to company, generally the costs followed a pattern based on the number of employees as summarized below:

Number of Employees (In thousands)	Number of Companies - 1977					Over \$20
	\$0 to 6	\$7 to 10	\$11 to 15	\$16 to 20		
1 - 10.....	6(6)		1			
11 - 20.....		2(3)	2(1)	(1)		1
21 - 30.....				1(2)		2(2)
31 - 40.....						4(3)
41 or more.....						4(4)
Not disclosed.....	1(3)	1				

Twenty-four of the companies currently surveyed compared to twenty-five for the prior year disclosed that past and/or prior service costs were being amortized, but only seventeen companies for both years disclosed the dollar amounts of these costs. The amounts of unfunded past and/or prior service costs are summarized as follows:

Number of Employees (In thousands)	Number of Companies - 1977							Not dis- closed
	\$0 to 25	\$26 to 50	\$51 to 75	\$76 to 100	\$101 to 150	Over \$150		
1 - 10.....	3(4)	3						1(2)
11 - 20.....		2(3)	1(1)					2(1)
21 - 30.....				(1)	1(1)			2(2)
31 - 40.....		1			1	1(1)		1(2)
41 or more.....					1	2(3)		1(1)
Not disclosed..		1(1)						1(2)

### ERISA DISCLOSURES

Three of the companies disclosed certain information relating to the Employee Retirement Income Security Act of 1974 (ERISA). This compares with disclosures relating to ERISA for ten companies in the 1976 reports.

- . St. Regis Paper Company disclosed the company's liability under ERISA if the domestic retirement plans were terminated.
- . Weyerhaeuser Company disclosed that "Company contributions are based on funding standards established by the Employee Retirement Income Security Act of 1974".
- . Hammermill Paper Company disclosed the difference between its estimated unfunded vested benefits and its contingent liability to the Pension Benefit Guarantee Corporation for employee benefits guaranteed under the law.

## OTHER DISCLOSURES

Three of the companies surveyed, Fibreboard Corporation, Great Northern Nekoosa Corporation, and International Paper Company, disclosed changes in the rate of interest which is assumed to be earned on fund assets. Excerpts of their footnote disclosures are included in a later portion of this section. There were no such disclosures in any of the 1976 reports surveyed.

In 1977 six companies, compared to seven companies for the prior year, disclosed that investment savings plans, stock bonus plans, or profit sharing plans existed.

\* \* \* \* \*

The following are excerpts of the pension and retirement plan disclosures made by certain companies included in the survey:

### CHESAPEAKE CORPORATION OF VIRGINIA

#### Employee Retirement Plans Footnote

The Company has several noncontributory retirement plans covering substantially all employees. The policy is to fund and expense the total of (a) currently accruing pension costs and (b) an amount equal to the amortization of prior service costs over periods not exceeding twenty-five years. Pension expense totaled approximately \$1,975,000 in 1977 and \$1,715,000 in 1976. Increased pension expense for 1977 reflects principally higher base compensation and amendments which provide for improved benefits. At January 1, 1978, based upon the latest actuarial reports available, unfunded prior service costs approximated \$1,900,000 and, for certain plans, the excess of the actuarially computed value of vested benefits over fund assets amounted to approximately \$85,000.

### THE CONTINENTAL GROUP, INC.

#### Accounting Policy

The Company has pension plans covering substantially all United States and Canadian employees and certain Common Market and Latin American employees. The provision for pension plans is determined using projected benefit cost methods and includes normal cost, interest on unfunded prior service cost and amortization of prior service cost over a period of not more than thirty years. Except for certain foreign plans, it is the Company's policy to fund these amounts.

## Retirement Benefits Footnote

At December 31, 1977, retirement benefits under United States and foreign plans, as determined by projected benefit costs methods, exceeded the actuarial value of pension fund assets and balance sheet accruals by \$416 million. The vested retirement benefits, determined using assumed insurance company rates, exceeded the market value of fund assets and balance sheet accruals by \$45 million; on an actuarial basis the excess would have been \$276 million.

The provisions for pensions were \$73.4 million in 1977 and \$73.3 million in 1976.

## CROWN ZELLERBACH CORPORATION

### Pension Plans Footnote

...The Corporation's contributions have increased because of higher payroll factors.

The book value of the Corporation's plans' assets at December 31, 1977 was approximately \$284,000,000. The estimated present value of vested benefits in excess of plan assets was \$89,000,000. The normal funding provisions of the plans are designed to amortize this liability.

## FIBREBOARD CORPORATION

### Retirement, Savings and Incentive Compensation Plans Footnote

Fibreboard has several retirement plans covering substantially all of its employees. Total pension cost charged to continuing operations in 1977 and 1976 was approximately \$4,100,000 and \$2,900,000, respectively, which includes annual installments on the unfunded balance of prior service costs and related interest estimated to complete the fundings by the year 2001. Fibreboard's policy is to fund pension expense as accrued. During 1977, in recognition of recent actual and expected future experience, the Company changed certain of the actuarial assumptions used in estimating annual pension cost. The effect of these changes, the more significant of which were a reduction in the assumed rate of interest earned by the retirement plans' assets and an increase in the assumed rate of growth in employee compensation, was to increase the 1977 pension cost by approximately \$800,000.

At December 31, 1977, the excess of actuarial value of vested benefits over market value of pension fund assets for employees of the Company's continuing businesses, was approximately \$13,000,000.

GREAT NORTHERN NEKOOSA CORPORATION

Retirement Plans Footnote

Retirement plans cover most full-time employees of the Company and its subsidiaries. The unfunded prior service cost of all plans was \$35.2 million as of December 31, 1977 and \$41.4 million as of December 31, 1976, the greater portion of which is being amortized over periods up to thirty years. The decrease in unfunded prior service cost is primarily due to a change in the interest rate assumption...

HAMMERMILL PAPER COMPANY

Pension Plans Footnote

...At January 1, 1978, the market value of pension plan trust funds was approximately \$47,000,000. At the most recent actuarial valuation dates, the estimated unfunded and unaccrued prior service cost liability aggregated \$41,000,000. Estimated unfunded vested benefits were approximately \$23,000,000, while the contingent liability to Pension Benefit Guarantee Corporation for employee benefits guaranteed under the law was approximately \$13,000,000.

INTERNATIONAL PAPER COMPANY

Retirement Plans Footnote

The Company and its consolidated subsidiaries have several pension plans which provide retirement benefits to substantially all employees after the required years of service.

Effective January 1, 1977, certain actuarial assumptions used under the Company's domestic retirement plans were changed to reflect revised estimates of future investment yields and pay increases. As a result of these revisions, unfunded prior service costs decreased by approximately \$45 million. The Company also made changes to the plan, effective June 1, 1977, to reflect recent labor contract provisions resulting in a \$92 million increase in unfunded prior service costs. The effect of these changes individually, and in the aggregate, is immaterial to net earnings. At December 31, 1977, unfunded prior service costs amounted to \$221 million.

At December 31, 1977, the actuarially computed value of vested benefits, using a 5-1/2% interest rate, exceeded the value of fund assets (approximately \$564 million) by \$138 million. If the actuarially computed value of vested benefits were estimated using current single premium annuity rates, such excess would be reduced to approximately \$42 million.

Annual pension costs, which reflect amortization of prior service costs over periods of up to 30 years, are funded currently by payments to the trustees of the various plans. Pension costs were \$60 million in 1977 and \$57 million in 1976.

#### LOUISIANA-PACIFIC CORPORATION

##### Pension Plans Footnote

...The value of the assets in the pension plans at December 31, 1976, the last date for which complete actuarial figures are available, is approximately equal to vested benefits. Management believes that the same general condition also existed at December 31, 1977.

#### THE MEAD CORPORATION

##### Retirement Plans Footnote

The company has retirement plans which cover substantially all employees. Contributions to these plans are determined by actuarial methods (primarily the entry age normal and aggregate methods) which insure that pension costs are rational and systematic from year to year. The actuarial basis includes a 7% annual compound interest rate assumption and current mortality tables. Prior service costs are amortized over initial periods of 25 and 30 years.

#### OLINKRAFT, INC.

##### Employee Benefit Plans Footnote

...During 1977, the Company established retroactive to January 1, 1976, an employee stock ownership plan for the benefit of certain employees. The plan was adopted pursuant to the provisions of the Tax Reduction Act of 1975, which allows the Company to elect an additional one percent investment tax credit on its federal income tax return by contributing the additional one percent to the plan in cash or common stock of the Company. The trustee for the plan shall invest cash contributions in common stock of the Company. The additional one percent investment tax credit for 1977 and 1976 was \$792,000 and \$418,000, respectively. The 1976 contribution was made in common stock of the Company during 1977, and the 1977 contribution will be made in 1978.

#### POTLATCH CORPORATION

##### Retirement, Incentive and Savings

##### Plans Footnote

...The company's management performance award plan covers key management employees. It provides for cash awards to be paid over

a three-year period (or deferred and paid over 15 years after termination, in certain cases). Subject to certain minimum and standard performance criteria, which are established each year, awards are based on: 1) the company's earnings performance as compared with 14 other companies in the forest products industry, 2) the results achieved by the group or division to which the individual is assigned, and 3) the performance by the individual during the award year. The plan is administered by the Executive Compensation and Personnel Policy Committee of the Board of Directors; the members of such committee are not eligible to participate. A provision of \$1,557,000 has been made in 1977 (\$842,000 in 1976).

The company's provision for contributions to the voluntary salaried employees' savings investment plan was \$534,000 in 1977 (\$506,000 in 1976), all of which was invested in Potlatch common stock.

In 1977, the company adopted a stock ownership plan, effective January 1, 1976, for which substantially all salaried employees are eligible. The plan provides that the company will pass on to eligible employees the benefits made possible by recent federal tax legislation. Under the plan, the company will place in trust 1 percent of the amount of its investment each year that qualifies for investment tax credit. Future company contributions are dependent on the continued availability of the 1 percent investment tax credit. The amount placed in trust for the 1976 plan year, which was invested in Potlatch common stock by the plan trustee, was \$612,000 in 1977.

#### ST. REGIS PAPER COMPANY

##### Retirement Pension Plans Footnote

The cost of retirement pension plans totaled \$21,900,000 in 1977 and \$18,700,000 in 1976. Increased pension costs in 1977 are attributed to added benefits, principally due to negotiated labor settlements.

Based on actuarial computations, vested benefits of the plans exceeded the market value of trust fund assets by approximately \$51,000,000. Under the Employee Retirement Income Security Act of 1974, the company would be liable in the event of termination of domestic retirement pension plans for any guaranteed benefits (as defined) in excess of plan net assets; however, the company's liability would be no greater than the amount of unfunded vested benefits at that date. Unfunded prior service costs of all plans at January 1, 1977, were approximately \$129,000,000.

#### SCOTT PAPER COMPANY

##### Pension Plans Footnote

Pension expense for the Company and its subsidiaries was \$26,029,000 for 1977 compared with \$21,977,000 for 1976. Pension costs are computed by independent actuaries who utilize the aggregate level

cost method for Scott's principal plans. Under this method, the portion of cost which is identified as unfunded prior service cost under other commonly used actuarial methods is included as part of normal cost and as such, is being funded over the remaining service time of active plan participants. It is the Company's policy to make cash payments to the pension trust for the pension cost accrued each year.

At the latest valuation date, there were 18,127 active, 4,120 retired and 795 vested terminated members compared to 18,236 active, 3,688 retired and 505 vested terminated members at the prior year's valuation date. The market value of the plans' assets at the latest valuation date was \$176,600,000 compared to \$135,700,000 for the prior year. During 1977 the benefit payments associated with the plans amounted to \$9,600,000 compared to \$8,200,000 in 1976.

At the latest valuation date, the amount required to fully fund benefits which had vested to employees was \$24,500,000 compared to \$37,800,000 at the end of the prior year.

#### WESTVACO CORPORATION

##### Accounting Policy

Employee retirement benefits are provided under several noncontributory salaried and hourly paid trustee retirement plans. The actuarially computed normal costs of these plans and amortization of prior service costs over 20 years are charged to income and are funded currently. Conservative actuarial cost methods and assumptions are utilized to calculate costs and liabilities related to retirement plan benefits to insure that such benefits are properly provided.

#### WILLAMETTE INDUSTRIES, INC.

##### Pension and Retirement Plans Footnote

Substantially all employees of the Company and its subsidiaries are covered by pension and retirement plans. Provision for pension and retirement costs charged to consolidated earnings for 1977 and 1976, respectively, were \$5,936,000 and \$4,600,000. These charges include current service costs, interest on unfunded past service costs, provision for funding past service cost over periods of from ten to twenty-five years and payments under the stock purchase plan. Unfunded past service pension plan liabilities amounted to approximately \$8,100,000 at December 31, 1977.

Based on actuarial determinations and asset valuations as of January 1, 1977, fund assets exceed vested benefits in the plans.



## INCOME TAXES

### INCOME STATEMENT PRESENTATION

Both in 1977 and 1976 twenty-one of the twenty-five companies surveyed showed the provision for income taxes as a one line item on the income statement; whereas, four companies disclosed the current and deferred provisions on the face of the income statement. Certain of these companies repeated the same information in the notes to the financial statements.

### FOOTNOTE DISCLOSURE

The following table indicates the number of companies disclosing the various components of their tax provisions in the notes to the financial statements:

<u>Notes to financial statements detailed:</u>	Number of Companies	
	<u>1977</u>	<u>1976</u>
Current.....	21	22
Deferred.....	23	24
State and/or local.....	20	20
Foreign.....	13	13
 <u>Current and deferred portion shown individually for:</u>		
	<u>1977</u>	<u>1976</u>
Federal.....	19	17
State and/or local.....	9	7
Foreign.....	11	11

### COMPONENTS OF DEFERRED TAXES

All companies provided for deferred taxes. In addition to the use of accelerated depreciation for tax return purposes, other deferred items disclosed as comprising deferred taxes were as follows:

<u>Deferred Tax Item</u>	Number of Companies	
	<u>1977</u>	<u>1976</u>
Capitalized interest.....	3	5
Cost of timber harvested.....	2	1
Deferred charges.....	1	2
Discontinued operations.....	1	1
Drilling and exploration costs.....	1	1

<u>Deferred Tax Item - (Continued)</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
Facility realignment expenses.....	1	2
Foreign exchange adjustments.....	1	2
Income from Domestic International Sales Corporation.....	3	7
Installment sales.....	1	3
Inventory adjustments.....	2	4
Inventory valuation.....	3	2
Investment credits.....	2	4
Pensions and other compensation.....	3	4
Preoperating and start-up costs.....	2	5
Research and development.....	-	1
Undistributed earnings.....	1	3
Miscellaneous and other charges.....	14	15

EFFECTIVE TAX RATES

All but one of the companies reported Federal income tax rates of less than the 48% statutory rate in 1977 primarily because of the utilization of investment tax credits and capital gains rates.

The effective tax rates of the companies based on the reported tax provision (including Federal, foreign, state and local taxes) as a percentage of income before taxes, as defined by each Company, are:

<u>Company</u>	<u>Effective Tax Rate</u>		<u>Rank Within Survey</u>	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Boise Cascade Corporation.....	41.1%	36.0%	6	16
Champion International Corporation.....	34.9	41.6	15	11
Chesapeake Corporation of Virginia.....	16.4	42.3	24	8
Consolidated Papers, Inc.....	48.6	45.2	1	3
The Continental Group, Inc.....	38.4	44.3	11	4
Crown Zellerbach Corporation.....	32.8	33.9	17	18
Diamond International Corporation.....	41.5	40.8	5	10
Federal Paper Board Company, Inc.....	36.9	40.4	13	12
Fibreboard Corporation.....	(11.0)	(10.3)	25	25
Georgia-Pacific Corporation.....	42.0	40.0	3	13
Great Northern Nekoosa Corporation.....	41.6	47.0	4	1
Hammermill Paper Company.....	35.9	33.6	14	19
International Paper Company.....	31.1	33.2	19	20
Kimberly-Clark Corporation.....	40.9	43.0	7	6
Louisiana-Pacific Corporation.....	37.0	37.0	12	15
The Mead Corporation.....	45.5	46.9	2	2
Olinkraft, Inc.....	22.0	35.0	23	17
Potlatch Corporation.....	26.9	29.3	22	22
St. Regis Paper Company.....	38.6	33.3	10	21
Scott Paper Company.....	30.0	38.0	20	14
Southwest Forest Industries, Inc.....	32.0	24.0	18	24
Union Camp Corporation.....	34.8	41.5	16	9
Westvaco Corporation.....	40.9	43.0	8	7
Weyerhaeuser Company.....	30.0	26.0	21	23
Willamette Industries, Inc.....	40.1	43.3	9	5

INVESTMENT TAX CREDIT

The investment tax credit was applied by twenty-two companies utilizing the flow-through method and two companies using the deferral method.

TAXES AND UNDISTRIBUTED EARNINGS OF SUBSIDIARIES

Accounting Principles Board Opinion No. 23, "Accounting for Income Taxes - Special Areas", which was effective for all fiscal periods beginning after December 31, 1971, mandated the recognition of income taxes by the investor for unremitted earnings of subsidiaries unless it is management's intention to reinvest such unremitted earnings.

Thirteen companies stated that no taxes were provided on undistributed earnings of certain subsidiaries because these funds were considered to be permanently reinvested:

Boise Cascade Corporation  
Champion International Corporation  
The Continental Group, Inc.  
Crown Zellerbach Corporation  
Diamond International Corporation  
International Paper Company  
Kimberly-Clark Corporation  
The Mead Corporation  
Olinkraft, Inc.  
St. Regis Paper Company  
Scott Paper Company  
Union Camp Corporation  
Westvaco Corporation

- . Eleven of the thirteen companies disclosed the amount of undistributed earnings on which no taxes were provided.
- . Two of the thirteen companies disclosed that foreign income tax credits would be available to substantially offset any U.S. taxes on undistributed earnings.

#### TAXES AND UNDISTRIBUTED DISC EARNINGS

Eleven of the twenty-five companies disclosed having Domestic International Sales Corporation (DISC) operations. Deferred taxes on undistributed DISC earnings were provided for by five of the eleven companies, three of which disclosed the amount of taxes provided. Seven companies disclosed that taxes were not provided on undistributed DISC earnings and six of the seven companies disclosed the amount of the tax benefit (taxes not provided).

\* \* \* \* \*

Examples of income tax disclosures are as follows:

#### DIAMOND INTERNATIONAL CORPORATION

##### Accounting Policy

**INCOME TAXES.** The capital gain benefits realized from the Company's timber operations and the investment credit, which has been applied under the flow-through method, primarily result in an effective Federal income tax rate which is lower than the statutory corporate rate.

Deferred Federal income taxes are applicable principally to depreciation charges for tax purposes in excess of depreciation recorded for financial statement presentation.

Provision is made for U.S. income taxes payable upon distribution of the portion of earnings of foreign subsidiaries which is not permanently invested.

INCOME TAX FOOTNOTE

The provision for income taxes represents the following (in thousands of dollars):

	<u>1977</u>	<u>1976</u>
U.S. Federal income taxes:		
Currently payable.....	\$22,620	\$20,900
Deferred.....	1,580	4,730
State and local.....	4,700	5,300
Foreign.....	4,400	3,470
	<hr/>	<hr/>
Total.....	<u>\$33,300</u>	<u>\$34,400</u>

The provisions for 1977 and 1976 income taxes, if computed at the statutory U.S. Federal income tax rate of 48%, would have amounted to \$38,509,000 and \$40,488,000, respectively; the differences between these amounts and the actual provisions are \$5,209,000 and \$6,088,000, respectively, accounted for as follows (in thousands of dollars):

	<u>1977</u>	<u>1976</u>
Tax at statutory rate.....	\$38,509	\$40,488
Increase (decrease) resulting from:		
State and local income taxes, net of Federal income tax benefit.....	2,444	2,756
Investment tax credit.....	(3,400)	(5,500)
Benefit from income taxed at capital gains rates.....	(4,266)	(3,060)
Other - net.....	13	(284)
	<hr/>	<hr/>
Actual provision for income taxes.....	<u>\$33,300</u>	<u>\$34,400</u>

GREAT NORTHERN NEKOOSA CORPORATION

Accounting Policy

INCOME TAXES. Income taxes are provided on income as reported in the Consolidated Statements of Income regardless of when such taxes are payable. That portion of the tax provision not currently payable is deferred.

Income Taxes Footnote

Provision for Federal and state taxes on income includes:

	Years Ended December 31	
	<u>1977</u>	<u>1976</u>
	(in millions)	
Currently payable:		
Federal.....	\$36.2	\$36.2
State.....	4.9	4.8
	<u>\$41.1</u>	<u>\$41.0</u>
Deferred:		
Federal:		
Excess of tax over book depreciation....	\$ 7.4	\$ 6.3
Other.....	-	(.2)
Total Federal.....	<u>7.4</u>	<u>6.1</u>
State.....	.8	.8
	<u>\$ 8.2</u>	<u>\$ 6.9</u>
Investment tax credit [refer to Note (2)]:		
Flow through.....	\$(6.6)	-
Deferred.....	-	\$ 5.4
Amortized.....	-	(1.5)
	<u>\$42.7</u>	<u>\$51.8</u>

The major difference between the statutory Federal income tax rate of 48% and the effective income tax rates in the accompanying financial statements are:

	<u>1977</u>	<u>1976</u>
	(percent of pre-tax income)	
Federal statutory tax rate.....	48.0%	48.0%
Investment tax credit [refer to Note (2)]:		
Flow through.....	(6.4)	-
Amortized.....	-	(1.3)
State taxes.....	3.3	3.0
Benefit from income taxed at capital gains rates.....	(2.1)	(1.8)
Other.....	<u>(1.2)</u>	<u>(.9)</u>
Effective tax rate.....	<u>41.6%</u>	<u>47.0%</u>

INTERNATIONAL PAPER COMPANY

Accounting Policy

INCOME TAXES. Deferred income taxes are provided for timing differences between financial and tax reporting. The investment tax credit is recognized currently in earnings.

The Company provides deferred taxes on the income of its Domestic International Sales Corporation (DISC). The Company does not provide taxes on undistributed earnings that are considered permanently reinvested in the business outside the U.S. amounting to \$419.0 million at December 31, 1977.

INCOME TAX FOOTNOTE

INCOME TAXES. The components of the provision for income taxes are:

	<u>1977</u>	<u>1976</u>
	In millions	
Current:		
U.S.:		
Federal.....	\$ 15.0	\$ 45.5
State.....	10.8	12.5
Outside U.S.....	37.8	32.0
	<u>63.6</u>	<u>90.0</u>
Deferred:		
U.S. Federal.....	40.1	37.7
Outside U.S.....	2.0	(1.8)
	<u>42.1</u>	<u>35.9</u>
Total.....	<u>\$105.7</u>	<u>\$125.9</u>

The principal items giving rise to deferred income taxes are:

	<u>1977</u>	<u>1976</u>
	In millions	
Drilling and exploration costs, expensed for tax purposes.....	\$19.2	\$17.9
Accelerated depreciation.....	25.6	16.6
Other, net.....	(2.7)	1.4
Total.....	<u>\$42.1</u>	<u>\$35.9</u>

A reconciliation of the statutory U.S. income tax rate to the Company's effective income tax rate follows:

	<u>1977</u>	<u>1976</u>
Statutory U.S. income tax rate.....	48.0%	48.0%
Reduction resulting from:		
Income taxed at capital gains rate.....	7.9	5.5
Investment tax credit (1).....	8.3	8.4
Charitable donations of appreciated property.....	2.6	-
Other, net.....	<u>(1.9)</u>	<u>.9</u>
Effective income tax rate.....	<u>31.1%</u>	<u>33.2%</u>

(1) Includes an additional 1 percent investment tax credit (ITC) related to an Employee Stock Ownership Plan. This additional ITC (1977 - \$2.4 million; 1976 - \$2.9 million) has also been reflected as a charge to selling and administrative expense in the accompanying Consolidated Statement of Earnings. Total ITC was: 1977 - \$28.0 million; 1976 - \$31.9 million.

#### LOUISIANA-PACIFIC CORPORATION (in thousands)

##### Accounting Policy

PROPERTY, PLANT AND EQUIPMENT POLICIES - ...Investment tax credits are accounted for using the deferred method. Credits are amortized over an eight-year period as a reduction of depreciation expense. Unamortized credits (\$7,870 at December 31, 1977) are included in the reserves for depreciation.

INCOME TAX POLICIES - Louisiana-Pacific's provision for income tax as a percent of income before tax in 1977, 1976, 1974 and 1973 is less than the Federal tax rate of 48% primarily because of provisions in the Internal Revenue Code which accord capital gains treatment, at the capital gains rate of 30%, to the excess of fair market value over cost of timber harvested. In 1975 the provision is less than the Federal rate primarily due to tax reductions attributable to the timing of the change to the LIFO method of valuing inventories and the deferral of taxes upon a portion of the income of Louisiana-Pacific's domestic international sales corporation (DISC). Louisiana-Pacific changed its method of valuing log and lumber inventories from average cost to LIFO in 1974 for financial purposes and in 1975 for tax purposes. The timing of the LIFO change resulted in a permanent difference between financial and tax income in 1975. The Internal Revenue Code provides that a portion of the income of a DISC is permanently deferred from taxable income if the income remains invested in certain assets of the DISC. Income retained in the DISC upon which taxes have not been provided amounted to \$9,950, \$7,640 and \$5,250 at December 31, 1977, 1976 and 1975 and none at December 31, 1974. The table below summarizes the differences in the Federal and effective tax rates.



	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Federal tax rate.....	48%	48%	48%	48%	48%
Capital gains.....	(12)	(16)	-	(14)	(9)
State income taxes.....	3	3	1	3	3
DISC income.....	(1)	(2)	(15)	-	(2)
Timing of LIFO change.....	-	-	(8)	-	-
Other.....	(1)	4	(2)	1	2
	<u>37%</u>	<u>37%</u>	<u>24%</u>	<u>38%</u>	<u>42%</u>

Deferred income taxes result from timing differences in the recognition of income and expense for financial reporting and tax purposes. The following table summarizes the major components of deferred taxes provided.

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Depreciation.....	\$3,680	\$5,340	\$3,410	\$ -	\$3,000
Cost of timber harvested....	360	240	450	320	470
Capitalized interest and start-up costs.....	(740)	(60)	330	40	120
Tax basis of inventories....	600	(520)	(3,180)	(1,190)	(2,040)
Income not taxable until future periods.....	420	490	(820)	820	-
Expenses not deductible until paid.....	(570)	60	450	1,200	(1,640)
Other, net.....	(750)	(860)	560	(290)	90
	<u>\$3,000</u>	<u>\$4,690</u>	<u>\$1,200</u>	<u>\$ 900</u>	<u>\$ -</u>

Also, \$7,010 of deferred taxes was acquired with Ketchikan on November 1, 1976.

## OLINKRAFT, INC.

### Accounting Policy

**INCOME TAXES.** The current provision for Federal income taxes gives recognition to investment tax credits recorded on the flow-through method.

Deferred income taxes are provided for timing differences.

It is the Company's policy to accrue appropriate Federal and foreign income taxes on earnings of foreign subsidiaries and the Company's wholly-owned Domestic International Sales Corporation (DISC) which are intended to be remitted to the parent company. No provision has been made for income taxes on the undistributed earnings of the foreign subsidiaries through December 31, 1977, and on the undistributed earnings of the DISC subsidiary at December 31, 1975, as the Company intends to continue reinvesting these earnings.

Income Taxes Footnote

The provision for income taxes is composed of (in thousands):

	<u>1977</u>	<u>1976</u>
Federal:		
Current.....	\$10,479	\$17,020
Investment tax credits.....	(8,710)	(4,555)
Deferred.....	4,402	1,214
	<u>6,171</u>	<u>13,679</u>
Foreign:		
Current.....	1,315	2,132
Deferred.....	289	151
	<u>1,604</u>	<u>2,283</u>
State.....	<u>1,965</u>	<u>2,085</u>
	<u>\$ 9,740</u>	<u>\$18,047</u>

The following is a reconciliation of the statutory Federal and effective tax rates:

	<u>1977</u>	<u>1976</u>
Statutory Federal tax rate.....	48.0%	48.0%
Investment tax credits.....	(19.7)	(8.8)
Items taxed as capital gains, principally the accretive value of timber consumed in production....	(5.7)	(3.4)
Income of foreign subsidiaries not subjected to U.S. taxes less foreign taxes provided.....	(3.5)	(2.9)
State income taxes, less Federal tax benefit.....	2.3	2.0
Other.....	<u>0.6</u>	<u>0.1</u>
	<u>22.0%</u>	<u>35.0%</u>

The major sources of deferred Federal and foreign income taxes and the related tax effect of each are as follows (in thousands):

	Tax Effect	
	<u>1977</u>	<u>1976</u>
Excess of tax over book depreciation and cost of timber harvested.....	\$1,949	\$1,561
Expenses (principally compensation) deductible in future years for tax purposes.....	(114)	(722)
Expenses capitalized (principally interest) deductible in future years for book purposes.....	2,171	184
Other - net.....	<u>685</u>	<u>342</u>
	<u>\$4,691</u>	<u>\$1,365</u>

At December 31, 1977 and 1976, the amounts of undistributed earnings of foreign and DISC subsidiaries on which no Federal income taxes have been provided were as follows (in thousands):

	<u>1977</u>	<u>1976</u>
Foreign subsidiaries' earnings.....	\$31,691	\$26,834
DISC subsidiary earnings.....	<u>1,818</u>	<u>1,818</u>
	<u>\$33,509</u>	<u>\$28,652</u>

Included in other receivables at December 31, 1977, were refundable Federal income taxes in the amount of \$3,860,000 attributable to an investment tax credit carry-back.

EXTRAORDINARY ITEMS

Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations", significantly curtailed the classification of transactions or events as extraordinary.

DISCLOSURES

Only one company reported an extraordinary item in 1977, Fibreboard Corporation. In 1976 Boise Cascade Corporation was the only company included in the survey to report an extraordinary item.

The 1977 disclosure is shown below:

FIBREBOARD CORPORATION

Income Taxes Footnote

The income taxes in the 1977 statement of income consist of the following:

	<u>(in thousands of dollars)</u>
Continuing operations:	
Provision in lieu of Federal income tax.....	\$ (700)
Extraordinary gain:	
Benefit from utilization of loss carry- forward for financial reporting purposes...	700
Benefit from realization of loss carry-back for tax purposes.....	800
	<u>1,500</u>
	<u>\$ 800</u>

Completion of the Carton Group plan of disposal (Note 4) caused Fibreboard to sustain a net operating loss for Federal income tax purposes of approximately \$12,000,000 in 1977. The Company has decided to carry this loss back to 1974, the only year in the carry-back period in which Fibreboard can obtain any tax benefit.

## LEASE DISCLOSURE

Statement of Financial Accounting Standards No. 13 (FAS No.13), "Accounting for Leases" was issued in November 1976 and established standards of financial accounting and reporting leases by lessees and lessors. The Statement supersedes all previous pronouncements on accounting for leases and applies to all agreements conveying the right to use property, plant, or equipment (land and/or depreciable assets). The Statement does not apply to lease agreements concerning the rights to explore for or to exploit natural resources. It also does not apply to certain licensing agreements. The Statement establishes criteria for classifying leases and prescribes accounting and reporting requirements for each classification.

### LEASE DISCLOSURE

Eighteen companies disclosed lease information and all eighteen indicated that they adopted Financial Accounting Standard No. 13 to some extent.

### COMPLIANCE WITH FINANCIAL ACCOUNTING STANDARD NO. 13

The extent of compliance with Financial Accounting Standard No. 13 disclosed by the eighteen companies was as follows:

	<u>Number of Companies</u>
Applied only to lease transactions entered into after January 1, 1977	9
Applied retroactively.....	9

The companies which applied FAS No. 13 prospectively handled the required disclosures relating to operating leases which were entered into prior to January 1, 1977 but according to the provisions of FAS No. 13 would meet the criteria of a capital lease as follows:

- Effect on Net Earnings
  - . Three companies disclosed that the effect on 1977 net earnings would be immaterial.
  - . Three companies disclosed that the effect on net earnings for 1977 and 1976 would be immaterial.
  - . Two companies disclosed the dollar effect on 1977 net earnings which in both cases was a decrease.
  - . One company did not disclose any data.

- Effect on Assets and Liabilities
  - . Seven companies disclosed the dollar amounts of assets and liabilities that would have been included in the balance sheets as of December 31, 1977 and 1976.
  - . One company disclosed only the effects on the December 31, 1977 balance sheet.
  - . One company did not furnish any information.

The nine companies which applied FAS No. 13 retroactively handled it in the following ways:

- . One company (Champion International Corporation) restated its financial statements for 1977 and 1976 and reflected the cumulative effect in the 1975 financial statements for the change prior to 1976.
- . Two companies reflected the cumulative effect of the accounting change in prior years. The Mead Corporation carried the cumulative effect back to their 1971 financial statements while Scott Paper Company reflected it in their 1975 financial statements. Both companies stated that the effect on subsequent financial statements was immaterial.
- . Three companies (International Paper Company, Kimberly-Clark Corporation and Willamette Industries, Inc.) reflected the cumulative effect of the accounting change in their 1977 financial statements.
- . Three companies stated that the effect on prior years was immaterial and no adjustment of the financial statements was necessary.

#### FINANCIAL STATEMENT DISCLOSURE

One company (Scott Paper Company) disclosed capital leases separately on the face of its balance sheet for the asset and liability amounts. Three companies (The Mead Corporation, St. Regis Paper Company and Willamette Industries, Inc.) disclosed capitalized leases as a separate item on their statement of changes in financial position.

\* \* \* \* \*

The following are excerpts of lease disclosures made by certain of the companies included in the survey:

THE CONTINENTAL GROUP, INC.

Lease Footnote

In 1977, the Company changed the method of accounting for leases to comply with Statement No. 13 issued by the Financial Accounting Standards Board. The effect of this change on 1977 net earnings was immaterial. If the Company had accounted for all leases in existence before January 1, 1977 in accordance with Statement No. 13, net property, plant and equipment would have increased by approximately \$72 million and \$86 million and liabilities would have increased by approximately \$70 million and \$86 million at December 31, 1977 and 1976, respectively. The effect on 1977 net earnings for the year would have been immaterial.

Leased assets that were capitalized at December 31, 1976 or have been accounted for since January 1, 1977, as capital leases under Statement No. 13, were included in Property, Plant and Equipment at December 31 as follows:

<u>(in millions)</u>	<u>1977</u>	<u>1976</u>
Buildings	\$35.6	\$35.6
Equipment	40.4	37.1
Less accumulated depreciation	21.5	17.4
	<u>\$54.5</u>	<u>\$55.3</u>

In addition to capital leases, the Company has operating lease commitments. Total rental expense related to operating leases for the years ending December 31, 1977 and 1976 was \$51.8 million and \$48.3 million, respectively.

Future minimum rental payments on all noncancellable operating leases in effect as of December 31, 1977, are as follows:

(in millions)	Buildings	Equipment	Total
1978	\$ 16.7	\$ 7.8	\$ 24.5
1979	15.9	4.9	20.8
1980	14.1	2.5	16.6
1981	12.1	1.6	13.7
1982	10.5	1.1	11.6
1983-1987	38.3	2.2	40.5
After 1987	43.7	.7	44.4

Minimum rental payments	\$151.3	\$20.8	\$172.1
-------------------------	---------	--------	---------

At December 31, 1977, future minimum rental payments on capitalized leases determined in accordance with Statement No. 13 are as follows:

(in millions)	Buildings	Equipment	Total
1978	\$ 2.5	\$ 3.4	\$ 5.9
1979	2.4	3.4	5.8
1980	2.5	3.2	5.7
1981	2.4	2.8	5.2
1982	2.5	2.6	5.1
1983-1987	12.2	12.7	24.9
After 1987	46.0	47.4	93.4

Minimum rental payments	70.5	75.5	146.0
Less amount representing interest	39.4	40.6	80.0

Present value of minimum rental payments	31.1	34.9	66.0
Less current portion	.4	1.3	1.7

Long-term lease debt at December 31, 1977	\$30.7	\$33.6	\$64.3
---	--------	--------	--------

The amount necessary to reduce the net minimum rental payments to present value was calculated using the Company's estimated incremental borrowing rate in effect at the inception of the leases.



HAMMERMILL PAPER COMPANY

Long-Term Obligations Footnote

Lease Obligations

Capital leases represent certain leases covering facilities financed through industrial revenue bonds, which have been capitalized since they represent, in substance, installment purchases. It is not practicable under existing accounting procedures to determine the gross amount of assets by class and related accumulated depreciation relating to these capital leases.

In addition, the company and its subsidiaries have other long-term cancellable and noncancellable leases covering real estate, transportation equipment and other equipment expiring on various dates through 2011 with, in some instances, renewal privileges. Total rental expense for these operating leases was as follows:

(Thousands of dollars)	1977	1976
Minimum rentals .....	\$8,238	\$7,127
Less: sublease rentals.....	(193)	(168)
	<u>\$8,045</u>	<u>\$6,959</u>

Future minimum rental payments due under all noncancellable leases are as follows:

(Thousands of dollars)	Capital Leases	Operating Leases
1978 .....	\$ 4,563	\$ 4,874
1979 .....	4,528	4,284
1980 .....	4,583	3,647
1981 .....	4,424	3,058
1982 .....	4,068	2,762
1983 and subsequent .....	56,944	24,282
Total minimum lease payments.....	79,110	<u>\$42,907</u>
Interest included in rental payments.....	32,870	
Present value of net minimum lease payments .....	<u>\$46,240</u>	

In November 1976, the Financial Accounting Standards Board issued Statement No. 13, "Accounting for Leases" (SFAS No. 13), which is effective for leases entered into on or after January 1, 1977, and requires retroactive restatement of financial statements for fiscal years beginning after December 31, 1980. (The Securities and Exchange Commission will require retroactive restatement in fiscal years ending after December 25, 1978.)

Certain leases in effect at January 2, 1977, which have been accounted for as operating leases in accordance with existing accounting pronouncements, would be classified as capital leases under SFAS No. 13. If the company had given retroactive effect to SFAS No. 13, assets would have increased \$14,300,000, and liabilities would have increased \$15,600,000 (including current portion of \$1,400,000) at January 2, 1977. Assets would have increased \$10,300,000, and liabilities \$11,300,000 (including current portion of \$900,000) at January 1, 1978. The effect on net income for the year ended January 1, 1978, if such leases had been capitalized, would not have been significant.

Capital leases entered into in 1977 were not significant.

THE MEAD CORPORATION

Change in Accounting for Leases Footnote

The financial statements reflect the company's decision to early adopt the provisions of the Financial Accounting Standards Board statement with respect to accounting for leases. Provisions of this statement are to be applied retroactively. Accordingly, financial statements for 1976 have been restated. Captions in the accompanying financial statements were affected as follows:

Year Ended December 31	1977	1976
All dollar amounts in thousands		
Increase in property, plant and equipment (net).....	\$38,630	\$22,605
Charges to other captions.....	5,224	4,787
Increase in long-term debt:		
Current maturities.....	5,518	5,132
Long-term portion.....	38,336	22,260

In addition, retained earnings at December 31, 1971, were decreased by \$1,965,000 for the cumulative net earnings impact to that date. The adoption of this statement had no significant effect on net earnings in any of the years ended December 31, 1972, through December 31, 1977, and net earnings for 1972 through 1976 have not been restated; however, reclassifications have been made to reflect the change from rent expense to depreciation and interest expense.

Certain other reclassifications have also been made in the 1976 financial statements to conform to the classifications used in 1977.

## SCOTT PAPER COMPANY

### Lease Footnote

In 1977, Scott adopted the method of accounting for leases required by the Financial Accounting Standards Board and applied it retroactively to the Company's consolidated financial statements for 1975 and 1976.

The new standard defines two types of leases: capital and operating. A capital lease transfers substantially all of the benefits and risks of ownership of the leased property to the Company. The Company therefore accounts for it as an asset financed by a related debt obligation. All other types of leases are operating leases and are accounted for as operating expenses. Under the previous method, essentially all leases were accounted for as operating leases.

Capital Leases: The Company's capital leases consist primarily of its Philadelphia headquarters office and research center, four large warehouses, data processing equipment and the sales automobile fleet. As a result of the new accounting method, capital leases are reflected on the Company's consolidated balance sheet as follows:

(Thousands)	December 31	
	<u>1977</u>	<u>1976</u>
Land	\$ 149	\$ 149
Buildings	22,724	22,724
Machinery and equipment	<u>7,933</u>	<u>6,761</u>
	30,806	29,634
Accumulated depreciation	<u>(12,257)</u>	<u>(11,016)</u>
Capital leases	<u>\$18,549</u>	<u>\$18,618</u>
Current lease obligations	\$ 2,147	\$ 1,706
Long-term lease obligations	17,433	18,081
Total lease obligations	<u>\$19,580</u>	<u>\$19,787</u>

The cumulative effect of adopting this new method decreased 1975 earnings by \$608,000. This change in method did not have a material effect on reported earnings in 1977 and 1976, since the increases in interest expense (\$1,205,000 in 1977 and \$1,225,000 in 1976) and depreciation expense (\$1,889,000 in 1977 and \$1,744,000 in 1976) were offset by decreases in other costs and expenses.

Under the new accounting standard, the amount recorded as lease obligations represents the future minimum lease payments (\$31,596,000) less the implicit interest portion of those payments (\$12,016,000) to arrive at the present value of the future minimum lease payments. The future minimum lease payments and the present value of these payments at December 31, 1977, are as follows:

Year Ending December 31:	(Thousands)
1978	\$ 3,351
1979	3,098
1980	2,385
1981	1,503
1982	1,122
Later years	<u>20,137</u>
Total minimum lease payments	31,596
Interest portion of payments	<u>(12,016)</u>
Present value of future minimum lease payments (total lease obligations)	<u>\$19,580</u>

Operating Leases: The Company's operating leases consist principally of leases for office and warehouse space, data processing equipment and transportation equipment and are used generally to fulfill temporary or fluctuating needs. A majority of these leases expire during the next 3 years.

Rental expense for all operating leases was \$10,068,000 and \$7,989,000 for the years ended December 31, 1977 and December 31, 1976, respectively. The future minimum rental payments required under those operating leases having an initial or remaining non-cancelable lease term in excess of one year as of December 31, 1977, are as follows:

Year Ending December 31:	(Thousands)
1978	\$ 2,933
1979	1,487
1980	1,066
1981	805
1982	699
Later years	<u>4,812</u>
Total minimum payments required	<u>\$11,802</u>

WESTVACO CORPORATION

Leasing Activities Footnotes

The Company leases a variety of assets used in its operations including mobile equipment, computers, process control equipment and real estate such as administrative offices, paper converting plants and storage facilities. Most major leases for administrative offices and converting plants contain options which allow the Company to purchase the properties or to extend lease terms for periods up to 25 years, enabling the Company to retain the use of such facilities in established areas of operations. Certain leases provide for escalation of the lease payments as maintenance costs and taxes increase.

Capital leases. Assets acquired under capital leases included in plant and timberlands at October 31, 1977, are as follows:

In thousands

Machinery	\$3,128
Less: accumulated depreciation	(319)
	<u>\$2,809</u>

Minimum lease payments and their present value under the above leases for years after 1977 are as follows:

In thousands

1978	\$ 996
1979	905
1980	782
1981	393
1982	240
Later years	287
Minimum lease payments	<u>3,603</u>
Less: estimated executory costs	[207]
interest	<u>[580]</u>
Present value of net minimum lease payments	<u>\$2,816</u>

There were no noncancellable subleases, nor any contingent rentals paid, with respect to capital leases. Contingent rentals may be paid under certain vehicle leases based on mileage.

Executory costs include maintenance expenses and taxes. Interest is based on the lower of the Company's borrowing rate or the rate implicit in the lease payments at the inception of the lease.

The present value of net minimum lease payments is included in the current and noncurrent portions of long-term obligations.

Operating leases: Lease arrangements which are not classified as capital leases are considered operating leases. Minimum rental payments under operating leases that have initial or remaining noncancellable lease terms in excess of 12 months for years after 1977 are as follows:

In thousands	Real Estate	Equipment	Sublease Rentals	Net Rentals
1978	\$ 2,719	\$ 6,880	\$ [583]	\$ 9,016
1979	2,658	5,103	[545]	7,216
1980	2,580	3,508	[545]	5,543
1981	2,446	2,459	[545]	4,360
1982	2,365	1,708	[430]	3,643
1983-1987	11,122	2,512	[227]	13,407
1988-1992	10,766	232		10,998
1993-1997	1,997			1,997
Thereafter	<u>251</u>	<u>          </u>	<u>          </u>	<u>251</u>
Total	<u>\$36,904</u>	<u>\$22,402</u>	<u>\$[2,875]</u>	<u>\$56,431</u>

Minimum, contingent, sublease and net rentals under operating leases, other than leases with terms of one month or less that were not renewed, were \$14,838,000 (1976-\$13,678,000), \$1,456,000 (1976-\$1,342,000), \$1,015,000 (1976-\$1,014,000), and \$15,279,000 (1976-\$14,006,000), respectively.

Financing leases: In accordance with Securities and Exchange Commission definitions, the capitalization and amortization of all financing leases would not have had a material impact on net income.

1977 ACCOUNTING CHANGES

Nineteen companies in 1977 as compared to four in the prior year disclosed accounting changes as follows:

CHANGE IN ACCOUNTING PRINCIPLE - ADOPTION OF FAS No. #13

Prior Years' Financial Statements Not Restated

- . Boise Cascade Corporation
- . Chesapeake Corporation of Virginia
- . The Continental Group, Inc.
- . Crown Zellerbach Corporation
- . Federal Paper Board Company, Inc.
- . Fibreboard Corporation
- . Hammermill Paper Company
- . International Paper Company
- . Kimberly-Clark Corporation
- . Olinkraft, Inc.
- . St. Regis Paper Company
- . Southwest Forest Industries, Inc.
- . Westvaco Corporation
- . Weyerhaeuser Company
- . Willamette Industries, Inc.

Prior Years' Financial Statements Restated

- . Champion International Corporation
- . The Mead Corporation
- . Scott Paper Company

CHANGE IN ACCOUNTING POLICY FOR THE INVESTMENT TAX CREDIT  
FROM THE DEFERRED METHOD TO THE FLOW THROUGH METHOD

- . Great Northern Nekoosa Corporation
- . Scott Paper Company

CHANGE IN ACCOUNTING POLICY FOR DEPRECIATION  
FROM THE STRAIGHT-LINE TO UNITS-OF-PRODUCTION METHOD

- . Boise Cascade Corporation
- . International Paper Company
- . Southwest Forest Industries, Inc.

\* \* \* \* \*

Excerpts of certain disclosures are as follows:

## BOISE CASCADE CORPORATION

### Accounting Policy

#### Property

In January 1977, the Company adopted the units-of-production method of depreciation for property and equipment at certain of its wood products and paper manufacturing facilities in order to achieve a better matching of costs and revenues during the service lives of the facilities. This change did not have a material effect on consolidated earnings or on earnings of either segment during 1977 or on a cumulative basis for prior years. Facilities not affected by the change will continue to be depreciated on the straight-line method. The estimated service lives of the principal items of property and equipment range from 3 to 40 years.

#### Leases Footnote

The Company adopted the provisions of Financial Accounting Standards Board Statement No. 13 - Accounting for Leases, effective January 1, 1977. The provisions of this Statement were not applied to leases in existence before that date because the retroactive impact on net income and assets was not material...

## CHAMPION INTERNATIONAL CORPORATION

#### Commitments Footnote

In 1977, the Company changed its method of accounting for leases to comply with Statement No. 13 issued by the Financial Accounting Standards Board, the primary effect of which was to capitalize the assets and related lease obligations for all financing leases and to reflect interest and depreciation expense in lieu of lease rental expense.

Financial statements for prior periods have been restated to apply the new method retroactively. The change increased 1977 net income by \$81,088, decreased 1976 net income as previously reported by \$101,000 and decreased 1975 net income as previously reported by \$1,722,000...



## GREAT NORTHERN NEKOOSA CORPORATION

### Accounting Policy

#### Income Taxes

Beginning in 1977, the investment tax credit is reflected in income on the flow through method. Refer to Note (2) to Consolidated Financial Statements.

#### Change in Accounting for the Investment Tax Credit Footnote

In 1977, the Company adopted the flow through method of accounting for the investment tax credit, which recognizes the investment tax credit in the year the credit is deducted from taxes. Prior to 1977, the investment tax credit was recognized under the deferred method as a reduction of income taxes over the estimated useful lives of the related assets. This accounting change was made in order that the Company's financial reporting would conform more closely to the majority of companies in the forest products industry.

This change increased the Company's net income in 1977 by \$4.7 million or \$.30 a share. The cumulative effect on years prior to 1977, amounting to \$17.2 million, of changing the method of accounting for the investment tax credit is shown separately in the Consolidated Statements of Income. The balance, \$2.0 million, of the investment tax credit deferred in prior years has been reclassified, as of December 31, 1977, to accrued federal and state income taxes in the Company's Consolidated Balance Sheets, pending completion of examination of such years by the Internal Revenue Service.

Pro forma amounts shown in the Consolidated Statements of Income for 1976 reflect the retroactive application of the flow through method of accounting for the investment tax credit.

## INTERNATIONAL PAPER COMPANY

### Accounting Policy

PLANTS AND PROPERTIES. Effective January 1, 1977, the Company adopted, for financial reporting purposes, the Unit of Production method of depreciating its pulp and paper mills in order to more directly relate depreciation charges to wear and tear on facilities. The effect of this change on 1977 net earnings is not significant. Further, had this method been used in prior years, both its cumulative effect through December 31, 1977, and its effect on net earnings for the year 1976 would not have been significant...

SOUTHWEST FOREST INDUSTRIES, INC.

Accounting Policy

DEPLETION, AMORTIZATION, DEPRECIATION AND CAPITALIZATION. Effective January 1, 1977, the depreciation method at the Company's Snowflake, Ariz. paper mill was changed from straight-line to units-of-production. Depreciation of other plants and equipment is computed on the straight-line method using service lives of three to forty years.

Change in Depreciation Methods Footnote

Effective January 1, 1977, the method of computing depreciation at the Company's Snowflake, Ariz. paper mill was changed from straight-line to units-of-production. This method was adopted in order to more appropriately relate depreciation charges to the service life of the mill and to be consistent with the depreciation method in use for the Company's lumber and plywood plants. The cumulative effect of the change on years prior to 1977 of \$1,493,000 (net of income taxes of \$1,700,000) is included in income for 1977. The effect of the change in 1977 was to increase net income by approximately \$504,000 (\$.09 per share) and, had the new method been in effect in 1976, net income in 1976 would have increased by approximately \$786,000 (\$.16 per share).

ST. REGIS PAPER COMPANY

Accounting Change Footnote

In 1977, the Company changed its method of accounting for leases entered into on or after January 1, 1977, to conform with the requirements of Statement No. 13 of the Financial Accounting Standards Board.

Reference should be made to the Notes to Financial Statements captioned "Property, Plant, and Equipment" and "Non-Capitalized Lease Obligations and Commitments".

If the company had accounted for capital leases entered into prior to January 1, 1977, in accordance with the requirements of Financial Accounting Standards No. 13, assets would have been increased by approximately \$32,000,000 and \$43,000,000, and liabilities would have been increased by approximately \$35,000,000 and \$46,000,000 as of December 31, 1977 and 1976, respectively. Net earnings for the years ended December 31, 1977 and 1976, would not have materially changed.

WILLAMETTE INDUSTRIES, INC.

Accounting Policy

PROPERTY, PLANT AND EQUIPMENT - ....Plants which are leased under long-term lease arrangements were capitalized in 1977 in accordance with the 1977 Financial Accounting Standards Board statement on "Accounting for Leases". The cost of these plants is not significant in relation to the total investment in property, plant and equipment, nor did the adjustments made in 1977 to reflect retroactive application of the statement have a material impact on net earnings for the year.

## SEGMENT REPORTING

### FASB STATEMENT NO. 14

In December 1976, the Financial Accounting Standards Board issued Statement No. 14 entitled "Financial Reporting for Segments of a Business Enterprise". This statement requires that the financial statements of a business enterprise include certain information relating to:

- . The enterprise's operations in different industries.
- . Its foreign operations and export sales.
- . Its major customers.

Early application of this pronouncement was encouraged, however, the Statement became effective for financial statements with fiscal years beginning after December 15, 1976.

### ADOPTION OF FASB 14

Twenty-four of the twenty-five companies surveyed presented segment information in compliance with FASB 14. Of these twenty-four companies, six specifically disclosed that they were presenting such segment information to comply with FASB 14.

The one remaining company that did not present segment information was Westvaco Corporation. This company has a fiscal year ending October 31. Segment disclosure for this company will be required for its fiscal year ending October 31, 1978. Line of business information was presented in the Annual Report.

Also, one of the twenty-four companies (Weyerhaeuser Company) described itself as "a single segment enterprise and disaggregation is, therefore, not required".

The following analysis of segment reporting does not include Westvaco Corporation or Weyerhaeuser Company.

METHODS OF PRESENTATION

The following table summarizes the alternative methods of presentation utilized by the twenty-three companies that disclosed segment data:

<u>Location</u>	<u>Number of Companies</u>
Entirely in the footnotes.....	15
Separate schedule not within the financial statements but included as an integral part of the financial statements.....	8

REPORTABLE SEGMENTS

The number of reportable segments presented by the twenty-three companies in the survey which disclosed more than one segment was as follows:

<u>Number of Reportable Segments Presented Excluding "Other" or "Corporate" Segments</u>	<u>Number of Companies</u>
2	7
3	8
4	4
5	3
7	1

The descriptive titles of these reportable segments used by the companies varied extensively. The following table summarizes the use of such titles:

<u>Descriptive Title</u>	<u>Number of Companies</u>
Forest Products.....	5
Lumber.....	1
Wood Products.....	4
Timber and Wood Products.....	1
Mill Products.....	1
Building Materials (Products).....	7
Construction Products.....	1
Kraft and Recycled Fiber.....	1
Newsprint.....	1
Newsprint, Pulp and Forest Products....	1
Pulp.....	1
Pulp and Paper.....	4
Pulp, Paper and Paperboard Products....	1
Pulp Based and Related Products.....	1
Paper (Products).....	3
Paper and Paper Products.....	1

<u>Descriptive Title</u>	<u>Number of Companies</u>
Paper and Paperboard.....	1
Paper, Containerboard and Pulp.....	1
Paper and Specialties.....	1
Papers and Milk Cartons.....	1
Paper Converting and Distribution.....	1
Paper Packaging Products.....	1
Packaging (Products).....	3
Packaged Products.....	1
Packaging and Office Products.....	1
Bag Packaging.....	1
Industrial and Packaging Papers.....	1
Containers and Packaging.....	1
Container Products.....	2
Corrugated Containers.....	1
Converted Paper Products.....	1
Combination Paperboard.....	1
Folding Carton.....	1
Printing and Packaging Papers.....	1
Fine and Printing Papers.....	1
Specialty Printing.....	1
Consumer and Service.....	1
Consumer and Distribution.....	1
Distribution.....	2
Wholesale Distribution.....	1
Retail.....	1
Oil and Gas.....	1
Oil, Gas, and Minerals.....	1
Chemicals.....	2
Decorative Laminates.....	1
Industrial Products.....	2
Can Operations.....	1
Glassware.....	1
Diversified Businesses.....	1

In addition, ten companies included an "Other" segment, five companies included a "Corporate" segment and one company included both "Other" and "Corporate" segments.

Federal Paper Board Company, Inc. presented its industry segment information for five segments - Forest Products, Combination Paperboard, Folding Carton, Glassware and Other Industries. In addition, Federal broke down the net sales information for its Forest Products segment into Paperboard, Pulp, and Lumber and Timber.

Potlatch Corporation divided its operations into two identifiable segments - Wood Products and Pulp Based and Related Products. In addition, current year supplemental sales information was presented for the following subclassification of those segments. Wood Products - Lumber, Plywood and Other; Pulp Based and Related Products - Bleached Kraft Paperboard, Printing and Business Papers, Tissue, Folding Cartons, Liquid-tight Containers.

Scott Paper Company described its segment disclosure as follows:

The Financial Accounting Standards Board issued a new accounting standard, effective in 1977, which requires companies to report selected financial data relating to their business segments. Although Scott is primarily in the paper business, management has determined that it will report the Company's consolidated operations in three segments - the Packaged Products Division which manufactures a wide range of trademarked sanitary paper products, the S.D. Warren Division which manufactures printing, publishing, converting and specialty papers, and the Company's other operations which comprise approximately 8% of sales. Included in other operations are the Foam, Brown Jordan and Scott Graphics Divisions. Inter-segment sales are insignificant and have been eliminated.

Since Scott's forest products and pulp operations are vertically integrated with the Packaged Products and S.D. Warren Divisions, the sales, operating profits and identifiable assets from these operations are allocated to those segments based on annual raw material consumption.

\* \* \* \* \*

Number of Years Presented

The following table summarizes the number of years for which segment information was provided:

<u>Number of Years</u>	<u>Number of Companies</u>
1	12
2	7
5	4

\* \* \* \* \*

Because of the extensive nature of business segment disclosures, the following are only excerpts from the disclosures made by certain companies included in the survey:

CHAMPION INTERNATIONAL CORPORATION

Business Segments Footnote

Information about the Company's operations in different businesses for the years ended December 31, 1977 and 1976 is as follows:

	(in thousands of dollars)					
	Building Materials	Papers and Milk Cartons	Paper Packaging Products	Elimi- nations	Consoli- dated	
Net Sales to Unaffiliated Customers:						
1977.....	\$ 1,548,000	\$ 1,056,918	\$ 521,703	\$ -	\$ 3,126,621	
1976.....	1,459,956	1,078,218	541,172	-	3,079,346	
Intersegment Net Sales:						
1977.....	\$ 27,660	\$ 1,395	\$ 304	\$(29,359)	\$ -	
1976.....	22,522	980	-	(23,502)	-	
Total Net Sales:						
1977.....	\$ 1,575,660	\$ 1,058,313	\$ 522,007	\$(29,359)	\$ 3,126,621	
1976.....	1,482,478	1,079,198	541,172	(23,502)	3,079,346	
Segment Income from Operations:						
1977.....	\$ 134,249	\$ 134,753	\$ 55,299	\$ 24	\$ 324,325	
1976.....	100,566	126,995	71,139	285	298,985	
Identifiable Assets:						
1977.....	\$ 678,755	\$ 780,067	\$ 342,120	\$ -	\$ 1,800,942	
1976.....	626,371	818,481	339,032	(4)	1,783,880	
Capital Expenditures:						
1977.....	\$ 57,251	\$ 85,658	\$ 40,185	\$ -	\$ 183,094	
1976.....	25,193	77,228	16,553	-	118,974	
Depreciation Expense and Cost of Timber Harvested:						
1977.....	\$ 44,530	\$ 42,691	\$ 22,186	\$ -	\$ 109,407	
1976.....	40,454	39,145	21,901	-	101,500	



DIAMOND INTERNATIONAL CORPORATION

Following the Notes to Financial Statements

Financial Data By Business Segments (millions of dollars)

	Total Sales	Inter- Segment Sales	Net Customer Sales	Operating Income	Total Assets	Capital Expend- itures	Deprecia- tion, Depletion, Amorti- zation
<u>1977</u>							
Lumber	\$ 130	\$ 17	\$ 113	\$ 14	\$ 74	\$ 9	\$ 7
Retail	193	1	192	15	66	4	1
Packaging	398	3	395	36	231	18	14
Pulp and Paper	142	9	133	5	169	19	9
Specialty Printing	76	2	74	11	43	2	2
Other	<u>74</u>	<u>2</u>	<u>72</u>	<u>10</u>	<u>43</u>	<u>1</u>	<u>2</u>
Total Segments	\$ <u>1013</u>	\$ <u>34</u>	979	91	626	53	35
Corporate Office				(6)	10	2	1
Interest Expense				(5)			
Total			\$ <u>979</u>	\$ <u>80</u>	\$ <u>636</u>	\$ <u>55</u>	\$ <u>36</u>
Total Foreign included above			\$ <u>65</u>	\$ <u>12</u>	\$ <u>54</u>	\$ <u>3</u>	\$ <u>3</u>
<u>1976</u>							
Lumber	\$ 118	\$ 14	\$ 104	\$ 13	\$ 75	\$ 13	\$ 6
Retail	152	1	151	11	53	3	1
Packaging	369	2	367	38	217	20	13
Pulp and Paper	127	6	121	10	152	28	7
Specialty Printing	76	-	76	12	43	2	1
Other	<u>70</u>	<u>2</u>	<u>68</u>	<u>10</u>	<u>41</u>	<u>1</u>	<u>1</u>
Total Segments	\$ <u>912</u>	\$ <u>25</u>	887	94	581	67	29
Corporate Office				(6)	13	1	1
Interest Expense				(4)			
Total			\$ <u>887</u>	\$ <u>84</u>	\$ <u>594</u>	\$ <u>68</u>	\$ <u>30</u>
Total Foreign included above			\$ <u>56</u>	\$ <u>9</u>	\$ <u>47</u>	\$ <u>3</u>	\$ <u>2</u>

ST. REGIS PAPER COMPANY

Preceding the Financial Statements

Segment Information for 1977

Business Segments (thousands)	Kraft and Recycled Fiber	Printing and Packaging Papers	Newsprint	Construction Products	Container	Bag Packaging	Oil and Gas	Other
Sales:								
Trade	\$358,699	\$331,011	\$173,973	\$278,004	\$237,058	\$202,304	\$24,338	\$390,950
Intersegment	194,894	9,770	188	42,291	5,072	564	1,862	9,750
Total sales	553,593	340,781	174,161	320,295	242,130	202,868	26,200	400,700
Profit from operations	49,183	39,998	39,875	44,404	10,311	8,657	21,929	15,967
Assets at December 31, 1977	485,319	250,135	217,541	142,814	109,688	81,925	11,835	628,168
Depreciation, depletion, and amortization	25,443	15,207	11,131	5,587	5,166	3,017	570	11,006
Additions to property, plant, and equipment	46,610	13,016	10,184	9,612	6,115	2,964	823	11,524

WEYERHAEUSER CORPORATION

Business Segments Footnote

The Company, due in large measure to its timber self-sufficiency, has established very large vertically integrated manufacturing complexes economically dependent upon and non-severable from their supporting timber bases. These timber bases are as large as 600,000 acres for a given manufacturing complex and provide the principal common raw material - trees - used to make products such as logs, lumber, plywood, particleboard, panels, pulp, paper, paperboard, consumer packaging, molded products, chemicals, fuels and so forth. These products are manufactured to a significant degree in shared facilities where, for instance, the production of lumber and plywood generates a co-product, chips, which represents more than 50% of the cubic content of a tree and is the prime raw material in the production of pulp. In this environment intracompany transfers are significant and joint raw material and conversion costs are a major component of total product costs. In view of the Company's very large timber holdings and its highly integrated manufacturing complexes, uniquely dependent upon those timber holdings, the Company, exclusive of its real estate operations, is a single segment enterprise and disaggregation is, therefore, not required.

## DISCLOSURE OF SELECTED QUARTERLY FINANCIAL DATA

Effective for fiscal years beginning after December 25, 1975, the Securities and Exchange Commission is requiring the disclosure of selected quarterly financial data in Annual Reports filed by companies on Form 10-K. Such disclosures include net sales, gross profit, income before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income and net income for each full quarter of the year and any subsequent interim period for which income statements are presented. Differences between information included in the annual report and the quarterly reports are to be reconciled with an explanation or a reason for the difference. Disclosure is also to be made of the effect of any disposals of segments of a business, and extraordinary, unusual or infrequently occurring items recognized in each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented, as well as the aggregate effect and the nature of year-end or other adjustments which are material to the results of that quarter. In addition, the Commission also expressed the belief that this disclosure should also be included in the published annual reports furnished to stockholders.

All of the companies included in the survey disclosed some comparative quarterly financial data.

## QUARTERLY DATA DISCLOSED

The specific disclosures made by the companies surveyed included the following:

<u>Disclosed Quarterly Data</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
Net sales.....	23	22
Net sales and other revenues.....	2	3
Total costs and expenses.....	1	5
Cost of sales.....	4	3
Interest expense.....	2	2
Selling, general and administrative expenses	3	3
Operating profit.....	3	8
Income taxes.....	3	4
Gross profit (gross margin).....	14	12
Net earnings (net income).....	25	25
Primary earnings per share.....	25	25
Earnings per share for discontinued operations.....	-	1
Fully diluted earnings per share.....	8	8
Income from discontinued operations.....	1	1
Costs of new plant.....	-	1
Nonrecurring gains or losses.....	1	1
Equity income.....	1	1
Materials, labor and other expenses.....	1	1
Income before extraordinary gain.....	1	-
Cost of goods sold and operating expenses...	1	-
Depreciation, amortization, and cost of fee timber harvested.....	1	-
Dividends.....	5	-
Price range of stock.....	4	-
Primary EPS before extraordinary gain.....	1	-

## EXPLANATION OF QUARTERLY FLUCTUATIONS

Four companies in 1977 as compared to six in 1976 specifically noted that fluctuations in their quarterly data were caused by changes made to the estimated effective tax rates which were used in previous quarters.

EXPLANATION OF RESTATED QUARTERLY DATA

Twelve companies disclosed that a portion of the quarterly financial data presented had been restated or adjusted because of:

	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
. Stock splits	4	7
. Accounting changes	3	-
. Acquisitions	2	2
. Stock dividends	1	-
. Additional investment tax credit	1	-
. Restoration of plant to continuing operations	1	-

MANNER OF DISCLOSURE

Twenty-two companies disclosed the required quarterly financial data in the notes to the financial statements.

Three companies made references in their notes to quarterly financial data which was included elsewhere in the report. For example:

FEDERAL PAPER BOARD COMPANY, INC.

Summarized Quarterly Financial Data (Unaudited)

Quarterly sales, gross profit, net income and earnings per share, for 1977 and 1976, are included in the Financial Summary of this annual report.

All twenty-five of the companies presenting their quarterly financial data labeled such data as "unaudited" as permitted by the Securities and Exchange Commission.

\* \* \* \* \*

The following are examples of quarterly financial data disclosure:

CONSOLIDATED PAPERS, INC.

Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for 1977 and 1976:

	<u>Three Months Ended</u>			
	<u>12/31/77</u>	<u>12/31/76</u>	<u>9/30/77</u>	<u>9/30/76</u>
Net sales.....	\$87,542,134	\$74,003,511	\$83,532,385	\$73,568,908
Gross profit.....	23,145,687	14,998,958	19,279,303	15,817,477
Net income.....	8,566,072	5,318,019	6,873,816	5,815,311
Net income per share.....	1.64	1.03	1.32	1.13

	<u>Three Months Ended</u>			
	<u>6/30/77</u>	<u>6/30/76</u>	<u>3/31/77</u>	<u>3/31/76</u>
Net sales.....	\$80,768,444	\$71,627,498	\$80,789,780	\$74,034,020
Gross profit.....	18,026,975	16,047,157	16,150,695	15,199,419
Net income.....	5,712,671	5,358,617	5,286,357	5,175,167
Net income per share.....	1.10	1.04	1.02	1.01

Earnings per share are based upon the weighted average number of shares outstanding during the period and reflect the two-for-one stock split of May, 1976 with the 1976 first quarter data restated.

FEDERAL PAPER BOARD COMPANY, INC.

Summarized Quarterly Financial Data - 1977 and 1976

(in thousands except per share amounts)		Earnings Per Share (1)				
		Net Sales	Gross Profit	Net Income	No Dilution	Fully Diluted
1977	1st (12 weeks) (2)(4)	\$ 90,616	\$12,070	\$ 2,412	\$ .35	\$ .31
	2nd (12 weeks) (4)	97,896	16,827	6,123	.98	.79
	3rd (12 weeks) (3) (4)	86,528	13,877	587	.02	.02
	4th (16 weeks) (4)	122,212	16,989	4,689	.70	.60
Year (52 weeks)		\$397,252	\$59,763	\$13,811	\$2.05 (5)	\$1.77
1976	1st (12 weeks)	\$ 88,651	\$16,810	\$ 5,908	\$1.00	\$ .76
	2nd (12 weeks)	95,097	17,845	6,316	1.07	.82
	3rd (12 weeks)	90,261	16,717	5,929	1.00	.77
	4th (17 weeks)	119,571	16,819	4,436	.67	.56
Year (53 weeks)		\$393,580	\$68,191	\$22,589	\$3.74	\$2.91

- (1) Adjusted for 2-for-1 stock split August 13, 1976.
- (2) Net income in the first quarter of 1977 suffered from the generally poor business conditions which began late in 1976. In addition, weather conditions in January and February caused curtailments at both the Riegelwood operations and the Glassware Division. Start-up problems throughout the quarter at Riegelwood also affected earnings.
- (3) Lower third quarter sales resulted principally from poor volume in the recycled paper-board mills and lower pulp prices. Earnings were substantially lower for the quarter because of these causes and operating inefficiencies at Riegelwood. Third quarter earnings also reflect the \$5.4 million charge in connection with the Facilities Consolidation Plan.

- (4) The provision for taxes used in the first quarter was 48% compared to 42% in the same quarter 1976. The effective tax rate was reduced to 40% at the end of the second quarter to reflect the tax benefits available from the company's contribution to the Nature Conservancy. Second quarter results include a cumulative provision adjustment of about \$380,000 or \$.07 per share, before dilution. The tax rate was lowered at the end of the third quarter to 38% to reflect the effect on taxable income of the Facilities Consolidation Plan and to 36.9% at year end as the years investment credit and other tax benefits were finalized. These rate reductions resulted in adjustments of about \$230,000 (\$.04 per share) and \$160,000 (\$.03 per share) in the third and fourth quarters, respectively.
- (5) Does not total due to individual quarterly computations.

FIBREBOARD CORPORATION

Quarterly Financial Information - Unaudited

	Net Sales	Cost of Goods Sold	Income (Loss) from Continuing Operations	Income (Loss) From Discontinued Operations	Income (Loss) Before Extraordinary Gain	Net Income (Loss)	Primary Income (Loss) Per Share Before Extraordinary Gain	Primary Net Income (Loss) Per Share
1977 Quarter ended								
March 31	\$ 52,978	\$ 48,073	\$ (865)	-	\$ (865)	\$ (865)	\$ (.28)	\$ (.28)
June 30	59,637	52,939	993	-	993	1,202	.28	.34
September 30	57,346	52,386	51	-	51	179	(.01)	.03
December 31	57,998	51,002	1,051	\$ 3,721	4,772	5,935	1.43	1.79
Year	\$227,959	\$204,400	\$ 1,230	\$ 3,721	\$ 4,951	\$ 6,451	\$ 1.42	\$ 1.88
1976 Quarter ended								
March 31	\$ 48,725	\$ 43,048	\$ (481)	\$ 752	\$ 271	\$ 271	\$ .06	\$ .06
June 30	53,762	47,204	1,577	(40)	1,537	1,537	.45	.45
September 30	50,850	45,570	(144)	221	77	77	-	-
December 31	51,622	48,270	(2,067)	(33,874)	(35,941)	(35,941)	(11.00)	(11.00)
Year	\$204,959	\$184,092	\$ (1,115)	\$ (32,941)	\$ (34,056)	\$ (34,056)	\$ (10.49)	\$ (10.49)

The information for the first three quarters of 1977 and all quarters of 1976 has been restated to reflect the restoration to continuing operations status of the plant mentioned in Note 4.



SCOTT PAPER COMPANY

Quarterly Highlights  
(Unaudited)

	(Millions, except on a per common share basis)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<u>1977</u>				
Sales	\$360	\$380	\$380	\$400
Gross Margin (1)	106	116	115	116
Net Income (2)	52 (3)	19	20	8
Per Common Share				
Net Income	\$1.35(4)	\$ .50	\$ .51	\$ .20
Dividends	.19	.19	.19	.19
Market Price				
High	20-3/4	18-1/8	17-5/8	14-1/2
Low	16-7/8	16	13	13
<u>1976</u>				
Sales	\$314	\$350	\$345	\$365
Gross margin (1)	97	114	106	116
Net income	17	19	17	20
Per common share				
Net income	\$ .49	\$ .56	\$ .46	\$ .50
Dividends	.17	.17	.19	.19
Market price				
High	24-1/8	23-3/8	21-7/8	20-7/8
Low	14-1/4	19-3/8	18-1/4	15-5/8
Pro forma amounts(5)				
Net income	\$ 22	\$ 25	\$ 22	\$ 27
Net income per common share	.63	.74	.59	.69

(1) Sales less product costs.

(2) Net income has been increased by \$38.4 million, \$1.8 million, and \$2.7 million in the first, second, and third quarters, respectively, from the amounts previously reported as a result of the change to the flow through method of accounting for investment tax credit.

(3) Includes cumulative effect of accounting change of \$37.1 million.

(4) Includes cumulative effect of accounting change of \$.96.

(5) Assuming the flow through method had been used in prior years.

ST. REGIS PAPER COMPANY

Quarterly Results (Unaudited)

Unaudited quarterly financial results for the years ended December 31, 1977 and 1976, are summarized below (expressed in millions of dollars except per share amounts):

As Previously Reported

Quarters	Net Sales		Gross Profit		Net Earnings	
	1977	1976	1977	1976	1977	1976
1st	\$ 422.6	\$ 395.8	\$ 64.5	\$ 74.9	\$ 15.7	\$ 21.5
2nd	467.9	420.6	80.7	80.2	24.5	26.0
3rd	459.1	409.9	81.0	73.3	25.0	22.5
4th	-	415.8	-	70.4	-	21.3

As Previously Reported

Quarters	Earnings Per Share			
	Primary		Assuming Full Dilution	
	1977	1976	1977	1976
1st	\$ .64	\$ .92	\$ .63	\$ .87
2nd	1.01	1.09	.98	1.05
3rd	1.02	.93	1.00	.90
4th	-	.88	-	.86

As Restated

Quarters	Net Sales		Gross Profit		Net Earnings	
	1977	1976	1977	1976	1977	1976
1st	\$ 467.1	\$ 433.2	\$ 80.1	\$ 85.1	\$ 20.9	\$ 25.1
2nd	512.9	455.8	94.9	89.0	28.9	28.4
3rd	505.8	451.7	94.9	85.9	28.6	28.7
4th	510.5	457.9	97.4	83.5	28.4	25.3
<b>Total</b>	<b>\$1,996.3</b>	<b>\$1,798.6</b>	<b>\$367.3</b>	<b>\$343.5</b>	<b>\$106.8</b>	<b>\$107.5</b>

As Restated

Quarters	Earnings Per Share			
	Primary		Assuming Full Dilution	
	1977	1976	1977	1976
1st	\$ .66	\$ .82	\$ .65	\$ .78
2nd	.91	.91	.89	.88
3rd	.90	.91	.88	.89
4th	.89	.79	.88	.79
<b>Total</b>	<b>\$ 3.36</b>	<b>\$ 3.43</b>	<b>\$ 3.30</b>	<b>\$ 3.34</b>

The 1977 and 1976 amounts have been restated to reflect the December 1977 acquisition of Southland Paper Mills, Inc., which was accounted for as a pooling of interests. (See the Note to Financial Statements captioned "Acquisitions.")

Fourth-quarter 1976 results were favorably affected by a reduction from 35.7 percent to 33.3 percent in the company's full-year effective tax rate. This reduction was principally due to lower than forecasted full-year earnings; as a result, the proportion of total earnings to be taxed at the capital gains rate of 30 percent (principally from timber cutting) increased, while the amount of earnings to be taxed at 48 percent decreased.

## REPLACEMENT COST DISCLOSURES IN THE ANNUAL REPORT TO SHAREHOLDERS

The Securities and Exchange Commission in its Accounting Series Release No. 190 added Rule 3-17 to Regulation S-X to require that certain companies disclose in their Annual Report to the Commission on Form 10-K specific unaudited replacement cost information for a company's productive capacity, inventories, cost of sales and depreciation charges. In addition, Staff Accounting Bulletin No. 7 presented the interpretation that while all of the information required by Rule 3-17 need not be included in a company's Annual Report to its Shareholders, the notes to the financial statements included in the report to shareholders should contain an unaudited generalized description (no specific quantitative data required) of the impact of changes in the prices of specific goods and services on a company and a reference to the detailed replacement cost data contained in the 10-K.

This Rule was effective for fiscal years ending on or after December 25, 1976. The requirements of this Rule did not apply to two of the companies included in the 1976 survey since their fiscal year ended before December 25, 1976.

Twenty-three of the companies in the 1977 and 1976 surveys used a separate footnote to generally discuss the subjects of replacement costs and/or the impact of inflation on the company. One of these companies (Boise Cascade Corporation) used a Replacement Cost sub-heading in its "Summary of Significant Accounting Principles" to cross-reference to a summary discussion of the unaudited replacement cost data contained in the Financial Review section of the Annual Report to Shareholders. Another company (Willamette Industries, Inc.) included a discussion of replacement costs in its "Managements' Discussion". Two companies made reference in their 1977 unaudited replacement cost data footnote to their Management's Review section of the Annual Report for information concerning the impact of inflation on the company's operations. Twenty-five companies included in their 1977 and 1976 annual reports to shareholders only general information on replacement costs and an acknowledgement that the required detail disclosures were contained in the company's Form 10-K. None of the companies included in the surveys disclosed any quantitative data concerning replacement costs in their annual reports to shareholders.

### FOOTNOTE DISCLOSURES

The following are replacement cost disclosures made in 1977 annual reports to shareholders by certain of the companies included in the survey.

## BOISE CASCADE CORPORATION

### Financial Review Section

REPLACEMENT COST. One of the most important issues we face is inflation, which not only erodes the purchasing power of people living on fixed incomes but also can diminish a company's profitability and liquidity. Because of inflation, a substantially greater capital investment than was originally required to purchase or construct existing plants and equipment would be required to replace them with assets of equal productive capacity. In accordance with a Securities and Exchange Commission requirement, the company has estimated the cost of replacing the major elements of its productive capacity at year end and the impact on depreciation expense if, in fact, these assets were replaced.

For purposes of these estimates, the term "replacement cost" as defined by the SEC, is "the lowest amount that would have to be paid in the normal course of business to obtain a new asset of equivalent operating or productive capability," based on prevailing prices at December 31, 1977. Using this definition and applying it to all company facilities (excluding assets which are not expected to be replaced) it is estimated that the total replacement cost of these facilities would be approximately 240% of original cost. Based on these higher replacement costs, depreciation expense would be approximately 206% of the comparable historical depreciation expense related to these facilities.

Certain operating cost savings would result if existing assets were replaced with the new and more efficient facilities assumed in estimating the replacement cost of productive capacity. We have not estimated precisely these cost savings, but we believe they would be large enough to substantially offset the higher depreciation expense implied by the replacement cost depreciation calculation. These cost savings would result from reductions in costs for direct labor, materials, repairs and maintenance, energy and other indirect costs, less waste and improved quality.

The company's 1977 annual report to the Securities and Exchange Commission on Form 10-K contains additional information about the estimated replacement cost of inventories, plant and equipment and company-owned timber, as well as the related effects on cost of sales, depreciation and cost of company timber harvested for the year ended December 31, 1977. A further discussion of the methodology employed to develop the replacement cost data, including that discussed above, is also included in the Form 10-K, which is available on request.

## CHAMPION INTERNATIONAL CORPORATION

### Replacement Cost (Unaudited) Footnote

In 1976, the Securities and Exchange Commission amended its rules and regulations governing annual financial reporting by requiring the disclosure of certain replacement cost data that estimates part of the current and cumulative impact of inflation and other economic factors on the Company's operations. Accordingly, estimates of the replacement cost of productive capacity and inventories at December 31, 1977 and 1976 and the related estimated effects of such costs on depreciation expense and cost of sales for the years then ended will be reflected in the Company's Annual Report to the Commission on Form 10-K. The information in Form 10-K should not be interpreted to indicate that the Company actually has present plans to replace its productive capacity or that actual replacement would or could take place in the manner assumed in estimating the information.

The replacement cost disclosures in Form 10-K will not reflect all of the effects of inflation and other economic factors on the Company's current cost of operating the business. The Company has not attempted to quantify the total impact of inflation and changes in other economic factors on its business but has demonstrated over the years, on average, the ability to maintain profit margins through adjusting selling prices, technological improvements, operating efficiencies, changing product mix and other means.

## CROWN ZELLERBACH CORPORATION

### Effect of Inflation - Replacement Cost (Unaudited) Footnote

As required by Securities and Exchange Commission regulation S-X, Article 3-17, the Corporation presents the following general discussion of the replacement cost of its inventories and productive capacity.

During inflationary periods, the Corporation continually experiences increases in labor costs as well as costs of other goods and services it consumes. It supplies over half of its wood fiber needs from its own timberlands. Because of the short time span between purchase and use of the ingredients of its manufactured items, the Corporation has generally been able to reflect relatively current costs in its financial statements, and it attempts to maintain its profit margins through increases in selling prices. However, demand factors and competitive conditions sometimes prevent it from doing so.

The age of the Corporation's productive capacity varies widely. The cost of productive capacity reflects not only the original cost of facilities, but also capital improvements and modifications over the years. If the Corporation's productive capacity were replaced

today, the cost would be greater than its historical cost. However, efficiencies in location and operation which might be achieved through replacement could partially mitigate the impact of increased replacement costs on earnings.

Reference is made to the Corporation's Annual Report on Form 10-K (a copy of which is available on request) for quantitative information with respect to the estimated replacement cost of inventories and properties at December 31, 1977, and the related estimated effect of such costs on cost of goods sold and depreciation, amortization and cost of timber harvested for the year then ended.

#### THE MEAD CORPORATION

##### Replacement Cost Data - (Unaudited) Footnote

Mead management continues to be concerned about the effect of inflation on the company's income and asset base. The Securities and Exchange Commission requires disclosure of replacement cost data, not only for plant and equipment, but also for inventories, cost of sales, and depreciation in annual reports filed with the Commission.

The company, through its use of the LIFO method of inventory valuation, matches the current costs of production materials, labor and overhead items against current sales, thereby approximating replacement cost of products sold. The company, subject to the effects of competitive pressures, reflects these higher production costs in its pricing structures.

Concurrently, the replacement costs of productive capacity have reflected inflationary pressures. As a result, the cost of replacing existing productive capacity is substantially in excess of historical costs. Accordingly, depreciation and depletion charges based on replacement costs would substantially exceed those based on historical cost. It should be pointed out, however, that should the company's productive capacity be replaced, certain operating efficiencies would normally be realized, thus partially offsetting some of the effects of such escalating costs.

Estimates of replacement cost are not intended to be all-inclusive assessments of the impact of inflation, nor is the data indicative of company plans to, in fact, replace existing facilities.

Specific data, estimating the current replacement cost of inventory and productive capacity and the effect on cost of sales and depreciation expense, are disclosed in the company's annual report on Form 10-K filed with the Securities and Exchange Commission, along with the methodologies utilized to develop the data.

WILLAMETTE INDUSTRIES, INC.

Management's Discussion and Analysis of the Summary  
of Consolidated Earnings Section

Replacement Cost

The Company's annual report on Form 10-K, filed with the Securities and Exchange Commission in late March 1978, will contain certain data with respect to the replacement cost of inventories, timber reserves and productive capacity at December 31, 1976 and 1977, together with the estimated effect on cost of goods sold for the two years.

The Company's policy of using LIFO cost to value inventories minimizes the inflationary impact on variable production costs included in cost of sales. Also, since the Company's timber reserves are replaced through reforestation and forest management, which costs are largely expensed as incurred, the effect of replacement cost of timber reserves on earnings would not be significant over the long run.

The cumulative impact of inflation over the years has no doubt resulted in higher costs than those originally required for the acquisition of existing plant and equipment. Higher costs can also be attributed to advancing technology and environmental concerns. These may be offset in part by productivity gains realized because of technological improvement.

The information presented in the annual report Form 10-K should not be interpreted to mean that the Company has any actual plans to replace its productive capacity in the manner indicated, nor does it purport to quantify all of the effects of inflation on the Company's operating earnings.

SELECTED FINANCIAL STATISTICS

<u>Ratios</u>	.....Survey..... Weighted			
	...Average...		....Median...	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Current Ratio (current assets ÷ current liabilities).....	2.12	2.0	2.24	2.1
Acid Test Ratio (quick assets (cash, accounts receivable and short-term investments) ÷ current liabilities)....	1.1	1.1	1.05	1.1
Accounts Receivable Turnover Ratio (net sales ÷ average year-end accounts receivable).....	10.94	11.1	11.43	11.6
Fixed Assets to Long-term Debt Ratio (fixed assets ÷ long-term debt).....	2.18	2.45	2.26	2.67
Equity to Long-term Debt Ratio (equity ÷ long-term debt).....	2.12	2.12	2.01	2.19
Price Earnings Ratio (average market price ÷ primary earnings per share)....	8.10	9.05	7.88	8.86

Percentages

Doubtful Accounts Receivable Percentage (average year-end allowance ÷ average year-end gross receivables).....	3.2 %	3.6 %	2.6 %	3.1 %
Equity to Assets (owners' equity ÷ total assets).....	52.8 %	52.1 %	53.3%	54.6 %
Return on Invested Capital (income before extraordinary items and discontinued operations ÷ owners' equity).....	12.9 %	13.4 %	12.8 %	13.5 %
Profit Margin (earnings before income taxes ÷ net sales).....	9.3 %	9.8%	9.3 %	11.0 %



SELECTED BALANCE SHEET ITEMS  
AS A PERCENTAGE OF TOTAL ASSETS

<u>Balance Sheet Items</u>	Percent of Total Assets			
	Survey Weighted Average		Survey ...Median...	
	<u>1977</u>	<u>1976</u>	<u>1977</u>	<u>1976</u>
Cash and Cash Items (including short-term investments).....	5.2%	6.5%	4.5 %	4.7%
Accounts Receivable, net of allowance for doubtful accounts.....	10.9%	10.7%	11.2 %	11.4%
Inventories, stated at lower of cost or market.....	14.1%	14.7%	16.0 %	16.4%
Non-Current Investments in Non-consolidated Affiliates.....	5.1%	4.5%	1.7 %	2.8%
Property, Plant and Equipment, including Timberlands, net of accumulated depreciation and depletion.....	60.5%	59.8%	62.32%	65.2%
Current Liabilities.....	14.7%	16.2%	12.9%	14.4%
Long-term Debt.....	25.0%	24.2%	26.0%	26.0%

ANNUAL REPORTS ON FORM 10-K

REPLACEMENT COST DISCLOSURES

INDEX

	<u>Page</u>
. Format of Disclosures.....	96
. Replacement Cost Estimation Methods Used.....	97
.. Productive Capacity.....	97
.. Cost of Sales.....	98
.. Inventories.....	98
.. Fee Timber.....	99
.. Depreciation Expense.....	101
.. Accumulated Depreciation.....	101
. Fully Depreciated Assets.....	102
. Items Excluded from Replacement Cost Disclosures...	102
. Miscellaneous Items Included in Replacement Cost Disclosures.....	103
. Operating Efficiencies.....	104
. Additional Disclosures.....	105
. Excerpts of Certain Replacement Cost Disclosures... 106	
.. Replacement Cost Disclosed in Ranges.....	106
.. Productive Capacity.....	108
.. Cost of Sales.....	111
.. Inventories.....	113
.. Fee Timber.....	116
. Summary of Certain Replacement Cost Disclosures Expressed as a Percentage Increase from the Related Historical Cost Amounts.....	120

REPLACEMENT COST DISCLOSURES IN THE  
ANNUAL REPORT ON FORM 10-K

Accounting Series Release No. 190 amended Regulation S-X by establishing Rule 3-17 which requires the disclosure of replacement cost data for companies required to file with the Securities and Exchange Commission and whose inventories and gross property, plant and equipment exceed certain amounts. The data required to be disclosed includes:

- . Current replacement cost of inventories;
- . Cost of sales computed on the basis of the replacement cost of the goods or services at the time of sale;
- . Gross (new) and depreciated replacement cost of productive capacity; and
- . Depreciation, depletion and amortization expense on a replacement cost basis.

In addition, a description of the methods employed in computing the above disclosures is also required.

This Rule was effective for years ending on or after December 25, 1976.

FORMAT OF DISCLOSURES

Eighteen companies in 1977 disclosed unaudited replacement cost data as part of one of the notes to the financial statements while the remaining companies disclosed this data in a separate section which in most cases followed the notes to the financial statements. All of the disclosures were labeled as unaudited.

The various titles given to the replacement cost disclosures were as follows:

<u>Title</u>	Number of Companies <u>1977</u>
. Replacement Cost Information (Unaudited)....	11
. Replacement Cost (Unaudited).....	2
. Replacement Cost Data (Unaudited).....	2
. Asset Replacement Cost (Unaudited).....	2
. Estimated Replacement Cost Information (Unaudited).....	2
. Replacement Cost Data (included in the unaudited financial information footnote).	1
. General Description of the Impact of Inflation (Unaudited).....	1*

FORMAT OF DISCLOSURE - (Continued)

<u>Title</u>	<u>Number of Companies 1977</u>
. Asset Replacement Cost Information (Unaudited).....	1
. Supplemental Information on Replacement (Unaudited).....	1
. Effect of Inflation - Replacement Costs (Unaudited).....	1
. Data Describing Replacement Cost of Inven- tories, Productive Capacity, and Related Replacement Cost Information for Certain Costs and Expenses (Unaudited).....	1
. Unaudited Replacement Cost Information.....	1*

\*Southwest Forest Industries, Inc. made disclosures in two sections of the report.

All companies disclosed the quantitative replacement cost data for both years as specific dollar amounts except for (1) St. Regis Paper Company which disclosed its replacement cost data for productive capacity, depreciation and cost of sales in ranges and fee timber and inventories in specific dollar amounts and (2) Federal Paper Board Company which made all of its replacement cost disclosures in ranges except for depreciation expenses and the cost of timber harvested.

REPLACEMENT COST ESTIMATION METHODS USED

Productive Capacity

Most companies included in the survey utilized a combination of several methods for estimating the replacement cost of their productive capacity. The use of these various methods is summarized as follows:

<u>Methods Used</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
Combination of Engineering Estimates*, specific pricing and indexing.....	6	13
Combination of Engineering Estimates* and indexing.....	11	8
Combination of Engineering Estimates* and specific pricing.....	-	2
Indexing only.....	1	2
Indexing forward 1976 estimates which were based on a combination of the first four methods with adjustments for additions and retirements where applicable.	6	-
Indexing forward 1976 estimates determined by the first four methods and using historic cost relationships between similar operations.....	1	-

\*Using functional pricing and/or specific price quotes based on equivalent units of output.

Cost of Sales

Many of the companies in the survey calculated their cost of sales on a replacement cost basis utilizing LIFO either alone or in conjunction with a number of other methods to calculate total replacement cost of sales. These methods can be broadly summarized as follows:

<u>Method(s)</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
LIFO.....	6	10
LIFO, indexing and specific price quotes.....	1	2
LIFO and specific price quotes.....	-	2
Historical cost adjusted for the average time lag between when goods are produced and when they are sold.....	5	4
Historical cost or approximate historic cost.	5	4
Actual production cost and fair value of timber harvested.....	1	1
Indexing.....	-	1
Method not disclosed.....	2	1
LIFO, adjusted for average lag between producing and selling goods.....	1	-
Average annual costs.....	2	-
Current production costs at the time of sale.	2	-

Inventories

The companies included in the survey disclosed many various methods used to estimate the current replacement cost of inventories. Certain companies specifically stated that replacement cost depreciation was included in the computation of replacement cost inventories while other companies either specifically excluded such amounts or did not address the fact as to whether replacement cost depreciation was included or excluded.

The various methods disclosed by the companies included in the survey are outlined as follows:

<u>Method(s)</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
FIFO.....	2	2
FIFO and indexing.....	1	1
FIFO adjusted to reflect current costs and replacement cost depreciation.....	2	2
FIFO or average cost adjusted for significant cost changes between date of expenditure and December 31 based on the number of days sales in inventory:		
. replacement cost depreciation included..	1	1
. replacement cost depreciation not mentioned.....	1	1

<u>Method(s)</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
Current specific prices and year end production costs including replacement cost depreciation.....	1	-
FIFO adjusted to next known quoted price, indexing and current pulp wood purchase costs.....	1	1
Current average costs, year end prices, indexing plus replacement cost depreciation	2	-
Historical cost (FIFO) - no adjustments.....	-	1
Current year average costs and year end prices	2	2
Current average cost plus replacement cost depreciation.....	-	1
Current production costs and current purchase prices.....	1	1
Current production costs, vendor quotations, and contract prices for long-term contracts	-	1
Specific current values and indexing.....	-	1
Average manufacturing costs and current list prices.....	1	1
Standard costs revised for current costs and replacement cost depreciation, net of operating efficiencies.....	1	1
Year end revised standard costs or actual average per unit costs (replacement cost depreciation specifically excluded).....	1	2
Year end costs and indexes:		
. replacement cost depreciation included....	2	2
. replacement cost depreciation excluded....	2	1
Year end cost levels.....	1	1
Indexing based on year end cost increases of certain inventory items.....	1	1
Method not disclosed.....	1	1
Year end costs and indexes; average long-term contract prices.....	1	-

Fee Timber

For both years, all but two of the companies disclosed replacement cost for fee timber based on the sustained yield concept and included reforestation and forest management costs. The two companies (Diamond International Corporation and Southwest Forest Industries, Inc.) that did not present their fee timber replacement cost disclosure using this concept, instead used estimated current values, as follows:

DIAMOND INTERNATIONAL CORPORATION

Timberlands owned by Diamond are managed through selective harvesting and natural reforestation to insure a continuing supply. The estimated replacement cost of such timber was computed based on the estimated volume of standing timber on Company lands, at the fair

market values currently being reported for federal income tax purposes, adjusted to present values for the timber to be harvested in future years. The estimated costs of replacing standing timber owned by the Company at December 31, 1976 and 1977 were \$330,000,000, and \$350,000,000, respectively, assuming that such timber was available for purchase at December 31, 1976 and 1977. The comparable historical costs of such standing timber were \$22,333,000 and \$23,392,000, respectively. The above amounts do not include advances for cutting rights since they do not represent the value of timber to be harvested.

SOUTHWEST FOREST INDUSTRIES, INC.

The estimated replacement cost of the Company's timber and timberlands is approximately \$24,855,000 compared to the historical cost of \$12,971,000. While modern silvicultural principals and environmental practices are followed in the operations of the Company's timber holdings, due to their nature and size the sustained yield concept is not employed. Accordingly, although the Company may not replace all of its timber and timberlands as timber is harvested, the replacement cost was computed based on the estimated current values.

\* \* \* \* \*

One company (Fibreboard Corporation) did not disclose any dollar amounts in either year for the replacement cost of its timber holdings since it states that such costs are believed to be not significant. Fibreboard's disclosure is as follows:

The Company's fee timber holdings are managed by employing a "sustained yield" concept, whereby annual timber volume removals are planned not to exceed, on average, the timber volume expected to be grown annually. Therefore, the fiber potential of the Company's timberlands normally will not decrease from the existing level at any given time. Since the Company's normal approach to the reforestation of timberland is by natural regeneration, the Company believes that no significant reforestation costs or forest management expenditures would be incurred in bringing a harvested area to a state of maturity equal to that of the Company's presently existing fee timber holdings.

\* \* \* \* \*

In addition, in 1977 and 1976 Georgia-Pacific Corporation, Kimberly-Clark Corporation, and Union Camp Corporation did not separately disclose the reforestation and forest management components of their timber replacement costs which were calculated on the basis of the sustained yield concept.

\* \* \* \* \*

### Depreciation Expense

Three of the companies in 1977 compared to fifteen companies in 1976 disclosed that replacement cost depreciation expense was calculated by determining the relationship of historical depreciation expense to the historical cost of assets and applying that relationship to the replacement cost of assets.

Fifteen companies in 1977 and six companies in 1976 disclosed that replacement cost depreciation expense was calculated on the straight-line basis over the historic useful lives of the replacement cost assets. Six of these companies applied the straight-line method to the average replacement cost of productive capacity.

One company noted in 1977 and 1976 that replacement cost depreciation expense was calculated using indexing.

Three companies disclosed in 1977 that replacement cost depreciation was calculated at rates or over lives presently in use for financial statement purposes.

The remaining three companies (Crown Zellerbach Corporation, Great Northern Nekoosa Corporation and Willamette Industries, Inc.) in the survey who presented replacement cost information did not disclose in either year the basis of their calculations for replacement cost depreciation expense.

### Accumulated Depreciation

Eleven companies in 1977 compared to fourteen in 1976 disclosed that their replacement cost accumulated depreciation was calculated by using the relationship between the historical cost of fixed assets and the replacement cost of productive capacity.

Six companies in 1977 and four companies in 1976 disclosed that replacement cost accumulated depreciation was calculated on the straight-line basis using the expired lives of the assets being replaced. One of these companies applied the straight-line method to average replacement cost assets.

Two companies disclosed in 1977 that replacement cost accumulated depreciation was calculated at the rates or over the lives presently in use for current financial statement purposes.

One company noted in 1977 that replacement cost accumulated depreciation was calculated using indexing.

The remaining companies did not disclose the basis of their calculations for replacement cost accumulated depreciation.



## FULLY DEPRECIATED ASSETS

Staff Accounting Bulletin #7 set forth an interpretation as to what replacement cost disclosures should be made for fully depreciated assets. This interpretation specified that:

- . since fully depreciated assets are still a part of productive capacity, their replacement cost (new) should be disclosed.
- . the disclosure required by Rule 3-17(d) of "the amount of depreciation which would have been accrued if it were estimated on the basis of current replacement cost" would not be changed but if fully depreciated assets were significant in amount, the registrant presumably would conclude that supplemental information should be given in responding to the requirements of Rule 3-17(f). Such disclosure might include an estimate of the amount of depreciation which would have been accrued if fully depreciated assets were still being depreciated at a rate reflecting current estimates of their economic life.

The following summarizes the disclosures made relating to fully depreciated assets:

	Number of Companies	
	<u>1977</u>	<u>1976</u>
. No replacement cost depreciation expense was calculated for fully depreciated assets.....	6	4
. Included fully depreciated assets in the calculation of replacement cost depreciation expense.....	1	1
. Disclosed that replacement cost depreciation expense "would not differ materially" if fully depreciated assets were included in the calculation.....	1	1
. Separately disclosed the amount of replacement cost depreciation expense for fully depreciated assets.....	3	3
. Separately disclosed the amount of replacement cost of fully depreciated assets.....	3	2

## ITEMS EXCLUDED FROM REPLACEMENT COST DISCLOSURES

Twenty-one companies in 1977 indicated that land was excluded from their replacement cost disclosures. In addition, eleven companies disclosed that no replacement cost information was given for certain assets which were not to be replaced.

Fourteen companies in 1977 specifically noted that replacement cost information was not provided for company assets classified as construction in progress while five companies specifically noted that operations outside of North America and the European Economic Community were excluded. Two companies specifically noted that the 1976 replacement cost data was restated to include these foreign operations.

Other items individually disclosed as being excluded from the replacement cost disclosures for productive capacity, cost of sales or depreciation and amortization by the companies included in the survey were as follows:

<u>Item</u>	<u>Number of Companies</u>
Oil and gas properties.....	2
Mineral resources.....	1
Non-company-owned timberlands.....	2
Timberlands.....	4
Timberlands improvements.....	2
Cutting rights.....	3
Logging roads.....	2
Operations being sold or expected to be sold....	3
Discontinued operations.....	1
Plants being constructed.....	1
Lands held for resale.....	1
Depletion.....	1
Amortization of intangible assets.....	1
1976 leases.....	1
Non-capitalized financing leases (1977 and 1976)	2
Amounts for which replacement cost is not required.....	1

MISCELLANEOUS ITEMS INCLUDED IN REPLACEMENT COST DISCLOSURES

Items individually disclosed as being added to the historical cost amounts for which replacement cost information was given included the following:

<u>Item</u>	<u>Number of Companies</u>	
	<u>1977</u>	<u>1976</u>
Present value of minimum lease rental commitments for non-capitalized financing leases.	7	6
Imputed depreciation expense on non-capitalized financing leases.....	1	6
Short-term timber cutting rights.....	1	1
Land development tracts held for resale.....	-	1
Logging roads.....	-	1

## OPERATING EFFICIENCIES

Although most of the companies which presented replacement cost data noted that the use of new productive facilities and up to date technology would produce operating cost savings and production efficiencies only four companies in both years quantified their estimates of such savings or efficiencies. In addition, two of these four companies netted these savings and efficiencies with the amounts disclosed for replacement cost of sales.

The disclosures made by these four companies were as follows:

### THE CONTINENTAL GROUP, INC.

#### Estimated Replacement Cost

The replacement cost data presented above does not reflect any operating cost savings that may result due to the replacement of existing assets with assets of improved technology. If Continental's productive capacity were replaced as it is assumed in this note, many costs other than depreciation expense would change. Costs for direct labor, repairs and maintenance, utilities and other indirect costs would change. Although these changes cannot be quantified with precision, management estimates that the reduction of operating costs would approximate \$60 million for each year presented.

### GEORGIA-PACIFIC CORPORATION

#### Operating Cost Savings

Replacement of the Corporation's plants would result in increased productivity and certain other cost savings as a result of improved technology. Such savings (estimated to be \$91,000,000 in 1976 and \$128,000,000 in 1977 and included in estimated replacement cost as a reduction of cost of sales) were determined to be realizable primarily in the form of reduced manpower requirements, lower maintenance costs and reduced costs for energy.

### INTERNATIONAL PAPER COMPANY

#### Cost of Products Sold

Cost of products sold, as estimated on a replacement cost basis, does not reflect the cost savings from the technologically advanced new facilities upon which the replacement cost of existing capacity has been based. Management estimates that such cost savings would be approximately \$226 million and \$210 million compared with the estimated increase of \$175 million and \$164 million in depreciation expense over the comparable historical amounts for December 31, 1977 and 1976, respectively.

## KIMBERLY-CLARK CORPORATION

### Operating Efficiencies

The manner in which the company has chosen to calculate the replacement cost of its existing productive capacity, as described above, would, if effected, alter its current level of operating costs for 1977 and 1976. Accordingly, to avoid presenting materially misleading replacement cost data, the company's operating costs were adjusted, when appropriate, to the respective levels experienced by the facilities after which the replacement estimates were modeled, including anticipated cost reductions which would be derived from technological improvements.

Table 1 discloses cost of products sold calculated on the basis of replacement costs of \$1,138.6 million and \$1,047.6 million for the years 1977 and 1976, respectively. Included therein are increased depreciation charges resulting from replacement cost of productive capacity and price increases on purchased materials over that included in the historical cost basis financial statements which aggregate \$46.9 million and \$51.7 million for 1977 and 1976, respectively. Offsetting these increases are savings resulting from decreased labor, raw materials, maintenance and other direct and indirect costs which aggregate \$56.7 million and \$49.8 million for 1977 and 1976, respectively.

### ADDITIONAL DISCLOSURES

Three companies (Champion International Corporation, The Continental Group, Inc. and Kimberly-Clark Corporation) disclosed the method used in translating foreign currency historical values of certain assets and expenses.

Federal Paper Board Company, Inc. disclosed restating the 1976 amounts to include the company's Glassware Division which had previously been expected to be sold. Champion International Corporation, on the other hand, restated prior year amounts to reflect the discontinuation of its furnishings business and the capitalization of certain leases.

\* \* \* \* \*

Excerpts of certain replacement cost disclosures are given below:

REPLACEMENT COSTS DISCLOSED IN RANGES

FEDERAL PAPER BOARD COMPANY, INC.

The required estimated replacement cost information is presented below in ranges which encompass management's opinion as to the most probable range for the data and to emphasize the imprecise nature of amounts reported. The ranges should not, however, be considered an expression of the minimum and maximum replacement costs.

	Historical Cost	Range of Replacement Cost
	(In	millions)
<u>At December 31, 1977</u>		
Inventory.....	<u>\$ 65.8</u>	<u>\$ 68.5 - \$ 70.5</u>
Productive capacity.....	\$304.8	\$950.0 - \$1,025.0
Accumulated depreciation.....	<u>106.7</u>	<u>330.0 - 370.0</u>
Net productive capacity.....	<u>\$198.1</u>	<u>\$620.0 - \$ 655.0</u>
<u>For the fiscal year ended 12/31/77</u>		
Cost of sales other than depreciation.....	<u>\$317.5</u>	<u>\$317.0 - \$ 318.0</u>
Depreciation included in cost of sales.....	<u>19.2</u>	<u>62.0 - 66.4</u>
Other depreciation expense.....	<u>.3</u>	<u>.3</u>
<u>At January 1, 1977 (Restated)</u>		
Inventory.....	<u>\$ 67.1</u>	<u>\$ 69.0 - \$ 71.0</u>
Productive capacity.....	\$293.3	\$860.0 - \$ 920.0
Accumulated depreciation.....	<u>95.1</u>	<u>285.0 - 315.0</u>
Net productive capacity.....	<u>\$198.2</u>	<u>\$575.0 - \$ 605.0</u>
<u>For the fiscal year ended 1/1/77</u> <u>(Restated)</u>		
Cost of sales other than depreciation.....	<u>\$307.2</u>	<u>\$307.0 - \$ 308.0</u>
Depreciation included in cost of sales.....	<u>16.6</u>	<u>46.2 - 49.2</u>
Other depreciation expense.....	<u>.3</u>	<u>.4</u>

ST. REGIS PAPER COMPANY

Replacement Cost Data

The following exhibit reflects management's estimate of the replacement cost of productive capacity and inventories as of December 31, 1976 and 1977, depreciation expense and the increase in cost of goods sold (including depreciation and depletion computed on replacement cost basis) for the years then ended (in millions of dollars):

	<u>1976</u>		<u>1977</u>	
Plant and Equipment.....	\$2,800 to	\$3,400	\$3,000 to	\$3,600
Accumulated Depreciation.....	1,700 to	2,100	2,000 to	2,400
Inventories.....		221		260
Depreciation Expense.....	105 to	129	121 to	147
Increase in Cost of Sales.....	51 to	63	70 to	86

If fully depreciated assets (representing approximately 30% (1976) and 32% (1977) of property, plant and equipment on a replacement cost basis) were depreciated on the basis of historical lives, it is estimated that additional depreciation expense ranging from \$44,000,000 to \$54,000,000 (1976) and from \$57,000,000 to \$69,000,000 (1977) would result.

## PRODUCTIVE CAPACITY

### CHAMPION INTERNATIONAL CORPORATION

#### Productive Capacity

The estimated Replacement Cost of the Company's major plant facilities for the production of pulp, white papers, brown paper, board, plywood and lumber (representing approximately 75% of the estimated gross productive capacity) was developed by (1) updating historical costs of recently constructed facilities to current costs or (2) using current estimates for planned capacity additions based on major engineering studies. These costs were used to derive a cost per unit of productive capacity (e.g. ton of pulp and paper, or million board feet of plywood and lumber) which were then applied to the total existing productive capacity for those products management anticipates continuing. The Company had representative models of recent and planned installations for applying this functional pricing method.

The Replacement Cost of productive capacity assumes that facilities would be replaced with new, technologically modern facilities that conform to or exceed existing environmental control requirements. No attempt was made to totally re-engineer the entire productive and distributive capacity into units significantly differing in size from those which presently exist; nor was it practical to consider the multiplicity of problems in relocating or consolidating existing productive facilities based on timber and other raw material sources, availability of labor supply, proximity to markets, etc. Consideration of such factors could significantly alter the Replacement Costs reflected in this disclosure and would be of prime importance to the Company's actual replacement of existing capacity when or if undertaken in the future.

The direct pricing method was utilized in estimating Replacement Cost for major units of equipment in other operating units including Canadian operations, distribution and converting, transportation equipment and woodlands equipment. This approach involved the use of vendor quotations, recent purchases, engineering estimates and other direct price sources.

Replacement Costs for administrative offices, warehouses and many plant buildings were estimated by updating a cross section of various buildings from the Historical Cost actually incurred to current Replacement Cost based on engineering estimates and construction cost indices. The resulting aggregate costs were reduced to a cost per square foot for various types of buildings which were then applied, after adjusting for construction cost variations in different geographical regions, to the square footage of facilities the Company would replace.

Replacement Cost for the remainder of the Company's productive capacity representing small equipment, furniture, fixtures and other minor items was developed in a variety of ways such as,

but not limited to, applying published price lists to specific items, applying published or internal developed indices to historical costs, engineering estimates and other internal estimates.

Fully depreciated assets still in use are included in Replacement Cost (new) at the estimated current cost to replace such capacity and all Replacement Cost amounts related to the foreign operations' capacities have been translated to U.S. dollars at exchange rates in effect at year end.

#### GEORGIA-PACIFIC CORPORATION

##### Property, Plant and Equipment

The estimated replacement cost of major plant and distribution facilities was developed by the Corporation's engineering staff based upon recently constructed new facilities and current vendor quotations or published prices. Such estimates contemplate replacement of existing facilities by technologically updated plants in present locations with only minor instances of relocation or consolidation of similar operations.

In accordance with the Corporation's capitalization policies, deferred investment credit was based upon current rates for eligible machinery and equipment. Similarly, interest during construction was assumed to be incurred at the average rates obtained for current borrowings and capitalized over a two-year estimated average construction period, but such assumptions should not be taken to imply that future replacements would be financed solely with debt.

Replacement cost estimates for the remaining property, plant and equipment (representing approximately 13% and 12% of original historical cost in 1976 and 1977, respectively) were developed using historical costs appropriately indexed for increased costs of construction.

Depreciation for replacement cost purposes was calculated utilizing the effective historical cost depreciation rates currently in use. Replacement cost reserves for depreciation were based on the ratio of historical cost reserves to original cost.

#### THE MEAD CORPORATION

##### Plant and Equipment and Depreciation

The estimated replacement cost of the Company's productive capacity at December 31, 1977 and 1976 was determined by applying published indices, which measure specific price changes affecting the pulp and paper industry, to costs on record at December 31, 1976 and 1975 by year of acquisition. Since 1977 and 1976 capital expenditures reflect the then current price levels, they were included in the estimate at 1977 and 1976 cost. It was not considered necessary to adjust the results obtained through the use of indexing for the



impact of technological change. Replacement cost accumulated depreciation at the end of the year and replacement cost depreciation expense for the year were calculated by the straight-line method using the same depreciation lives as were used for financial accounting purposes. Depreciation expense on a replacement cost basis excludes expense on fully depreciated assets.

#### WEYERHAEUSER COMPANY

##### Productive Capacity, Other Than Fee Timber

Productive capacity, other than fee timber, was viewed for purposes of determining current replacement costs as being of two types, (1) assets not likely to be replaced in kind but rather more likely to be replaced so as to maintain the Company's functional capability and (2) assets likely to be replaced substantially in kind. Those assets likely to be replaced so as to maintain the Company's functional capability are the Company's manufacturing and converting facilities. Assets likely to be replaced substantially in kind are principally logging and transportation machinery and equipment and research and administrative facilities. The change in 1977 of viewing research and administrative facilities as replaceable substantially in kind does not affect the comparability as between years of the replacement cost data provided. Under existing harvesting practices, assets such as rail and truck roads were viewed as not requiring replacement beyond annual maintenance and upkeep expenditures. Land, too, is not consumed in the earnings process and, therefore, current replacement cost for that class of property as well as for assets employed outside the United States, Canada and the European Economic Community (which are not material) have not been determined.

The current replacement cost of assets likely to be replaced so as to maintain the Company's functional capability was estimated using internal engineering department cost data. These data were based upon the Company's considerable recent capacity capital cost history modified, where necessary, to give effect to current year labor and materials cost levels. The current replacement cost of assets likely to be replaced substantially in kind was estimated by applying relevant Bureau of Labor Statistics wholesale price indexes to vintaged historical costs.

Depreciation on a current replacement cost basis and depreciated replacement cost new were computed using the same accounting methods and useful lives as used in preparing the Company's financial statements.

No attempt was made to quantify the benefits of replacing existing plants and facilities upon variable production costs and productivity which will result as a consequence of improved technology, plant design, logistics and economies of scale.

## COST OF SALES

### CHAMPION INTERNATIONAL CORPORATION

In order to reflect the impact of price changes on operations during the year, it is required that Cost of Products Sold be recomputed on the Replacement Cost basis by estimating the Replacement Cost of the products sold at the time when the sale was made. The principal method employed for this estimate was to observe changes in purchase prices for major raw materials and manufacturing cost components (such as, but not limited to, labor rates, utilities and fuel costs) for time spans during the year representative of inventory turn-over frequencies and applying such percentage changes to the Cost of Products Sold for the period based on inventory turn-overs. In certain merchandising type operations internal indices developed from sampling techniques were employed.

### CONSOLIDATED PAPERS, INC.

The replacement cost of sales was calculated by costing materials and services used at the cost to replace those commodities as of the effective date of the cost change regardless of the Company's inventory position of the item involved. The Company's rapid inventory turnover rate incorporates cost changes into cost of sales quickly; so the impact on replacement cost of sales is minor.

### HAMMERMILL PAPER COMPANY

Cost of sales calculated on the basis of replacement cost of products sold reflects primarily the cost of sales calculated under LIFO method of inventory valuation with adjustments for the effect of the liquidation of prior years' LIFO layers and for the effect of replacement cost increments at certain locations which do not use the LIFO method of valuation.

### INTERNATIONAL PAPER COMPANY

The cost of products sold is approximately the same under both replacement and historical cost because the Company's principal method of inventory costing, last-in, first-out (LIFO), results in charging inventory production costs to operations on a current basis.

Cost of products sold, as estimated on a replacement cost basis, does not reflect the cost savings from the technologically advanced new facilities upon which the replacement cost of existing capacity has been based. Management estimates that such cost savings would be approximately \$226 million and \$210 million compared with the estimated increase of \$175 million and \$164 million in depreciation expense over the comparable historical amounts for December 31, 1977 and 1976, respectively.

WESTVACO CORPORATION

Replacement cost of products sold approximates the comparable historical amount. Inventory pricing had no material effect since the Company's principal method of inventory valuation, last-in, first-out (LIFO), results in charging production costs to operations on a current basis. A modest increase resulting from substituting current costs for our few non-LIFO inventory items was partially offset by the lower estimated replacement cost of forest management expenses which reflects the fewer number of acres that would be required to replace our existing timber stands using improved reforestation and management practices.

## INVENTORIES

### THE CONTINENTAL GROUP, INC.

The replacement cost of inventories was calculated by (a) applying current prices, including factors for quantity, quality and appropriate terms, to raw materials and supplies, and (b) applying year-end costs for material, labor, and overhead, as well as adjustments reflecting the impact of replacement cost depreciation, to finished goods and work in process inventories. Foreign subsidiaries' inventories have been translated at exchange rates prevailing at year-end.

### CROWN ZELLERBACH CORPORATION

For purposes of calculating replacement cost for inventories, the first-in, first-out or average method was used, adjusted for cost changes, if significant, between the date of expenditure and December 31, as determined by the number of days sales in inventories.

### DIAMOND INTERNATIONAL CORPORATION

The replacement cost for approximately 90% of all inventories was computed by means of the calculations described below. The remaining portion of inventories was considered to be stated at an amount approximating replacement cost.

Quotes were obtained from vendors either immediately before or immediately after December 31, 1976 and 1977 for approximately 50% of the dollar value of raw materials in inventory. A percentage increase was computed by comparing actual cost to the estimated replacement cost for these items and then this percentage increase was applied to the remaining portion of raw materials in inventory. Labor and other manufacturing costs (including depreciation expense) included in inventory were recomputed as necessary.

Logs and the log content of lumber in inventory at December 31, 1976 and 1977 were valued for replacement cost purposes by substituting the fair market value of timber harvested for historical values; such replacement costs were approximately \$19,000,000 and \$24,000,000, respectively, more than the historical values.

### KIMBERLY-CLARK CORPORATION

The estimated replacement cost of work-in-process and finished goods inventories at the end of 1977 and 1976 was calculated by using standard costs revised to approximate the current costs of production at the respective year-ends and to reflect increased replacement cost depreciation, net of estimated decreased direct and indirect operating costs, as previously explained under "Operating Efficiencies". Accordingly, the estimated replacement cost of such

inventories represents their cost as if produced by the replaced productive capacity. The replacement cost of inventories so calculated may not compare to the costs which may actually be incurred by the company in the subsequent replacement (after sale) of such inventories under its now existing plant configuration. Nevertheless, management believes that estimated replacement cost of inventories, set forth on Table I, represents a reasonable approximation of the cost of replacing inventories under the previously described size and configuration assumptions for replacement of productive capacity. The estimated replacement cost of purchased inventories has been based on prices approximating those in effect at the respective year-ends.

#### POTLATCH CORPORATION

The estimated replacement cost of inventories as a whole reflects the replacement value at the balance sheet dates based on current production costs, vendor quotations, and contract prices for long-term contracts. The large majority of the Company's inventories turn over several times each year, which makes historical cost close to replacement cost in most cases. Stores inventories turn more slowly and for 1976 have been priced using current price lists for those items. For 1977, stores inventories were indexed forward using indexing tables. Wood fiber has been valued at replacement cost, which includes fiber from outside sources at the contract price for long-term cutting rights contracts currently in force. Inventories have been adjusted upward by \$4,670,000 and \$4,600,000 for 1977 and 1976, respectively, to reflect the estimated increase in inventory values caused by greater depreciation and amortization of logging facilities based on restatement of depreciable assets and logging facilities to replacement cost levels. Inventories have been adjusted upward by \$336,000 and \$461,000 for 1977 and 1976, respectively, to reflect the estimated increase in expense in inventory relating to replacement cost of fee timber.

#### ST. REGIS PAPER COMPANY

The calculations of the replacement cost of inventories on hand at December 31, 1976 and 1977 were made using several assumptions which management believes are reasonable based on the premise that the Company would replace all its inventories at a particular moment in time.

On average, the Company's inventories turn over approximately eight times a year. Assumptions included the first-in, first-out, or average method of inventory valuation with an adjustment to give effect to the estimated increase in the Company's production costs for the average lag period between the time goods were bought or produced and then sold. In addition the substitution of depreciation and fee timber expenditures computed on a replacement cost basis for the historical depreciation, depletion, and amortization expense were included in the cost of inventories.

It is management's opinion that estimated replacement cost is not indicative of what these inventories could be sold for nor is it representative of what replenishment costs may eventually be.

## FEE TIMBER

### CHAMPION INTERNATIONAL CORPORATION

The Replacement Cost of fee timber has been excluded from the preceding tabular summaries in order to preclude potential misinterpretations. It is important to note that the expenditures relating to the Replacement Cost of fee timber relate to expenditures incurred in the replacement process, not to the accounting treatment of such expenditures. Capitalization practices with respect to reforestation and timber management vary within the industry, and the Company cautions that no inference should be drawn that these expenditures, when made, would necessarily be capitalized, nor that the replacement cost amounts are a measure of net realizable value or economic value of the Company's fee timber.

Timber, along with the supporting lands on which the timber is grown, managed and harvested is a uniquely different and vastly important sustainable resource. Timber possesses the quality of naturally regenerating itself if destroyed by casualty or if harvested by man. Additionally, if managed under modern silvicultural techniques, the wood fiber yield from almost any timberland can be increased dramatically in properly spaced, thinned and managed forests, especially when planted with genetically superior seedlings. Another method used to provide for superior forests is to selectively harvest mature trees, leaving the best specimens of seed trees and young growth to facilitate natural regeneration. When the amount of harvested timber does not exceed, over a span of years, the amount of fiber that is being continually produced by standing timber, such timber is considered to be growing on a sustained yield basis.

While the actual amount of timber harvested from the Company's fee timber base may vary from year-to-year, the Company has in the past and is presently managing its fee timber and timberlands to provide for a sustained yield of timber.

The Company's accounting policies for fee timber and the supporting timberlands have been established to appropriately reflect in the financial statements the uniqueness of timber in accordance with generally accepted accounting principles and in accordance with established tax practices. The application of the Company's accounting policies for fee timber and timberlands has resulted in the reflection of an asset in its consolidated balance sheet, captioned "Timber and Timberlands, at cost - less cost of timber harvested", amounting to \$301,738,000 at December 31, 1976 and \$310,127,000 at December 31, 1977. The amount charged to the Company's consolidated income as the "Cost of Timber Harvested" was \$19,347,000 in 1976 and \$25,112,000 in 1977.

The Company's accounting policy for fee timber which is consistent with certain industry-wide accounting policies, consists principally of:

- (1) Capitalizing an allocated purchase price of standing timber and timberlands on all tracts purchased from others.

- (2) Capitalizing site preparation and replanting costs as incurred.
- (3) Charging forestry management expenditures (principally pre-commercial and commercial thinning, fertilizing, pest control, property taxes and fire control) to expense as incurred.
- (4) Charging the capitalized costs to expense as the timber is harvested. Such "Cost of Timber Harvested" is computed by multiplying the quantity of timber harvested times a per unit cost derived by dividing the total units estimated to be harvested during a growth cycle into the capitalized cost.

Thus, the amount shown on the Company's consolidated balance sheet for fee timber and timberlands does not represent the total expenditures made or required to bring the Company's existing stand of fee timber to its present state of maturity. Instead, it represents an aggregation of the unamortized amounts originally expended for timber purchases, site preparation and replanting costs plus the original purchase cost allocated to the land.

The Historical Cost amounts for which fee timber Replacement Costs have been estimated, consist of:

	Years Ended December 31			
	1976		1977	
	Timber and Timberlands, Net	Cost of Timber Harvested	Timber and Timberlands, Net	Cost of Timber Harvested
	(in thousands of dollars)			
Historical Cost amounts as shown in the con- solidated financial statements and schedules.....	<u>\$301,738</u>	<u>\$19,347</u>	<u>\$310,127</u>	<u>\$25,112</u>
Less:				
Timberlands.....	27,884		32,446	
Amounts for locations outside North America and the European Economic Community.....	9,594	289		
Capitalized roads and other.....	<u>37,701</u>	<u>11,854</u>	<u>46,827</u>	<u>18,824</u>
	<u>75,179</u>	<u>12,143</u>	<u>79,273</u>	<u>18,824</u>
Historical Cost amounts for which fee timber Replacement Cost estimates are provided.....	<u>\$226,559</u>	<u>\$ 7,204</u>	<u>\$230,854</u>	<u>\$ 6,288</u>



If the Company replanted its entire timberland acreage at 1977 site preparation and replanting cost levels, it is estimated that total initial expenditures of \$272,000,000 would be required (\$259,000,000 at 1976 cost levels). These expenditures would be capitalized following the Company's accounting policy. However, site preparation and replanting costs represent only the initial or front-end costs of growing a tree. Expenditures for necessary forestry management expenses, previously described, would be incurred each year until the tree is harvested. The growth cycle to maturity varies for the Company from approximately 30 years in the South to 60 years or more in the Rocky Mountains because of specie and climatic differences. Assuming that the Company's timber-stand is one-half mature on the average, it is estimated that a total expenditure of \$327,000,000 for forestry management expenses, including property taxes, at 1977 cost levels (\$294,000,000 at 1976 cost levels) would be required over the growth years to bring the timber-stand to the assumed average state of current maturity.

In computing the annual cost of fee timber harvested on a Replacement Cost basis, the estimated Replacement Cost for site preparation and replanting was treated as the cost base. This cost was divided by the estimated total yield during the growth cycle to develop a per unit cost. The unit cost was multiplied by the units harvested during the year to arrive at the cost of timber harvested on a Replacement Cost basis. The cost of fee timber harvested amount so computed is based on the same accounting methods as the Company presently employs to compute the historical amount. The estimated Replacement Cost of annual forestry management expenses including property taxes was computed on the same basis as the estimated Replacement Cost of timber harvested. The resulting Replacement Cost amount is not based on the same accounting method the Company presently employs for forestry management expenses, including property taxes, which is to charge these expenditures to Cost of Products Sold as incurred. For the years ended December 31, 1976 and 1977, the annual Historical Cost and Estimated Replacement Cost amounted to:

	Years Ended December 31			
	1976		1977	
	Estimated Replacement Cost (Unaudited)	Comparable Historical Cost	Estimated Replacement Cost (Unaudited)	Comparable Historical Cost
Cost of Fee Timber Harvested.....	<u>\$ 5,418</u>	<u>\$ 7,204</u>	<u>\$ 9,017</u>	<u>\$ 6,288</u>
Forestry Management Expenses Including Property Taxes.....	<u>\$20,865</u>	<u>\$11,831</u>	<u>\$17,424</u>	<u>\$11,682</u>

(in thousands of dollars)

## FEDERAL PAPERBOARD COMPANY

The replacement cost of timber, on land owned in fee or controlled under long term leases, was based on the concept that replacement cost equals (1) the current cost of reforestation per acre, times the number of acres of timber held, \$20-\$25 million in 1977 and \$15-\$20 million in 1976 plus (2) the current annual cost per acre for forest management multiplied by the aggregate number of years of such management necessary for all timber acreage, to duplicate the company's present timber stands at their present levels of maturity, \$47-\$52 million and \$40-\$45 million, respectively.

## FIBREBOARD CORPORATION

The Company's fee timber holdings are managed by employing a "sustained yield" concept, whereby annual timber volume removals are planned not to exceed, on average, the timber volume expected to be grown annually. Therefore, the fiber potential of the Company's timberlands normally will not decrease from the existing level at any given time. Since the Company's normal approach to the reforestation of timberlands is by natural regeneration, the Company believes that no significant reforestation costs or forest management expenditures would be incurred in bringing a harvested area to a state of maturity equal to that of the Company's presently existing fee timber holdings.

FOREST PRODUCTS INDUSTRY

TABLE I

SUMMARY OF CERTAIN REPLACEMENT COST DISCLOSURES  
EXPRESSED AS A PERCENTAGE INCREASE FROM THE  
RELATED HISTORICAL COST AMOUNTS  
DECEMBER 31, 1977

<u>Company Name</u>	<u>Gross</u>	<u>Accumulated</u>	<u>Deprecia-</u>	<u>Inventory</u>
	<u>Productive</u> <u>Capacity</u> 1977 (%)	<u>Depreciation</u> 1977 (%)	<u>tion</u> <u>Expense</u> 1977 (%)	1977 (%)
Boise Cascade Corporation	140	233	105	8
Champion International Corporation.....	130	166	116	16
Chesapeake Corporation of Virginia.....	188	223	178	18
Consolidated Papers, Inc.	196	196	196	10
The Continental Group, Inc.....	88	120	39	65
Crown Zellerbach Corporation.....	155	213	99	10
Diamond International Corporation.....	104	153	61	36
Federal Paper Board Company, Inc.....	224*	228*	231*	6*
Fibreboard Corporation...	100	116	100	10
Georgia-Pacific Corporation.....	95	118	62	10
Great Northern Nekoosa Corporation.....	142	213	137	30
Hammermill Paper Company.	185	208	167	35
International Paper Company.....	157	181	136	31
Kimberly-Clark Corporation.....	113	168	76	22
Louisiana-Pacific Corporation.....	133	105	100	33
The Mead Corporation.....	83	131	48	43
Olinkraft, Inc.....	113	109	80	39
Potlatch Corporation.....	153	197	158	40
St. Regis Paper Company..	81*	141*	76*	5*
Scott Paper Company.....	113	184	67	38
Southwest Forest Industries, Inc.....	34	38	43	2
Union Camp Corporation...	120	186	96	30
Westvaco Corp.....	117	140	75	34
Weyerhaeuser Company.....	91	88	96	30
Willamette Industries, Inc.....	100	105	89	54

\*Midpoint of Replacement Cost Range used.

See note on following page.

NOTE TO TABLE I - The summary of replacement cost disclosures presented in Table I was compiled for informational purposes only and should not be used as a basis for comparing the effects of replacement cost among the various companies included in the survey since many different subjective judgments and assumptions were used in the calculation of the replacement cost disclosures made by each of these companies. For further information as to the basis used and the subjective judgments and assumptions made by any of the companies included in the survey, reference should be made to each company's Form 10-K.

