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Accounting trends and techniques, 4th annual survey, 1950 edition

American Institute of Accountants

ACCOUNTING TRENDS and TECHNIQUES

IN PUBLISHED CORPORATE ANNUAL REPORTS • 1950 EDITION

4th ANNUAL CUMULATIVE SURVEY

of the accounting aspects of 525 corporate annual reports, to which are added excerpts from and comments upon unusual accounting treatments found in six hundred additional reports. The reports analyzed are those with fiscal years ending July 1, 1949 to June 30, 1950

PREPARED BY THE RESEARCH DEPARTMENT

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introduction

ACCOUNTING TRENDS AND TECHNIQUES IN PUBLISHED CORPORATE ANNUAL REPORTS—1950 is the fourth in a series of studies carried out by the research department of the American Institute of Accountants as part of a long-term program initiated by the council in 1946 for the analysis of corporate reports.

THE STUDY is based on an analysis of 525 annual reports of corporations with fiscal years ending between July 1949 and June 1950. Reports of the same 525 companies have been examined for each of the past four years in order that trends in accounting treatments might be disclosed. In our previous study, in order to make the results available as early as possible, we did not wait to receive about 2 per cent of the selected group of 525 reports. This practice was continued in the current study, with the result that the trends as they are affected by those companies are one year late.

PARTICULAR emphasis has been placed on subjects covered in recent Accounting Research Bulletins issued by the committee on accounting procedure of the American Institute of Accountants. In addition to the 525 reports which have been included in the tabulations, approximately 600 additional reports have been reviewed and referred to in many instances.

A LIST OF the 525 companies on whose reports the tabulations have been based is included in the appendix. For the convenience of the reader, examples have been furnished frequently throughout the study by referring to the code numbers of companies appearing in the appendix.

CARMAN G. BLOUGH, *Director of Research*
AMERICAN INSTITUTE OF ACCOUNTANTS

table of contents

Section 1: general

Section 2: balance sheet

Section 3: income statement

Page

Section 4: retained income

Section 5: accountant's report

Appendix

section I: general

Customary certified statements

The balance sheet, the income statement, and the statements of retained income (earned surplus) and capital surplus are the customary certified statements. In 1949, fifty-eight companies presented their certified statements in a form different from that of the preceding year. The changes effected were:

16	Eliminated a capital surplus statement (19, 57, 84, 123, 146, 152, 181, 205, 209, 305, 373, 375 377, 416, 494, 500)
13	Added a capital surplus statement (8, 69, 79, 88, 141, 188, 260, 308, 341, 343, 361, 488, 493)
15	Changed from separate income and retained income (earned surplus) statements to a combined income and retained income (earned surplus) statement (92, 143, 148, 153, 171, 174, 180, 183, 207, 230, 330, 384, 388, 431, 501)
8	Changed from a combined income and retained income (earned surplus) statement to separate income and retained income (earned surplus) statements (34, 263, 290, 297, 411, 446, 472, 489)
4	Presented a stockholders' equity statement in place of a statement of retained income (earned surplus) (See section which follows.)
1	Discontinued their earned surplus statement and presented earned surplus changes on the balance sheet (Parker Pen Co.)
1	Included a full set of statements including balance sheet, statement of profit and loss, and surplus statements rather than a balance sheet only (Billings & Spencer Co.)
58	

(Numbers in parentheses refer to companies listed in Appendix.)

The following table shows the number of companies presenting various types of statements during the years 1946 through 1949:

1949	1948	1947	1946	
352	357	357	369	Separate balance sheet, income statement and surplus statement (11, 12, 35, 86, 136, 197, 265, 274, 309, 441)
151	143	137	129	Balance sheet, combined income and surplus statement (20, 42, 116, 150, 154, 172, 180, 390, 396, 399)
16	17	22	18	Balance sheet and income statement only—no separate surplus statement (10, 17, 296, 314, 350, 382, 391, 475, 499, 519, 524)
3	3	4	5	Balance sheet only (237, 370, 386)
1	1	1	1	No certified statements presented (The Buckeye Steel Castings Co.)
2	4	4	3	Balance sheet and retained income (earned surplus) statement—income items in retained income (earned surplus) statement (187, 492)
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

In some cases there seemed to be a tendency to use the combined income and surplus form when the only changes in retained income (earned surplus) were net income and dividends for the year, and when additional charges or credits did occur, to use the separate retained income (earned surplus) statement.

A separate capital surplus statement was usually omitted when there had been no changes in the account during the year. Of the sixteen companies eliminating the capital surplus statement, seven, including two presenting comparative balance sheets, made a parenthetical notation on the balance sheet stating that no change had occurred in the account during the year and three other companies furnished comparative balance sheets.

Stockholder equity statements

Of the following named companies, the first four presented statements of stockholders' equity in place of the more usual retained income (earned surplus) certified statements for the first time in 1949, the others having used such statements in years previous to 1949:

Title of Statements	Name of Company
"Statement of Stockholders' Equity"	Armstrong Cork Co.
"Shareholders' Ownership"	Union Oil Company of Calif.
"Statement of Changes in Stockholders' Equity"	Granite City Steel Co.
"Statement of Stockholders' Equity"	Koppers Co., Inc.
"Statement of Common Stockholders' Equity"	Allied Stores Corp.
"Common Stockholders' Investment and Changes Therein"	Federated Department Stores, Inc.
"Stockholders' Equity"	Socony-Vacuum Oil Co., Inc.
"Capital Stocks and Surplus (Schedule A)"	The Byrndun Corp.
"Statement of Capital Stock and Surplus"	International Shoe Co.
"Analysis of Capital Invested"	Scovill Manufacturing Co.
"Consolidated Statement of Net Worth"	Standard Oil Co. (N.J.)
"Statement of Stockholders' Interest"	Standard Oil Co. (Ohio)

The above certified statements presented in detail the various elements comprising the net worth of the respective companies. Two companies (Allied Stores Corp., and Federated Department Stores, Inc.) included only the common shareholders' equity in this type of statement and presented the equity of the preferred shareholders in the balance sheet. The following schedule summarizes the equities included by the twelve companies that were listed in the preceding column:

6	Equities for both preferred and common shareholders (59, 111, 294, 435, 462, 483)
2	Common shareholders' equity only (Preferred stock equity was shown on the balance sheet) (13, 204)
4	Common shareholders' equity only—(No preferred stock) (240, 275, 447, 461)
12	

(Numbers in parentheses refer to companies listed in Appendix.)

More complete information concerning the purpose(s) for which capital stock was issued during the year was often given in this type of statement. Colt's Manufacturing Company, which was not included in the study, included in its report a "Statement of Stockholders' Ownership" showing the common stockholders' equity. (See Exhibit 1, p. 9.)

Omission of surplus statement

Of sixteen companies which in 1949 presented no certified retained income (earned surplus) statements, fourteen showed the year's retained income (earned surplus) adjustment(s) on the balance sheet itself. United States Steel Corporation deducted dividends declared from the net income for the year in its income statement. The remainder was referred to in a parenthetical note on the balance sheet after "Income reinvested in business" as an addition for 1949. S. H. Kress & Company did not explain that the "earnings retained for use in the business" shown at the foot of its statement of earnings was the only amount affecting the "accumulated earnings retained for use in the business" during the year.

Presentation of balance sheet only

Three companies included in their annual report only a balance sheet as a certified statement.

Good Humor Corp. and The Ohio Match Company presented an analysis of earned surplus for the year on their balance sheet. Net income (after deduction by The Ohio Match Company to provide additional reserve) and dividends paid or declared were the only items affecting earned surplus.

Peden Iron & Steel Co. did not show a surplus analysis but presented a separate certified schedule of "Statistical Data" which included net sales, net income and dividends paid in cash.

COLT'S MANUFACTURING COMPANY

STATEMENT OF
STOCKHOLDERS OWNERSHIP

DECEMBER 31, 1949 AND 1948

		DECEMBER 31, 1949	CHANGES DURING 1949	DECEMBER 31, 1948
Capital Stock — $25 Par Value:		$	$	$
Authorized	Shares			
Unissued	400,000			
Issued	200,000			
Held in treasury December 31, 1949	200,000	5,000,000		5,000,000
Outstanding	4,100			
	195,900			
Income Invested in the Business:				
Balance at the beginning of year				8,145,326
Added for the year			519,497	
Net renegotiation rebate — 1942			9,200	
Deduct:				
Dividend of $2.00 per share paid December 15, 1949			(391,800)	
Balance at end of year		8,282,223		
Total		13,282,223	136,897	13,145,326
Less — reacquired stock at cost — 4100 shares December 31, 1949, 3000 shares December 31, 1948		109,394	38,850	70,544
Stockholders Ownership		$13,172,829	$ 98,047	$13,074,782

Parentheses denote deductions

NOTES TO FINANCIAL STATEMENTS

1. The federal income tax returns of the Company have been examined for years through 1945. No provision for federal income taxes has been made for the year 1949 since the net operating loss carry-over available under the provisions of the present Internal Revenue Code is sufficient to offset taxable income for that year. The net operating loss carry-over for the year 1948, approximating $340,000, is similarly available for the year 1950.
2. Results of operations for the year 1949 applicable to sales under renegotiable government contracts are subject to review for possible refunds. It is the opinion of the management that such adjustment, if any, would not materially change the Company's financial position.

Additional certified statements

All certified statements except those considered in the preceding section are included under the above heading.

1949	1948	1947	
475	483	482	None shown
5	4	7	Parent company statements (See section which follows)
9	11	13	Subsidiary statements—domestic (See section which follows)
14	14	14	Subsidiary statements—foreign (32, 137, 158, 276, 349, 457, 480, 489, 490 518)
3	4	7	Reserve statements (53, 325, 475)
1	1	1	Supplemental compensation fund (83)
5	3	2	Schedules (See section which follows)
2	1	1	Comparative statements—more than two years (118, 281)
7	3	1	Statements of source and application of funds (See section which follows)
1	2	1	Summary earnings comparisons (118)
1	1	1	Retirement system assets (321)
1	1	1	Profit and loss statement of factory retail store (111)
2	3	...	Statements of disposition of net profit (See section which follows)
2	1	...	Statistical material on dividends, wages, prices, taxes, book value per share, outstanding shares and dividends per share (236, 428)
2	...	...	Net assets and earnings—geographical (230, 461)
1	...	...	Pro forma balance sheet and income statement (380)
1	...	...	Condensed balance sheets and combined statements of earnings and earned surplus with separate columns for the film and the theatre companies, which comprise the Twentieth Century-Fox Film Corporation

(Numbers in parentheses refer to companies listed in Appendix.)

Parent company statements

The four companies (American Bank Note Co., Anderson-Clayton & Co., Inc., Cities Service Co., Standard Oil Co. (N.J.)) listed in 1948 as including parent company statements in their annual reports, continued to do so in 1949.

Reynolds Metals Co. introduced for the first time in 1949, a balance sheet of the parent company. The reason stated for the change was "to bring out more clearly the financial position of the parent company."

Subsidiary statements—domestic

Four of the nine companies presenting domestic subsidiary statements included a balance sheet, income statement, and retained income (earned surplus) statement (212, 288, 387, 431). Allied Stores Corp. and International Shoe Co. used a balance sheet and a combined income and retained income (earned surplus) statement.

Two companies presented only a balance sheet (Nash-Kelvinator Corp. and R. H. Macy & Co., Inc.), and Crucible Steel Co. of America included only a balance sheet of a wholly owned, unconsolidated subsidiary in its "notes to financial statements."

The auditors of four companies (Nash-Kelvinator Corp., Fruehauf Trailer Co., Allied Stores Corp., J. C. Penney Co.) presented a separate report for the domestic subsidiary statements. All the others, except the auditor of Crucible Steel Co. of America, presented only one report in which was mentioned the examination and the opinion relating to the various subsidiary statements. In the report for Crucible Steel Co. of America, no mention was specifically made of the examination or opinion of the subsidiary's balance sheet, although it was considered to be a certified statement since it was included in the "notes to financial statements."

Subsidiary statements—foreign

In 1949 Johnson & Johnson presented six-year comparative, condensed statements of financial condition and of earnings of its foreign subsidiaries. This year, however, the company did not include foreign subsidiaries in its consolidated statements.

The National Cash Register Company's report for 1949 did not include a separate statement titled "Net Assets of Foreign Companies and Branches." The same information, however, was furnished as part of a schedule "Details of Items Included in Consolidated Statement of Financial Position."

John Morrell & Co. again presented statements of assets and liabilities used in England and income from operations in England which had been examined by chartered accountants. They were not included in the consolidated statements of John Morrell & Co.

All other companies continued their practice of showing separate statements for foreign subsidiaries.

Columbia Pictures Corp., which was not included in the tabulation, furnished its stockholders with a combined statement of assets and liabilities of subsidiary companies actively operating in foreign countries.

The auditors of St. Joseph Lead Co. gave a separate report on the balance sheet, income and surplus statements of the company's foreign subsidiary. Coty International Corporation excluded its French and other continental European subsidiaries but furnished a separate summary of their combined financial position and a statement of their combined profit and loss and earnings retained in the business unappropriated.

Schedules

The auditors of the five companies included in the preceding tabulation expressly included the supplemental schedules in either the scope or opinion paragraph, or both, of their reports. The following quotation from the auditor's report for the International Harvester Company is an example:

"We have examined the Statement of Financial Condition of International Harvester Company as of October 31, 1949, the related Summary of Income and Summary of Net Income Retained for Use in the Business for the year ended that date, and the supplemental schedules appearing on pages 22 and 23 herein..."

"In our opinion...the statement of Financial Condition, Summary of Income, Summary of Net Income Retained for Use in the Business, and the supplemental schedules..."

The other companies where the supporting schedules were mentioned in the auditor's report were: Bethlehem Steel Corp., Caterpillar Tractor Co., International Paper Co., and U. S. Rubber Co.

Numerous companies presented additional schedules, not included in the preceding tabulation as certified, supporting balance sheet items. These schedules covered a variety of items, but predominantly those of property plant and equipment, and inventories.

Most companies implied that these schedules were included as a part of the certified financial statements either by parenthetical references in the balance sheet (such as: "See accompanying statement") or by the position of such schedules in their annual reports.

The appendix numbers of fifteen companies presenting supporting schedules which were tabulated as certified either by parenthetical reference or by position are: 39, 41, 68, 70, 89, 98, 107, 113, 204, 226, 246, 294, 321, 355, 511.

Statements of source and application of funds

Of the 525 companies tabulated, seven companies included the "statement of source and application of funds" (sometimes referred to as changes in working capital or a similar title) as an additional certified statement. This statement was tabulated as certified if it was mentioned in either the scope or opinion paragraph of the auditor's certificate. (See Exhibits 2, p. 11; and 3, p. 18.)

In the auditor's report for six of these companies (21, 118, 250, 347, 494, 497) the statement of source and application of funds was mentioned in either the scope or opinion paragraph or in both, while Armour & Co. included the statement in the "Notes to the Financial Statements."

Armour & Co., Harbison-Walker Refractories Co., and the American Box Board Co. adopted, for the first time in 1949, the "source and application of funds" type of statement. The auditors of U. S. Rubber Co. referred to the "Financial Review" in their report for the first time in 1949, although the statement had been included in the "Financial Review" in previous years as well as the current year.

Exhibit 2: United States Gypsum Company

United States Gypsum Company
and SUBSIDIARY COMPANIES

Statement of Money Provided
From Operations and Its Disposition
For the Years Ended December 31, 1949 and 1948

	1949	1948
Money Provided From Operations:		
Net earnings for year	$22,165,608	$24,596,688
Provision for depletion and depreciation (charged against earnings, to provide funds for future replacements)	5,109,171	4,919,018
Other	95,127	283,034
Total	$27,369,906	$29,798,740
Disposition Of Money Provided:		
Dividends paid	$14,941,740	$10,137,978
Additions and improvements to plant and equipment	7,800,031	14,184,492
Retained as additional working capital (cash, securities, receivables and inventories)	4,628,135	5,476,270
Total	$27,369,906	$29,798,740

The statements of source and application of funds were not mentioned by the auditors for Johnson & Johnson and Motor Products Corp. and were therefore not included in the tabulation, although they may have been considered to be certified because of the position they occupied in the annual reports.

Statements of disposition of net profit

In 1948 the following companies used a "Disposition of Net Profit" type of statement, shown after the figure for net income for the year or as a separate statement:

1. Granite City Steel Co.
2. International Paper Co.
3. Wesson Oil & Snowdrift Co.

In 1949 the International Paper Co. and the Wesson Oil & Snowdrift Co. abandoned this type of statement in favor of a more comprehensive retained income (earned surplus) statement.

The Colgate-Palmolive-Peet Company introduced, in 1949, a statement entitled "Transferred to Earned Surplus," shown below the "Total Net Income for the Year" but separate from the income statement. This new type of statement included net income as shown in the income statement and a restoration to surplus of the balance remaining in the "Reserve for inventory price decline." Dividends paid were included in the surplus statement.

Granite City Steel Co. continued to use a "disposition of net profit" type of statement in 1949, and included therein net income for the year, an appropriation to provide for inventory price declines and other contingencies, and dividends paid. (See Exhibit 4, p. 23.)

The use of the separate statement to show the disposition of net income is in accord with Accounting Research Bulletin No. 35, "Presentation of Income and Earned Surplus," which suggested a separate statement wherein certain charges or credits could be shown as an alternative to including them in the retained income (earned surplus) statement.

Other unusual types of additional certified statements

The Standard Oil Company (N.J.) presented a statement entitled "Net Assets and Earnings—Geographically" in which the "net assets which correspond to the net worth shown in the consolidated statement of financial position" and the consolidated net income for the year were presented by geographical location. The locations used were: (1) United States, (2) Other Western Hemisphere, (3) Great Britain, (4) Continental Europe and North Africa, and (5) Other Foreign Countries. (See Exhibit 5, p. 25.)

The Gillette Safety Razor Company employed the same principle in presenting its "Statement of Approximate Geographical Distribution of Consolidated Net Assets Included in the Consolidated Balance Sheet." The locations subdivided were: (1) United States and Canada, (2) Other Western Hemisphere, (3) Eastern Hemisphere—British Empire, and (4) Eastern Hemisphere—Other.

Twentieth Century-Fox Film Corp. and voting-controlled subsidiary companies for the first time in 1949 presented a condensed balance sheet and statement of earnings and earned surplus with separate columns for film companies and for theatre companies. No reason was given for furnishing statements in this manner but the president's letter contained a discussion of the status of the government's suit which, if successful, would compel the company to divorce the production and distribution business from the exhibition business.

Pro-forma statements

In addition to its customary annual report to stockholders, Paramount Pictures Inc. submitted a separate report containing opening consolidated balance sheets for each of the two new companies, Paramount Pictures Corporation and United Paramount Theatres, Inc., and, in addition, pro-forma profit and loss statements for the two fiscal years ending January 1, 1949, and December 31, 1949. An auditor's report accompanied the statements for each of the new companies which had been formed to take over the assets and liabilities of Paramount Pictures Inc. under a plan of reorganization which became effective December 30, 1949.

Niagara Mohawk Power Corporation presented statements as of December 31, 1949, which gave effect to the consolidation plan which was consummated January 5, 1950. After arriving at the figures representing the net income for each of the years 1948 and 1949 which were carried forward to the earned surplus statement, there were deducted certain estimated adjustments of net income resulting from the change, applied retroactively as if the change had been effective January 1, 1948, to obtain the net income as adjusted.

Another interesting group of pro-forma financial statements, which included a consolidating balance sheet and a consolidating statement of income, was presented by General Public Utilities Corporation. The pro-forma balance sheets included subsidiaries owned at December 31, 1949, exclusive of one subsidiary under contract to sell, and pro-forma consolidated statements of the operations of the same subsidiaries. These statements were not accompanied by an auditor's report.

A pro-forma consolidated balance sheet as of December 31, 1949, and a pro-forma consolidated income for the year then ended, both covered in a separate report by the company's auditors, were presented by the Equitable Gas Company. The statements gave effect to transactions consummated on March 29, 1950, as if they had taken place as of January 1, 1949. (Also see section on Accountant's Report.)

Certified statements—comparative form used

While the auditor's report usually did not express an opinion as to the previous year's statements, the certified statements were considered to be in comparative form when figures for the preceding year were shown in an adjoining vertical column. In this regard, several statements were noted in which the auditor either expressed an opinion on both years or stated in the last sentence of the scope paragraph that a similar examination had been made for the preceding year.

The year 1949 continued the trend of presenting some type of comparative certified statements.

In 1949 there were 228 companies, as compared with 248 in 1948, which did not present any type of comparative certified statements.

Companies which did not furnish any comparative statements in 1948 presented the following in 1949:

9	Balance sheet, income statement, and retained income (earned surplus) statement (12, 50, 189, 235, 260, 323, 346, 397, 460)
8	Balance sheet and a combined income and retained income (earned surplus) statement (113, 114, 207, 250, 299, 310, 313, 390)
5	Balance sheet and income statement only (69, 108, 135, 314, 416)
1	Income and retained income (earned surplus) statement only (190)
23	

Companies presenting no comparative statements in 1949 but which furnished the following in 1948 are tabulated below:

1	Income statement (230)
1	Balance sheet (88)
1	Combined income and retained income (earned surplus) statement (332)
3	

Ten companies, which had presented one or more of their certified statements in comparative form in previous years, furnished balance sheet and separate income and retained income (earned surplus) statements or a combined income and retained income (earned surplus) statement in comparative form for the first time in 1949. (56, 73, 91, 175, 223, 261, 281, 431, 483, 501)

The following tabulation shows the comparative statements included in the annual reports of the 525 companies for 1946 through 1949:

1949	1948	1947	1946	
228	248	278	297	No comparative statements
				Comparative Statements Furnished:
126	112	89	86	Separate balance sheet, income statement and retained income (earned surplus) statement (15, 98, 107, 226, 227)
79	70	60	43	Balance sheet, combined income and retained income (earned surplus) statement (24, 150, 280, 349, 374)
64	57	56	62	Balance sheet and income statement only (58, 78, 337, 522, 524)
13	14	17	18	Income statement and retained income (earned surplus) statement only (16, 39, 53, 110, 133, 347, 478, 494)
11	18	18	14	Income statement only (129, 131, 297, 373, 382, 480)
4	6	7	5	Balance sheet only (173, 206, 386, 492)
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

The United Shoe Machinery Corporation presented a comparative balance sheet in which the balances of the accounts for the current year were shown in one column, and in an adjacent column, increases and decreases were shown. The balances for the preceding year were not presented.

U. S. Hoffman Machinery Corporation continued to use an increase-decrease column with its comparative statements.

Warner Bros. Pictures, Inc., revised its consolidation policy in 1949 and restated the 1948 figures in the 1949 annual report. The following is quoted from its "Notes to Consolidated Financial Statements":

"For purposes of comparison, the statement of consolidated profit and loss for the year ending August 31, 1948, has been restated to conform to the basis adopted for the year ending August 31, 1949. This restatement did not change the amount of consolidated net profit for the year ending August 31, 1948."

Willys-Overland Motors, Inc., also restated the 1948 figures in its 1949 annual report. The following is quoted from the "Notes to Financial Statements":

"These figures have been restated for comparative purposes by including in either the income or surplus accounts special charges or credits heretofore reflected in reserves for contingencies and by including in capital surplus discount on preferred stock reacquired in anticipation of sinking fund requirements, etc."

Occasionally references were made to the comparative figures presented for the preceding year:

"The figures as of December 31, 1948, are presented for comparative purposes only." (Western Auto Supply Co.—below balance sheet and income statement)

Uncertified statements

Many companies presented a variety of uncertified statements in their annual reports.

The significant changes that occurred in the statements most frequently presented in 1949 were:

Increased use of:

(a) Summary earnings comparisons for more than two years (107, 128, 224, 353, 476)

(b) Statements of source and application of funds and of changes in working capital (140, 212, 283, 457, 516)

(c) Comparative balance sheets for more than two years (95, 98, 307, 315, 494)

Slightly decreased use of:

(a) Supplementary income statements with employment costs shown as a separate item (58, 94, 396, 455, 469)

(b) Simplified balance sheets—standard form (14, 117, 240, 334, 515)

(c) Charts showing distribution of sales dollar (104, 198, 272, 281, 312)

The following five uncertified statements are reproduced as examples of a few interesting types used in the 1949 reports to stockholders:

(1) *Explanatory Balance Sheet* (Jantzen Knitting Mills, Inc.) (See Exhibit 6, p. 28.)

Explanatory captions used on this balance sheet furnished a great deal of information about each item in simple, nontechnical terms. Bigelow-Sanford Carpet Company, Inc., Botany Mills Inc., and A. E. Staley Manufacturing Company also used simplified balance sheets. Electric Boat Company presented a very interesting simplified balance sheet in graphic form.

(2) *Simplified Statement of Operations 1949* (Blaw-Knox Co.) (See Exhibit 7, p. 36.)

This statement presents the income statement in narrative form with total employment costs shown separately.

The Haloid Company also included a simplified income statement titled "1949 and How We Made Out." Percentage of sales for each item was shown in a separate column. Lone Star Cement Corporation, Monsanto Chemical Company and Hamilton Watch Company are other companies using variations of this form of statement.

(3) *Statement of What Assets and Liabilities Mean to Each Employee* (Diamond Match Co.) (See Exhibit 8, p. 45.)

In this simplified statement of assets and liabilities, the book figures are shown in total and also in "amount behind each employee."

(4) *Changes in Working Capital—Receipts and Expenditures* (Jones & Laughlin Steel Corp.) (See Exhibit 9, p. 59.)

This statement shows the changes in working capital in total and per employee. Other statements of changes in working capital are included in the annual reports of Pillsbury Mills, Inc., and Crown Zellerbach Corporation.

(5) *Sources of Funds for Expansion, Modernization and Replacement of Facilities and for other Corporate Purposes* (Standard Oil Co. (Ohio)) (See Exhibit 10, p. 64.)

The number of companies presenting statements of source and disposition of funds or changes in working capital has been gradually increasing for the past few years.

Ex-Cell-O Corporation included in this year's report a statement titled "Here's What Happened in 1949 in Relation to One Share of Ex-Cell-O Stock." The statement showed pertinent information of the year's operations on a per share basis.

Houdaille-Hershey Corporation again presented a statement of value added to raw materials and services by their company and showed how this value added was used.

Consolidation policy—domestic subsidiaries

In 1949, only about 38% of the companies having domestic subsidiaries explained their consolidation policy.

Possibly the main reasons for lack of disclosure were (1) that most companies did not have to decide upon any over-all policy, since they had only one or a limited number of subsidiaries, or (2) a company's subsidiaries may all have been 100% owned, making it unnecessary to consider whether or not a partly-owned subsidiary would be excluded or included.

The tabulations below indicate the manner in which the policies of consolidation were revealed. Such information was found in the great majority of reports only in the title heading of the financial statements. For example, if the statement title read "Consolidated Balance Sheet" and no investment in subsidiaries was separately shown on the balance sheet, it was assumed that all domestic subsidiaries were consolidated with no general statement of policy being provided. In other cases the financial statements might include "and Wholly Owned Domestic Subsidiary Companies" in the title and would be classified as a "positive statement that all 100% owned subsidiaries were consolidated."

1949	1948	1947	
134	124	127	No domestic subsidiaries indicated
			No statement of policy:
25	30	28	Domestic subsidiaries indicated on the balance sheet but not consolidated (81, 155, 206, 317, 344)
179	186	189	All domestic subsidiaries consolidated (189, 265, 377, 467, 479)
40	36	37	Some domestic subsidiaries consolidated, others excluded (128, 164, 227, 280, 465)
			Policy indicated:
82	84	79	Subsidiaries consolidated were 100% owned (113, 224, 304, 375, 517)
7	6	6	Stated percentage of ownership determined inclusion of subsidiaries in consolidation (32, 50, 399, 461, 509)
4	4	4	No fixed percentage stated for over-all policy but percentage of ownership quoted for individual subsidiaries (66, 209, 353, 419)
8	8	7	Subsidiaries excluded because their operations were not homogeneous with those of the parent company (35, 63, 94, 228, 397)
34	35	36	Positive statement that all domestic subsidiaries were consolidated (158, 307, 315, 447, 524)
1	1	1	All consolidated except mutual insurance company and three subsidiaries less than 60% owned (358)
2	2	2	Only domestic sales companies consolidated (124, 156)
1	1	1	Voting controlled subsidiaries consolidated (480)
3	3	3	Fixed percentage of homogeneous companies (222, 357, 525)
1	1	1	Only 100% owned subsidiaries consolidated except one 100% owned pipe line with earnings restricted (441)
4	4	3	All consolidated except those not considered significant (65, 393, 477, 490)
...	...	1	Subsidiary excluded in 1947 because of bankruptcy
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

From the tabulations above it can be seen that there were very few significant changes during the year. Most of the changes that did occur were the result of the acquisition, creation, sale or dissolution of subsidiaries.

Policy changes or other changes in consolidation were described in the following excerpts taken from the related auditor's reports or footnotes:

(1) "As explained on page three of this report, the accompanying financial statements are presented on a basis of consolidation different from that followed in 1948 and prior years. In the condensed comparative statements for the years 1944 to 1949, inclusive, there have been certain changes in amounts previously re-

ported to give effect to adjustments between years.

"The financial statements of foreign subsidiaries have been translated into United States dollars on generally accepted bases of conversion. The consolidated total capital of foreign subsidiaries as at December 31, 1949, exceeded the carrying value of the company's investments in such subsidiaries by $8,291,-000." (Johnson & Johnson—footnote)

"Foreign exchange and trade controls have become so burdensome that the company has thought it advisable to limit the consolidated statements, for the first time in 1949, to the domestic affiliated companies. Consequently, only foreign company dividends of $203,452 actually received in this country have been taken into the domestic accounts. All amounts reported for years prior to 1949 have been restated in accordance with the revised principle of consolidation." (Johnson & Johnson—president's letter)

(2) "Financial statements for the year 1949, on a consolidated basis, certified by our auditors . . . are presented in this report. Heretofore, our condensed annual reports have been presented on the basis of the Alabama Fuel and Iron Company as a separate legal entity. However, it is my opinion and the opinion of our auditors that consolidated statements present the true picture of the financial condition and operations of the enterprise as a whole, and it is our intention to render all future published statements on a consolidated basis." (Alabama Fuel & Iron Co.—president's letter)

(3) "Assets held for disposal or liquidation include mortgages received for assets disposed of in prior years, other non-current receivables, miscellaneous investments and, at December 31, 1949, the investment in certain subsidiary companies. These subsidiaries are consolidated in the balance sheet at December 31, 1948, and in the statements of income for the years 1949 and 1948; however, since they are in process of disposal or liquidation at December 31, 1949, they are not consolidated in the balance sheet at that date, but are carried as investments in the amount of the equity as shown by their balance sheets, less reserve for loss in disposal or liquidation." (Curtiss-Wright Corp.—footnotes)

(4) In 1949, the Liberty Products Corporation allowed two of its subsidiaries to merge together. These subsidiaries were previously consolidated by the parent company. The footnote appearing in the 1949 annual report relating to this transaction follows:

"Under the terms of the merger of The Davisbilt Products Company with Highway Trailer Company effective as of December 27, 1949, Liberty Products Corporation received 75,000 shares of new $1 cumulative convertible second preferred stock, $20 par value (convertible into 300,000 shares of common stock) of Highway Trailer Company in exchange for its investments in that company and in Davisbilt Products Company. The investment in the new second preferred stock is shown at the cost of the investments surrendered in exchange therefor, and the sum of $1,400,000 has been provided from earned surplus as a reserve for the revaluation of the new stock to approximately its par value." (Liberty Products Corp.—footnote)

The following three excerpts also deal with the general question of consolidation policy and illustrate the practice of full disclosure where warranted:

(1) "PRINCIPLE OF CONSOLIDATION:

"It is the practice of the corporation to include in the consolidated statements all subsidiary companies which are wholly owned, or practically so, and which are engaged in the manufacture or wholesale marketing of its United States and Canadian products. Subsidiary companies which are not included in the Corporation's consolidated statements are listed on Schedule 1, page 38, which shows also the bases on which such investments are carried.

"Earned Surplus includes $51,006,370 at December 31, 1949, and $44,827,453 at December 31, 1948, for net earned surplus of subsidiaries not consolidated. The investments in domestic non-consolidated subsidiaries are adjusted to reflect current income, losses and dividends." (General Motors Corp.—footnote)

(2) "The consolidated financial statements incorporate the accounts of the parent company and those of a subsidiary company, the operations of which are related to those of the parent. There is one other subsidiary (wholly owned) that is not included in the consolidation for the reason that its operations are unrelated to those of the parent company. The investment in this latter company is carried at cost." (Bay Petroleum Corp.—footnote)

(3) "The consolidated financial statements include only the accounts of subsidiary companies operating in the United States in which the company owned 75% or more of the voting stock. The accounts of subsidiary companies operating in foreign territories are not included." (Warner Bros. Pictures, Inc.—footnote)

Consolidation policy— foreign subsidiaries

The following tabulation reveals the manner in which foreign subsidiaries were consolidated and whether or not a consolidation policy was stated:

1949	1948	1947	
327	331	338	No foreign subsidiaries indicated
			No statement of policy:
42	43	48	Foreign subsidiaries indicated but none consolidated (95, 98, 128, 353, 374)
48	51	54	But all foreign subsidiaries consolidated (189, 263, 320, 476, 479)
15	13	11	Some but not all foreign subsidiaries consolidated (193, 250, 265, 280, 307)
			Policy indicated:
19	18	21	Based on geographical location (94, 138, 410, 447, 473)
21	20	14	Based on percentage ownership (113, 315, 441, 522)
9	10	11	Based on both geographical location and percentage ownership (224, 246, 421, 461, 482)
26	23	18	No foreign subsidiaries consolidated (35, 158, 358, 399, 524)
16	13	7	All foreign subsidiaries consolidated (41, 65, 109, 192, 497)
2	3	3	Some foreign subsidiaries consolidated in income account but not in balance sheet (299, 314)
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

As can be seen from the above tabulation there were relatively few changes in 1949.

The changes that did occur during the year were due principally to: (1) the effect of exchange restrictions and unsettled economic conditions in foreign countries, and (2) the acquisition of new foreign subsidiaries or an increase in the equity of subsidiaries already held.

Effect of exchange restrictions and unsettled economic conditions in foreign countries

Excerpts from auditors' reports or presidents' letters regarding some of the above changes, follow:

(1) "The consolidated financial statements issued by the company in previous fiscal years included the accounts of the parent company and its domestic and foreign subsidiary companies. Due to the uncertainties prevailing in foreign exchange it was decided to change the treatment of the accounts of foreign subsidiaries in the consolidated financial statements. As to the statement of financial position, all of the assets and liabilities of foreign subsidiaries are reclassified in a net amount as investments. As to the earnings statement, the income and costs arising from operations of foreign subsidiaries are excluded and only dividends received in U. S. dollars from such subsidiaries are included. For comparative purposes, the statement of financial position at October 30, 1948, and the earnings statement for 1948 have in this report been so reclassified and restated. The effect of this change on the financial position at October 30, 1948, was as follows:

"Excluded from:	
Working capital (Current Assets less Current Liabilities)	$20,152,468
Other Investments	905,765
Fixed Assets	14,557,756
Deferred Charges	343,777
	$35,959,766
Minority Stockholders' Equity	470,806
	$35,488,960

The $35,488,960 excluded was classified as investments and long term receivables. In addition, the undistributed earnings of foreign subsidiaries previously included in earned surplus (earnings employed in the business) were transferred to capital and paid in surplus." (Armour & Co.—notes to financial statements)

(2) Armco Steel Corporation eliminated its only foreign subsidiary from the consolidated statements with the following explanation appearing in the president's letter:

"Financial results for 1949 were not comparable with those of previous years for the reason that the sales, expense and net income of foreign subsidiaries of The Armco International Corporation were excluded from consolidated income. The sales of Armco International to its subsidiaries and the resulting net income together with dividends actually received in dollars from foreign subsidiaries were included.

"These changes were made in the interest of a more conservative statement of income in view of the increasing difficulty of obtaining dollar exchange in most foreign countries for remitting dividends."

(3) Johnson & Johnson excluded all foreign subsidiaries because of foreign exchange and trade controls and discussed the change in the president's letter:

"Foreign exchange and trade controls have become so burdensome that the company has thought it advisable to limit the consolidated statements, for the first time in 1949, to the domestic affiliated companies. Consequently, only foreign company dividends of $203,452 actually received in this country have been taken into the domestic accounts. All amounts reported for years prior to 1949 have been restated in accordance with the revised principle of consolidation."

(4) Bristol-Myers Company effected a change in its consolidation policy of foreign subsidiaries in 1949. In his review of the year, the president made the following comment:

Exhibit 3: Harbison-Walker Refractories Company

HARBISON-WALKER REFRACTORIES COMPANY
AND SUBSIDIARIES

Statement of Changes in Consolidated Working Capital

For the Year Ended December 31, 1949

	December 31, 1949	December 31, 1948	Increase (Decrease)
CONSOLIDATED WORKING CAPITAL:			
Current assets	$20,499,068	$20,437,045	$ 62,023
Current liabilities	6,376,680	7,718,929	(1,342,249)
Working capital	$14,122,388	$12,718,116	$ 1,404,272

The net increase of $1,404,272 is analyzed below:

INCREASE FROM 1949 TRANSACTIONS:		
Operations:		
Net income for the year	$ 4,482,681	
Provisions for depreciation and depletion	2,355,478	
	$ 6,838,159	
Book value of property sold	373,899	
Minority interest in undistributed net income of subsidiaries	221,241	
Proceeds of term bank loans of subsidiaries, net of current maturities	698,000	
Miscellaneous	120,309	$ 8,251,608
DECREASE FROM 1949 TRANSACTIONS:		
Expenditures for property additions and replacements ($5,712,257 in 1948)	$ 4,116,886	
Dividends declared	2,516,242	
Investment in notes receivable due after 1950	214,208	6,847,336
Net increase		$ 1,404,272

"Although the total volume of sales achieved in foreign markets during the past year represented a new peak, increasing restrictions on the transfer of funds, the uncertainty of foreign exchange rates, and the possibility of devaluation, all indicated that we should seriously consider revising our past method of reporting net income from these sources."

The present method of consolidation is explained in the following excerpts from "Notes to Consolidated Financial Statements":

"The consolidated financial statements include the parent Company and all wholly-owned North American subsidiaries. Beginning January 1, 1949, the Company discontinued the consolidation of the profits and losses of its subsidiaries operating in England, Australia, South Africa and Latin America and adopted the policy that only dividends received from unconsolidated subsidiaries shall be included in reported net income. Also, the assets and liabilities of foreign branches and licensees are no longer consolidated but carried as investments and valued on the basis of the net assets not subject to foreign exchange fluctuation, such as dollar deposits, fixed and capital assets.

"Pursuant to this change in policy, the Company wrote off all accumulated undistributed earnings previously credited to earned surplus in the following amounts:

Unconsolidated foreign subsidiaries	$ 971,095.75
Unconsolidated Western Hemisphere subsidiaries	−72,809.65
	898,286.10
Unconsolidated foreign branches and licensees	266,813.45
	$1,165,099.55"

"Net current assets and deferred charges of North American subsidiaries stated in foreign currencies were converted into United States dollars at the free rate of exchange prevailing at December 31, 1949. Other assets of such companies have been stated at cost, converted generally at the exchange rates prevailing at date of acquisition. The devaluation of the Canadian dollar resulted in an exchange loss of $79,948.83 which was charged to earned surplus."

The auditors referred to the change in consolidation, which they approved, in the last sentence of their report.

Foreign subsidiaries purchased, new ones formed or increased equity in subsidiaries already held

Four companies (Republic Steel Corp., A. B. Farquhar Co., Avon Allied Products, Inc., International Business Machines Corp.) purchased or formed new foreign subsidiaries or increased their equity in subsidiaries already held. Three of the companies did not consolidate their new interests but chose to show them in the balance sheet as investments. Avon Allied Products, Inc., during 1949, acquired full ownership in Avon Products of Canada, Ltd., in which a previous interest had been held and chose to consolidate the wholly-owned subsidiary in its 1949 financial statements.

One other interesting aspect of the formation of new foreign subsidiaries was in connection with the A. B. Farquhar Co. Its newly formed Canadian sales branch (a subsidiary) was incorporated eight days after the close of their fiscal year. This fact was revealed in a footnote with the unconsolidated investment, at cost, shown in the balance sheet.

Other changes

(1) *Subsidiaries reinstated*

Remington Rand Inc. reinstated certain of its foreign subsidiaries during the year. The following excerpt is from "Notes to Financial Statements":

"The accounts (excluded from consolidation since 1941) of wholly-owned subsidiaries in Belgium, Netherlands and Norway were reinstated in the consolidated financial statements as of October 1, 1949, and provision has been made for estimated federal income taxes with respect thereto. The accounts of subsidiaries in France and Germany continue to be excluded from consolidation pending determination of the extent of the recoveries thereon."

(2) *Growing importance of foreign subsidiary*

In the president's letter of PurOlator Products, Inc., the reason for the change in consolidation policy in regard to a foreign subsidiary was given as follows:

"Because of the growing importance of the Canadian subsidiary, it was felt that a consolidated report should be made this year. Accordingly the financial statements presented with this report represent the combined operations of PurOlator Products, Inc., and its wholly-owned subsidiary PurOlator Products (Canada) Limited."

The method of consolidation was explained in the "Notes to Financial Statements."

Collins & Aikman Corp. explained in their annual report that the earnings figures given did not include the earnings of their Canadian subsidiary in accordance with their previous practice, but they contemplated consolidation of their Canadian subsidiary in the ensuing fiscal year and for that reason the earnings of the subsidiary for the year ended February 25, 1950 were shown in Canadian dollars after taxes.

Post-balance-sheet disclosures

While the great majority of post-balance-sheet disclosures appeared in the president's letter, principally because it post-dated the company's fiscal year, the footnotes, the financial statements and even the auditor's report, at times, contained such information.

The discussion which follows will deal in order with the last three locations as being of greater interest to the accountant than disclosure in the president's letter.

In footnotes

The items which appeared most often in the footnotes were in connection with funds borrowed or repaid, acquisition or sale of subsidiaries, and declaration, payment or receipt of dividends. These three items constituted approximately 52% of the total number of post-balance-sheet disclosures appearing in the footnotes. The remaining 48% was made up of various items appearing infrequently in the reports of many corporations.

A few examples quoted from the footnotes are presented below:

(1) "On December 8, 1949, the company announced its intention to call for redemption $24,000,000 in principal amount of debentures, including $1,000,000 due May 1, 1950 . . ." (Swift & Co.—fiscal year ended October 29, 1949)

(2) "The company since December 31, 1949, has invested approximately $2,200,000 in another company, organized by it and others, which has acquired certain mineral properties. If increased prices are obtained on or before April 15, 1951, for gas contracted to be sold from these properties, an additional investment up to $1,000,000 will be required." (Columbian Carbon Company—fiscal year ended December 31, 1949)

(3) "Pursuant to the provisions of a loan agreement dated March 15, 1949, a loan was obtained from the Reconstruction Finance Corporation in the amount of $400,000.00. Payments were made on this loan in 1949 reducing the balance to $377,050.00 on December 31, 1949. The original terms of this loan were modified by agreement dated January 20, 1950, providing for payments as follows:

$130,000.00	in monthly installments during 1950
15,000.00	on January 15, 1951
10,000.00	on February 15, 1951
222,050.00	on March 15, 1951
$377,050.00	Total

The note issued in accordance with provisions of the agreement provides for additional payments should the company realize net profits from operations for any year prior to maturity of the note. Interest is payable on this loan at 4% per annum on the 15th day of each month."

The footnote went on to state the collateral held by the Reconstruction Finance Corporation in regard to the above loan. (Samson United Corporation—fiscal year ended December 31, 1949)

In financial statements

The most common post-balance-sheet disclosure was in connection with the declaration and payment of dividends. Illustrations of parenthetic disclosures in the balance sheet follow:

(1) "Current Liabilities:
Dividends payable (paid in January 1950 and 1949)"
(Air Reduction Co., Inc.—fiscal year ended December 31, 1949)

(2) "Liabilities and Capital
Current:
Dividends payable (paid January 3, 1950)"
(Haloid Co.—fiscal year ended December 31, 1949)

(3) "Current Liabilities:
Dividend declared on $3 Convertible Preference stock paid January 3, 1950"
(Chicago Pneumatic Tool Co.—fiscal year ended December 31, 1949)

An interesting post-balance-sheet transaction, in regard to the purchase of a subsidiary, follows. Although this transaction was not reflected in the statements, it was stated in a footnote with a parenthetical reference to it appearing on the balance sheet.

"Subsequent to June 30, 1949, the entire outstanding capital stock of Wire Specialties Co. (a California Corporation) was acquired for a maximum consideration of $600,000 plus or minus the difference between certain assets and liabilities of that company, the amount of which is to be determined by independent certified public accountants. This amount has not yet been determined, but it is estimated that the total consideration may approximate $700,000. The stock purchase contract provides, among other things, for payments on the purchase price aggregating $250,000 prior to June 30, 1950, and that payments on the balance of the purchase price are required only to the extent of the amount of a stated percentage of certain sales. Under this provision it is estimated that an additional payment of $60,000 will be required prior to June 30, 1950." (Keystone Steel & Wire Co.—fiscal year ended June 30, 1949)

One other parenthetical reference in the balance sheet to a post-balance-sheet transaction disclosed in a footnote was presented by Marmon-Herrington Company, Inc., whose fiscal year ended December 31, 1949.

"The subsidiary company's land, buildings, machinery and equipment carried at $335,008.13 at December 31, 1949 (consisting principally of assets fully amortized for tax purposes, restored in the accounts in 1945) were sold as of February 28, 1950, for $450,000. No determination can be made at this time as to the ultimate effect of this transaction on future operations."

In auditor's report

References to post-balance-sheet transactions in the auditor's report were not very common. A few which were noted follow:

(1) "It is also our opinion that the action of the Board of Directors on March 17, 1950, in setting aside from the earnings of the year 1949 a sum of $500,000 under the Incentive Compensation Plan for Officers and Employees is in conformity with the provisions contained in the first paragraph of Section 2 of such plan."

The above quotation appeared as the last paragraph, after the usual opinion paragraph, in the auditor's report of Boeing Airplane Company whose fiscal year ended December 31, 1949.

(2) The W. L. Maxson Corp. (fiscal year ended September 30, 1949) revealed in detail a post balance sheet transaction in their "Notes to Financial Statements," reference to which was made in the auditor's report. Excerpts follow:

". . . and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period, except for the elimination of Victor Electric Products, Inc. from consolidation in the accompanying financial statements as explained in Note 1, which change we approve." (Auditor's report)

"The Corporation's investment in common stock of Victor Electric Products, Inc., is not reflected in the accompanying consolidated balance sheet since no equity accrued thereto as Victor's cumulative deficit to September 30, 1949, exceeded its outstanding capital stock and surplus. On October 3, 1949, the corporation gave up its entire investment in Victor's common stock.

"In place of its advances to Victor, amounting to $902,614 after deduction of reserve, the Corporation accepted on October 3, 1949, Victor's 4% non-cumulative income note for $750,000 due October 3, 1959, and 2500 shares of Victor's newly issued 4% non-cumulative non-voting preferred stock having a par value of $250,000 and an equity of $152,614 in Victor's net assets. The Corporation's advances to Victor at September 30, 1949, were subordinate to Victor's indebtedness to Reconstruction Finance Corporation amounting to $397,500 at that date. The Victor note received on October 3, 1949, is also subordinate to such indebtedness." (Notes to financial statements)

Pension plans

[*See also later section on Past Service Pension Costs.*]

The annual reports for 1949 revealed that almost one-half of the 525 companies tabulated either had no pension plan or gave no information in the president's letter or in the financial statements on any plan which they may have had. Of these same companies, twelve were noted which did not disclose any information relative to a pension plan in the current year although they had furnished some details in the previous year.

Of the remaining 264 companies, 181 merely mentioned, by various methods, that a pension plan was in existence and did not reveal sufficient information for the reader to determine the type of plan in use or the accounting treatment accorded it.

The pension plans that were more fully described in 1949 reports seemed to be of three types, with considerable variation being noted as to the accounting treatments followed and the information provided. These three types of plan were:

$\left.\begin{array}{l}\text{(1) Trusteed plans}\\ \text{(2) Annuity plans}\end{array}\right\}$ —Formal
(3) Informal plans

In the case of the formal plans the corporations made actuarially computed payments to an independent agency which took over the administration of the plan, whereas with the informal plans the responsibility for administration remained with the corporations.

Even with those plans considered to be more fully described, information was not always sufficient to allow for a definite classification. With this in mind, the following material will attempt to point out various accounting methods used to handle such plans.

Formal plans

Under the trusteed plan, the usual accounting treatment was to charge income for the payment made to the trustee for either past or future service benefits.

The estimated future liability for past service pension costs was frequently stated as supplementary information in either the auditor's notes to the financial statements or in the president's letter. It was also noted that a few companies carried reserves to cover such costs, charging payments directly thereto. (Brown & Sharpe Manufacturing Co. and Lambert Co.)

In a trusteed plan, the trustee might make payments directly to the beneficiary or purchase an annuity from an insurance company which would then assume the obligation of making the payments to the beneficiary.

In many instances there was a clause providing for modification, amendment or termination of the plan. In general, however, contributions already made under independently administered plans were irrevocable.

Excerpts from the annual reports of two companies which embody the above points are included here as examples of a trusteed pension plan:

(1) "The companies' 1949 contributions to the Retirement Plan Trust Fund, in accordance with the requirements certified by the Company's actuary, totalled $555,743 which, by reason of reduction in the number of employees, is substantially less than the total contributed in each of the three preceding years. In accordance with the practice established in prior years, $478,937 of the annual contribution has been charged to the Provisional Reserve for Past Service. The balance of 1949 contributions, $76,806, has been charged to the year's operations and is substantially less than the normal cost of currently maintaining the plan. The amount of $478,937 represents one-tenth of the reserve established as at the effective date of the plan based on then estimated total past service costs less related income tax reduction." (Brown & Sharpe Manufacturing Co.—president's letter)

The "Provisional Reserve for Past Service Under Retirement Plan" was shown in the balance sheet following current liabilities.

(2) "Profit Sharing and Retirement Program: Effective as of January 1, 1946, the company adopted a trusteed profit sharing and retirement program for the benefit of all eligible employees, including officers, the entire cost of which is borne by the company. The maximum contribution for the entire program in any year is 15% of the compensation of the participants. The total unfunded cost in respect of past services under the Retirement Plan was approximately $507,000.00 at December 31, 1949, to be funded over the next six years providing the Plan continues in operation. While the company expects to continue the program indefinitely, the right to modify, amend, or terminate such program has been reserved. Upon termination, the entire amount theretofore contributed under the program must be applied to the payment of benefits to participants and their beneficiaries." (Western Auto Supply Co.—notes)

On the balance sheet of the American Bank Note Company the following item was shown as an asset in the investment section with a contra reserve also shown:

"Investments of Appropriations for Employees' Pensions:
Securities, at cost . . . .
Cash . . . ."

The payment made to the trustee of the plan was shown as a charge in the income statement.

The Atlas Powder Co. showed the following in its balance sheet:

"Reserves		
Pensions (December 31, 1949)	$2,898,309	
Less Amount in Pension Trust	2,592,232	$306,077"

The accounting treatment given annuity-type plans appeared to be quite similar to that of trusteed plans, previously discussed, except that the company would deal directly with an insurance company in the purchase of annuities for its employees.

It was noted, that the predominent treatment was to charge income for the payments made to the insurance company which in most cases included past and future service costs.

The estimated future liability for past service costs was not stated as frequently in the footnotes or the president's letter as was done when companies used a trusteed type of plan. Reserves for past service costs were rarely used, but when the past service costs were prepaid, the unamortized portion was often set up in the balance sheet as a deferred charge periodically amortized by a charge to income. (Electric Boat Co. and Alpha Portland Cement Co.)

Exhibit 4: Granite City Steel Company

Granite City Steel Company

statement of operations

FOR YEAR ENDED DECEMBER 31, 1949

Operating income:		
Gross sales, less discounts, returns, and allowances..		$46,423,474
Operating expenses:		
Cost of products sold, including materials, wages and salaries, property taxes, and other manufacturing expenses..................................	$39,451,530	
Provision for depreciation......................	1,078,815	
Selling, administrative, and general expenses.......	906,040	
Interest on notes payable......................	112,029	41,548,414
Income from operations before income taxes.		$ 4,875,060
Other income................................		73,048
Net income before income taxes...........		$ 4,948,108
Estimated federal income taxes..................		1,890,000
Net income for the year.................		$ 3,058,108

disposition of net income

Net income for year, as above....................		$ 3,058,108
Retained to provide for inventory price declines and other contingencies...........................		100,000
		$ 2,958,108
Dividends paid:		
In cash, $2 per share..........................	$ 764,976	
In common stock of the company...............	431,060	1,196,036
Balance, reinvested in the business during the year...		$ 1,762,072

While very few companies mentioned in their notes to financial statements or in the president's letter their right to modify, amend or terminate the plan, Pacific Mills and The Western Electric Co. did state in footnotes that they had the right to terminate their plans. Likewise no information was given regarding the effect on annuities previously purchased, should the plan be terminated.

Two typical examples of annuity plans are set forth below by excerpts from footnotes or the president's letter:

(1) "The company established, as of April 1, 1946 (and amended as of April 1, 1948) a retirement annuity plan for the benefit of its salaried employees. The plan is administered by an insurance company under a group annuity contract. The adjusted liability, related to services rendered prior to April 1, 1948, is payable in ten annual installments beginning with that date. At December 31, 1949, the company's estimated remaining liability for services rendered prior to the establishment of the plan was approximately $1,678,000. The company has the right to terminate the plan at its discretion." (Pacific Mills—notes to financial statements)

(2) "On May 11, 1948, at its regular meeting, the stockholders adopted a Retirement Plan, effective January 1, 1948, involving the purchase of retirement annuities, and in addition other benefits based on profits of the company. Under the provisions of the plan providing for group annuities, in which both eligible hourly-paid and salaried employees are included, the company is required (so long as the plan is continued) to make payments for the past service benefits of the covered employees until the past service program is completed over a period of approximately eighteen years, starting with 1948. Payments on account of such items are required on or before February 1 each year in amounts not less than $50,000.00. The 1949 payment for past service benefits amounted to $74,974.03. The company has reserved the right to modify or discontinue the plan at any time in the future. The unpaid cost at December 31, 1949, for such past service benefits is estimated at approximately $1,010,000.00, none of which is reflected in the balance sheet of the company." (Master Electric Co.—notes to financial statements)

Steel company pension plans

During the latter part of 1949 new agreements were made by various steel companies with the steelworkers' union. These agreements among other things provided for certain benefits to be paid for by the employer.

The following excerpts from presidents' letters and footnotes provide information concerning new plans or amendments to plans already in operation required as the result of the steel strike settlement agreements:

Bethlehem Steel Corporation

"It is the practice of Bethlehem Steel Corporation and its subsidiaries, when an employee becomes entitled to a pension under the provisions of the Pension Plan referred to on page 7 above, to charge to income and to pay into the Pension Trust Fund established pursuant to said Plan (which Fund is not included in the consolidated accounts) an amount, determined on an actuarial basis, which is estimated to be sufficient to provide for the payment to such employee of the amounts he will become entitled to receive monthly as a pension during the remainder of his life. In addition to such payments, lump sums have from time to time been provided from income and paid into the Pension Trust Fund, in order to provide for the payment of pensions that might be granted in the then future. The aggregate amount in such Fund at December 31, 1949, is $30,643,140. Of that amount $10,376,375 is available for the payment of pensions which it is expected will be granted after December 31, 1949.

"As shown by the consolidated income statement, the amount which was provided from income for pensions in 1949 was $15,462,419. The amount that was paid into the Pension Trust Fund in 1949 (which represented the estimated cost of pensions granted in that year and some others granted in prior years) was $5,832,653, of which $370,234 had been charged against earnings in prior years. $10,000,000 (which is included among the current liabilities in the foregoing balance sheet) of such $15,462,419 will be paid into such Fund in 1950, in part to provide for pensions which it is expected will be granted in 1950 and subsequent years, and in part to provide for possible increases in pensions which were granted prior to 1950.

"At their Special Meeting held February 7, 1950, the stockholders of Bethlehem Steel Corporation approved amendments to the Pension Plan which were required by the strike settlement agreements dated October 31, 1949, between certain subsidiaries of the Corporation and the United Steelworkers of America.

"It is estimated that the cost of the pensions that it is expected will be granted in 1950 under such Pension Plan as so amended will be between $17,500,000 and $20,000,000. Such amounts include the estimated cost ($10,000,000) of the pensions that will be payable to a substantial number of persons who at December 31, 1949, were eligible for pensions under such Pension Plan but had not chosen to apply therefor, because they were receiving benefits under the Relief Plan of Bethlehem Steel Corporation and Subsidiary Companies. Since, as stated on page 7 above, such Relief Plan has been terminated, it is expected that pensions will be granted to all but a few of such persons in 1950. It is also estimated that the cost of the pensions that it is expected will be granted in 1951 under such Plan will be between $7,500,000 and $10,000,000. The estimates

Exhibit 5: Standard Oil Company (New Jersey)

Net Assets and Earnings—Geographically

The approximate geographical distribution of the consolidated net assets included in the consolidated statement of financial position as at December 31, 1949, and of the consolidated earnings for the year ending on that date is as follows:

	United States	*Other Western Hemisphere*	*Great Britain*	*Continental Europe and North Africa*	*Other Foreign Countries*	*Total*
Current assets:						
Cash	$ 142,277,463	$ 59,503,366	$ 386,410	$ 1,173		$ 202,168,412
Marketable securities	331,271,141	20,117,489				351,388,630
Other current assets	382,393,624	310,382,661	909	348,051		693,125,245
	855,942,228	390,003,516	387,319	349,224		1,246,682,287
Current liabilities	222,666,076	176,751,607				399,417,683
Net current assets	633,276,152	213,251,909	387,319	349,224		847,264,604
Investment in companies, owned over 50%, in Europe and North Africa			98,697,370	121,695,686		220,393,056
Other investments	29,010,232	35,603,553	318,303	5,656,663	$160,814,264	231,403,015
Property, plant, and equipment, less reserves	1,229,225,971	856,495,755				2,085,721,726
Other assets	14,645,225	17,199,352				31,844,577
	1,906,157,580	1,122,550,569	99,402,992	127,701,573	160,814,264	3,416,626,978
Deduct:						
Long-term indebtedness, other reserves (except reserve for possible losses on foreign investments), etc.	472,802,862	158,649,021	1,901,081			633,352,964
Minority interests	219,017,635	125,170,134		6,844,516		351,032,285
	691,820,497	283,819,155	1,901,081	6,844,516		984,385,249
	$1,214,337,083	$ 838,731,414	$97,501,911	$120,857,057	$160,814,264	2,432,241,729
Reserve for possible losses on foreign investments						105,000,000
Net assets which correspond to the net worth shown in the consolidated statement of financial position						$2,327,241,729
Consolidated net income	$ 93,335,608	$ 156,253,046	$ 3,150,862	$ 2,629,915	$ 13,500,070	$ 268,869,501

The procedures followed in converting the accounts of foreign affiliates into dollars are: (1) inventories purchased for dollars at their dollar cost, other current assets and current liabilities at year-end rates, (2) other assets and funded debt at rates prevailing at acquisition, (3) reserves at rates prevailing when provided, and (4) net income of foreign affiliates, except for depreciation, at year-end rates after taking into consideration dividends realized in United States dollars. Depreciation has been charged to income at amounts based on the dollar cost of the property, plant, and equipment.

made in this paragraph have been made on the assumption that the old-age benefits payable under the Federal Social Security Act as at present in effect will not be increased prior to January 1, 1952. But, if any increase in such old-age benefits under such Act effective prior to that date shall be made, such increase will have the effect of reducing the amounts that are required to be provided for the payment of the pensions referred to in this paragraph, but will also result in granting increased pensions to some of those who were pensioned on or before March 1, 1950.

"The Pension Plan as amended provides that it is strictly a voluntary provision on the part of the employing companies, and shall not be deemed to constitute a contract between any one or more of them and any employee or to be in consideration for, or an inducement or condition of, the employment of any employee. Said Plan also provides that the Board of Directors of the Corporation has the right to modify or terminate the Plan at any time; provided, however, that, with an unimportant exception, a pension which had been granted at the time of any modification of or the termination of the Plan shall not be discontinued or reduced. Each of the above-mentioned strike settlement agreements, however, provides, in substance, that such Plan, in so far as it applies to the employees to whom such agreement relates, will continue in effect without modification or change during the term of the existing collective bargaining agreement covering such employees, which by its terms will expire not later than January 1, 1952.

"In view of the voluntary nature of such Pension Plan as amended, as stated above, and of the numerous and doubtful assumptions that it would be necessary to make in ascertaining the probable actuarial cost in respect of so-called past service benefits under such Plan, the Corporation has not made any definitive actuarial studies as to such cost. It is probable, however, that, if such studies were made and were of importance, it would be found that said cost would substantially exceed the amount in the Pension Trust Fund at December 31, 1949."

Copperweld Steel Company

"Under the terms of a Supplemental Agreement with the United Steelworkers of America—CIO, applicable to the Wire and Cable Division of the Company, the Company agreed to provide a reserve, beginning October 1, 1949, on the basis of six cents net for each hour's pay to employees subject to the Agreement, for a pension plan for such employees. The details of the pension plan are to be worked out by study and agreement between the Company and the Union. It is estimated that the cost of the plan to the Company, on the basis of a provision of six cents net for each hour's pay, will approximate $100,000 annually.

"Under the terms of an Agreement with the United Steelworkers of America—CIO, applicable to the Steel Division of the Company, the Company agreed, subject to shareholders' approval, to provide, beginning January 1, 1950, for retirement pensions to eligible employees covered by this Agreement. No employees of the Steel Division will be eligible for retirement prior to the year 1954. Under the terms of the Agreement, the Company is required to pay into a trust fund or funds in the year of retirement sufficient money, on a sound actuarial basis, to provide for pensions of employees who were granted pensions during such year. Actuarial studies necessary to determine the cost of this pension plan are in progress and not yet completed.

"As of October 1, 1949, the Company began to make provisions for voluntary pensions to salaried employees, on the basis of a provision of approximately $70,000 per annum. A definite plan for pensions to such employees has not yet been established."

H. H. Robertson Company

"During 1949 the officers of the company approved an agreement with the United Steelworkers, C.I.O., to set aside $.10 per hour worked by the men in the Ambridge plant, for the financing of pension and insurance benefits. This agreement was effective October 1, 1949. Including amounts set aside after October 1, the total expenditures for pensions and insurance benefits for plant employees during 1949 were approximately $40,000. If the 1949 agreement had been in effect the whole year, the total expenditures for the same purpose would have amounted to $131,548. Recently, subject to the approval of the stockholders, a 1950 revision of this agreement has been prepared, providing for the sharing of the costs of insurance benefits between the company and employees, and providing for pensions financed entirely by the company. Pensions are on the basis of a minimum (including social security benefits) of $100.00 per month upon retirement after reaching age 65, if the employee has had at least twenty-five years service. Proportionately lower pension rates are provided for shorter service, if the employee has worked at least fifteen years.

"The insurance benefits will cost the company approximately $30,000 per year. No actuarial estimate of the cost of the 1950 pension plan has been prepared, but estimates prepared for similar plans in other companies indicate a cost between $.08 and $.13 per pay roll hour, based on full funding of current and future service and funding past service over a period of twenty-five years. At the present level of employment this would cost from $90,000 to $145,000 per year."

National Steel Corporation

"In addition to pension and retirement plans which the Corporation and certain of its subsidiaries have had in effect for some time past, certain consolidated subsidiary companies entered into agreements on November 9, 1949, with United Steelworkers of America which provided that such companies would establish, as of January 1, 1950, noncontributory pension plans financed completely by the companies for the benefit of plant employees of such companies, which agreements also covered certain former plant employees who had retired during the years 1948 and 1949, prior to the effective date of the pension plans. The estimated total cost of pensions under the plans covered by the agreements entered into on November 9, 1949, for former eligible employees who retired during the years 1948 and 1949, for those eligible for pensions but who had not retired at December 31, 1949, and for plant employees who it is contemplated will become eligible for pensions during the two-year period from January 1, 1950, to December 31, 1951, has been calculated by an independent actuary as being approximately $1,200,000, of which amount $697,000 has been provided for in the accompanying statements and which has been determined as being the approximate total estimated cost for pensions with respect to former eligible plant employees who retired during the years 1948 and 1949 and for those eligible for pensions but who had not retired at December 31, 1949. No actuarial determination has as yet been made as to the estimated average annual or total cost of pensions under the terms of the plans with respect to employees who become eligible for pensions during the period from January 1, 1952, to October 31, 1954, which is the expiration date of the agreements unless terminated on December 31, 1951, as is optionally provided for in the agreements."

The Colorado Fuel and Iron Corporation

"A pension plan providing retirement and disability benefits to employees of the Corporation and certain subsidiaries (except those covered by previous agreements) became effective March 1, 1950, and is to continue in effect until December 31, 1951, and, unless terminated by the Corporation on or after that date, until October 31, 1954. Actuarial computations were made of the liabilities thereunder on the basis of the continuance of the plan to October 31, 1954, and certain assumptions as to dates of retirement, continuity of employment, future compensation and the continuance of present Federal old-age insurance benefits without increase. Based upon such computations the maximum liability for the five-year period to October 31, 1954, has been estimated to aggregate a gross amount of approximately $10,000,000, of which $4,300,000 relates to employees who had retired prior to December 31, 1949, or had already at that date met the age and service requirements of the plan.

"Commencing as of January 1, 1950, provision is being made for such liability by a method which is designed to spread the entire cost, less anticipated income tax benefits, over the five-year period ending on December 31, 1954. For the six months ended June 30, 1950, the provision amounted to $1,012,549 before income taxes. Unpaid amounts in respect of employees who have been granted pensions, the actuarial liability in respect of employees who have applied for pensions, and a preliminary estimate, pending further experience under the plan, in respect of employees now eligible who may be expected to retire within the next twelve months have been provided for in the balance sheet. Except as to the amount included under current liabilities, the provision is on a basis net of anticipated future tax benefits. The amount by which such liabilities exceeded the provision for the six months ended June 30, 1950, has been set up as a deferred charge to future operations.

"Increased Federal old-age benefits, enacted into law on August 28, 1950, will, under the terms of the pension plan, reduce the Corporation's liabilities for pensions in a substantial amount, which amount, however, is presently undetermined pending further actuarial study.

"Provision has also been made during the six months ended June 30, 1950, for the Corporation's share of the cost of a contributory social insurance program for employees."

Hercules Motors Corporation

"The Corporation has announced that an Employees' Pension Plan will become effective January 1, 1950, subject to approval by stockholders at a meeting on May 18, 1950, and also subject to qualification of the Plan under the Internal Revenue Code for federal income tax purposes. The Plan provides that no change or amendment will be made therein before January 1, 1952, and in no event will it terminate prior to that date. The corporation expects to continue the Plan after January 1, 1952, but reserves the right thereafter to reduce or discontinue payments provided to be made by it or to terminate the Plan. Actuarial estimates on a level cost basis with past service funded over twenty years indicate that the Plan will result in a cost of approximately $491,000 for each of the years 1950 and 1951, before deducting income tax benefits. These estimates were made on the assumption that federal social security benefits would remain at the present levels." (Fiscal year ended December 31, 1949)

Republic Steel Corporation

"On November 8, 1949, the Corporation entered into an agreement with the United Steelworkers of America which provided, subject to favorable action by the stockholders, and among other things, that the Corporation would establish a Pension Plan not later than March 1, 1950. A special meeting of the stockholders of the Corporation has been called for February 21, 1950, to consider and take action upon the Proposed Pension Plan and Proposed Trust Agreement, to be dated as of March 1, 1950. The present intention is that the Corporation will pay into the Trust Fund, commencing March 1, 1950, not less in any one year than is necessary to fund one-fifth (1/5) of each pension payable to employees eligible for a pension on March 1, 1950, who retire, and to fully fund other pensions as they become payable. If the proposed Pension Plan is approved by the stockholders,

Exhibit 6: Jantzen Knitting Mills Inc.

Explanatory Balance Sheet

ASSETS . . . *What We Own*

Cash: Money which we have to purchase raw materials and to pay salaries, wages, taxes and other operating expenses	$ 958,599
U. S. Treasury Bonds: This is the cost and also market value of bonds owned	514,844
Cash Surrender Value of Life Insurance: The Company is beneficiary of $1,420,000 of Life Insurance carried on the officers and principal executives of the Company. If the policies were cancelled, the cash returned to us would be	295,157
Accounts Receivable: Total owed us by our customers for merchandise, most of which was not due at this date, less estimated amounts which may not be collected	1,308,858
Inventories: This is the value of raw materials, garments in work and finished products on hand at the close of the year	2,630,073
Miscellaneous Receivables: Due us from our associated companies in foreign countries and from others who owe us small sums but who are not customers	32,640
Investment in Subsidiary Companies: This amount represents our investment in companies in England, Australia, Argentina and Puerto Rico	621,362
Stocks: Small investments in stocks are represented in this amount	32,681
Plant and Equipment—Depreciated Cost: This is the amount we paid for land, buildings, machinery and equipment, less an estimated allowance for loss in value because they are gradually wearing out and becoming obsolete	1,798,637
Deferred Charges: In the operation of a business many services and supplies are purchased in advance for use later. This amount will be used during the succeeding years	217,007
Patents and Trade Marks: These cost more than $1.00, but they are now carried on the books at this figure	1
	$8,409,859

LIABILITIES . . . *What We Owe*

Trade Accounts Payable: Amounts we owe for the purchase of manufacturing materials, supplies and services	$ 312,558
Salesmen's Balances and Other Obligations: This represents commissions, customers' credit balances and miscellaneous amounts not paid at the date of this statement	151,373
Wages, Payroll Taxes, Etc.: Represents wages and salaries earned but not yet paid at August 31, 1949. The taxes on those wages and the local state and county taxes not due at this date are also included	119,129
Federal and State Income Taxes: This amount represents federal income and excess profits and state income taxes not yet due less $700,000 of U. S. Tax Notes held to pay these	414,002
Term Liability—Current Portion: Payment on the mortgage due this next year	37,500
Mortgage Payable: The remaining balance on amount borrowed two years ago on some of our land and buildings for additional construction and equipment. This is payable in semi-annual installments over the next 18 years	618,750
Notes Payable: Amount borrowed to provide additional funds for carrying on our operations. They are repayable in installments over the next 14 years	1,370,000
Capital and Surplus: This represents the investment in the business by 1537 owners	5,386,547
	$8,409,859

the estimated maximum average annual cost, as determined by an independent actuary, for employees who are eligible to retire on March 1, 1950, and employees who thereafter become eligible to retire up to October 31, 1954, will be $9,100,000.00. In the event the Corporation should exercise its option to terminate the proposed pension plan on December 31, 1951, the estimated maximum average annual cost would be $13,700,000.00 for each of the two years inasmuch as the total cost of funding the pensions for employees who will be eligible to retire on March 1, 1950, would be spread over a two-year period rather than a five-year period. It is contemplated that the Proposed Pension Plan and Proposed Trust Agreement, upon its approval by the stockholders of the Corporation, will be adopted by all subsidiaries of the Corporation except certain relatively minor companies. The existing Pension Plan for Eligible Salaried Employees, dated as of December 15, 1943, as amended, and heretofore approved by the stockholders, will be continued in full force and effect without, however, any duplication of benefits provided by the Corporation. With the information now available it is impossible with any reasonable degree of accuracy to make an estimate of what the aggregate cost of past service benefits would be for all employees as of March 1, 1950; however, on an actuarial basis, using certain assumptions, the indicated cost would be very substantial."

Republic Steel Corp., while not showing a reserve for pensions, showed among other assets, "Cash ($3,300,000.00) and U. S. Government securities ($3,510,201.45) held for use in connection with pension plan for eligible salaried employees—$6,810,201.45."

In 1948, the Pratt & Lambert, Inc., adopted a pension plan for their employees, effective January 1, 1948. In the same year a reserve for the estimated cost of past service benefits was set up by a charge to earned surplus. Yearly payments to the insurers, equal to approximately one-tenth of the amount originally set up out of earned surplus, are charged directly to the reserve.

Informal plans

The informal type of pension plan appeared to possess the following characteristics:

1. No legal or formal obligation for pension payments recognized by the corporation.
2. Plan administered entirely or partially by the corporation, as contrasted with the "trusteed" and "annuity" type plan, the administration of which was vested in a third party.

There seemed to be three types of accounting presentation for the informal type of pension plan:

1. Where the pension reserve was shown but no cash or securities segregated on the balance sheet.
2. Where the cash and securities had been set aside and the pension reserve was also shown on the balance sheet in an equal amount.
3. Where no funds or pension reserves had been created, or the funds and reserves so created had been omitted from the balance sheet.

The following three quotations furnish an example of each of the above groups:

Group 1 (Wheeling Steel Corp.—president's letter)

"The Pension Plan of the Corporation, effective November 16, 1946, resulted in payments of pensions during 1949 of $406,211 and at December 31, 1949, 729 former employees were receiving benefits under the Plan. Because of the adoption of the new Pension Plan, effective March 1, 1950, this Plan was terminated and discontinued for all employees retiring after that date. Such termination and discontinuance, however, did not effect the payment of pensions to any former employee who was receiving a pension under the Plan. If payments are continued over the life expectancies of the persons presently receiving pensions, the aggregate payments in the future will approximate $4,700,000."

" . . . The new Pension Plan of the Corporation, applicable to all of its employees, including officers, became effective March 1, 1950, after approval by the stockholders in a special meeting held February 8, 1950, and, therefore, the Corporation is bound to continue it in force until 1951 for employees represented by the Union, but after that time the Corporation will be as free to act with reference to pensions as it was before the Strike Settlement Agreement was signed . . ."

"The Corporation is not obligated to, and it is not presently contemplated that it will make provision to, fund or insure the new Pension Plan. However, during the years 1948 and 1949 provisions were made, through charges to earnings, for a pension reserve in the amount of $1,136,767 and $1,122,598, respectively, and it now appears that if similar provisions are made in 1950 and 1951 such amounts will be sufficient to meet the pension costs in those years. Such provisions in 1948 and 1949 were $766,390 and $716,387, respectively, in excess of payments made during those years.

"The new Pension Plan provides that the Board of Directors shall have the right to modify, change or terminate the Plan at any time, but any such modification, change or termination will not affect pensions theretofore granted under the new Plan."

Other companies using this type of informal pension plan are Sunshine Biscuits, Inc., U. S. Rubber Co. and Deere & Company.

Group 2 (The American Sugar Refining Company—president's letter)

"It was pointed out in last year's annual report that the Pension Fund and Reserve of $6,927,300 approximated our estimate of the amount then required, net of tax deductions, to provide pensions for those then on the pension roll plus the accrual up to that time toward the future cost of pensions for all persons then employed. In the light of further study and subsequent developments, it has seemed desirable to add another $1,000,000 to the Pension Fund and Reserve, and this has been done by a transfer of this amount from Earned Surplus.

"We have also revised our accounting procedure for pension costs so that beginning in 1949 we will provide each year an addition to our Pension Fund and Reserve sufficient to maintain it at a level representing our best estimate of our pension costs accrued to date.

"Accordingly, in addition to the provision of $1,000,000 mentioned above, we added to our Reserve in 1949 the total sum of $603,341. Of this amount $170,569 was provided by the income from Pension Fund investments. The balance of $432,772 was charged to operations. Actual payments made for pensions during the year, amounting to $373,465, were charged directly to our Pension Fund Reserve and not to operations as in preceding years. (Had we followed the same accounting method as in preceding years, our charge to operations would have been $59,307 less.)

"The net result of these adjustments was to increase our Pension Fund Reserve by $1,229,876."

Further information was added in a footnote to the balance sheet as follows:

"The pension fund and reserve have been established as a matter of convenience in administering the Company's pension plan, but the Company reserves the right to make the fund and the reserve available for other corporate purposes at any time."

Other companies using this type of an informal pension plan are—Tide Water Associated Oil Co. and Babcock & Wilcox Co. Air Reduction Co., Inc., also used this type of plan, but valued their securities at approximate market value.

Group 3 (Ingersoll-Rand Company—auditor's report)

"Under the Pension Plan, approved by the stockholders on December 28, 1948, the Board of Directors proposes to establish over a period of years a Pension Fund from current earnings as in the judgment of the Board might appear to be appropriate from time to time and to set aside funds for that purpose. This Fund is designated on the books of the Company as 'Pension Fund,' and may not be returned to the general funds of the Company unless the Pension Plan is terminated, modified or amended. In 1949 there is included in cost of goods sold and other expenses an amount of $6,244,268 set aside by the Board of Directors for the Pension Fund. This amount was based on studies made by independent actuaries and represents their recommendation of the amount which would be required to cover the cost of current service benefits to December 31, 1949, and in addition a payment into the fund towards the cost of past service benefits. Amounts of pensions paid each year will be charged to the Fund and will then be deductible for federal income tax purposes but the amount charged to profit and loss for the current year is not presently deductible.

"In our opinion, with the foregoing explanation, the accompanying balance sheet and related statements of income and earned surplus present fairly the . . ."

Additional information was given in a footnote to the balance sheet as follows:

"Assets do not include Pension Fund assets in the amount of $10,168,586 represented by cash and United States Government securities set aside by the Board of Directors and in the custody of the Pension committee for the purpose of paying pensions to retired employees pursuant to the Employee Pension Plan approved by the stockholders on December 28, 1948."

Other

The International Nickel Co. of Canada, Ltd., used a partially trusteed and informal plan, showing only the "Retirement System" assets held by the company and a "Retirement System Reserve," in an equal amount, on their balance sheet. Additional amounts were held by the trustee, which were irrevocable.

Benefits paid to retired members appeared to be paid by both the trustee and the company.

Reasons advanced for retaining earnings

In a release issued on October 14, 1948, the Committee on Accounting Procedure reaffirmed the position which it expressed in Accounting Research Bulletin No. 33, December, 1947, that

"Accounting and financial reporting for general use will best serve their purposes by adhering to the generally accepted concept of depreciation on cost." This release further stated:

"Stockholders, employees, and the general public should be informed that a business must be able to retain out of profits amounts sufficient to replace productive facilities at current prices if it is to stay in business. The committee therefore gives its full support to the use of supplementary financial schedules, explanations or footnotes by which management may explain the need for retention of earnings."

In the annual reports for 1949, it was noted that a considerable number of companies which had advanced reasons for retaining earnings in previous years did not continue their policy in 1949. Since explanations were not given for discontinuing the former policy, it would seem that the reasons for the retention of earnings were no longer as compelling as they previously had been.

Of the 525 reports tabulated in 1949, only about 21% gave reasons for retaining earnings, in comparison with approximately $33^1/_3$% in 1948.

The most frequent explanations given for retaining earnings were:

(1) For plant expansion, modernization or improvement requirements
(2) Working capital needs
(3) High cost of plant replacements

An additional fourteen companies, as compared with eighty companies in 1948, commented upon the inadequacy of depreciation charges but did not, in all cases, specifically relate this factor to the need for retaining earnings. Discussion of the subject was generally found in the president's letter and rarely in the auditor's report or notes to the financial statements.

Excerpts from the presidents' letters of selected companies are given below as examples of discussions on the inadequacy of depreciation charges and its direct relation to the need for retaining earnings:

The Mead Corporation

"While the program of postwar improvements may be said to have been substantially concluded in 1949, continued expenditures will be necessary, not only to maintain the plants of the Corporation in proper operating condition, but also to make improvements necessary to keep it competitive from a cost and quality standpoint. The provision of funds for these purposes presents a very real problem to all industry. With the greatly increased costs of all replacement and construction work, the amount of depreciation which the Corporation is permitted to charge off under the income tax laws, while sufficient to write off the original cost of buildings and equipment over their useful life, is quite inadequate to replace those facilities, so that it is necessary to get new money to supplement the depreciation set aside.

"The market for industrial common stocks during the years of the Corporation's greatest expenditures was in a period of recession and it was not feasible to sell equity securities. Therefore your Corporation, in order to safeguard the shareholders' investment, has had to obtain needed funds from two main sources: first, by the retention in the business of a goodly proportion of the earnings and secondly, by borrowing conservatively."

Lehigh Portland Cement Company

"During the past five years we have expended approximately $19 million for the rehabilitation and improvement of our plants. It is recognized that under present conditions prices for machinery and equipment are two to three times higher than the cost of similar units placed in service prior to 1940. Provision for depreciation of plant assets has been recorded in our accounts in accordance with the generally accepted accounting principle of allocating to each year's operations a proper proportion of the original cost of these facilities based on their expected useful life.

"The accompanying chart indicates that the amounts spent on plants during the five years mentioned exceeded by more than $10 million the aggregate depreciation provided during that period. Because the accumulation of depreciation on the physical assets removed has not been enough to pay for replacements and improvements, we have of necessity been forced to rely more and more on retained earnings to finance our plant-betterment program."

Thompson Products, Inc.

"It is also necessary, in appraising operating results for the year, to recognize the situation created by the inadequacy of amounts provided in our costs for depreciation in relation to the prevailing high cost of new machinery and equipment. During periods of more stable prices, the annual provisions for depreciation, computed on the basis of original costs, should provide funds for the replacement of worn-out or obsolete facilities. As we have commented in our last two annual reports, this is not true under prevailing conditions. Since income tax regulations do not recognize any deduction for additional amounts from earnings to meet this problem, we have not changed our established depreciation practice. We have, however, taken this matter into consideration in arriving at our dividend and financial policies."

section 2: balance sheet

Title of certified "balance sheet"

The trend away from the use of the heading "balance sheet" continued in 1949, with thirteen companies adopting other terminology. Six companies changed to the title "statement of financial position" or "financial position" (3, 240, 423, 431, 461, 469), six adopted the term "statement of financial condition" (143, 259, 281, 294, 312, 346) and The International Nickel Co. of Canada, Ltd., used the heading "statement of assets and liabilities."

1949	1948	1947	1946	
455	468	485	506	"Balance Sheet" (35, 87, 92, 128, 206, 246, 354, 417, 494, 504)
39	32	23	9	"Statement of Financial Position" or "Financial Position" (113, 144, 288, 397, 499)
24	18	10	6	"Statement of Financial Condition" (57, 143, 294, 346, 511)
3	2	1	1	"Statement of Assets and Liabilities" (61, 95, 273)
...	1	1	1	"Statement of Assets, Liabilities and Net Worth"
1	1	1	...	"Statement of Ownership" (Westinghouse Electric Corp.)
...	...	1	...	"Statement of What The Company Owned and What It Owed"
1	1	1	1	"Investment" (Johns-Manville Corp.)
1	1	1	...	"Assets, Liabilities and Capital Investment" (A. E. Staley Mfg. Co.)
1	1	1	1	No heading used (Curtis Publishing Co.)
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Form of certified balance sheet

As in previous years, changes in the title of the balance sheet were frequently made in conjunction with changes in form.

Using the titles "financial position," "statement of financial position" and "statement of financial condition," the traditional presentation of assets on the left-hand side and liabilities and capital accounts on the right-hand side was replaced by statements which did not show such balancing amounts.

These statements began by deducting current liabilities from current assets to arrive at a working capital or net current assets figure, with the remaining assets and liabilities being respectively added and deducted before reaching a net assets amount. The composition of the net assets in terms of the stockholders' equity, represented by capital stock, capital surplus and retained income (earned surplus) completed the statement. (See Exhibit 11, p. 70.) In 1949, forty-seven companies were using this type of certified presentation, an aggregate increase of ten for the year.

1949	1948	1947	
477	484	490	Assets equal liabilities plus capital stock and surplus—current items first (80, 162, 180, 224, 227, 271, 281, 305, 306, 320)
1	1	4	Same as above, except non-current items first (Allied Chemical & Dye Corp.)
39	32	24	Current assets minus current liabilities, plus other assets, minus other liabilities equals net equity (capital stock and surplus) (118, 144, 244, 372, 524)
3	3	4	Same as above but bonds or long-term notes included as investors' equity (31, 58, 216)
2	2	...	Same as above but net equity stated first (18, 98)
3	3	3	Total assets minus total liabilities equal capital stock and surplus (57, 371, 514)
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

American Asphalt Roof Corporation and Briggs Manufacturing Co. continued their practice of beginning their statements with their stockholders' equity. The statement used by American Asphalt Roof Corporation is shown in Exhibit 12, p. 82.

Marketable securities (current assets)—basis of valuation

Few actual changes in the basis of valuing marketable securities were noted on the 1949 reports; the majority of changes registered in the following tabulation were due to a net increase of thirty reports carrying such securities and a reduction in the number of cases where such holdings were carried above their market value because of a general increase in market values.

In most cases, marketable securities consisted of U. S. Government obligations. (When shown separately, tax notes were excluded from the tabulation.)

1949	1948	1947	1946	
185	215	215	155	No marketable securities shown
71	64	61	78	No basis of valuation stated (35, 66, 346, 358, 415)
130	110	109	145	Cost—market value not stated (83, 93, 244, 411, 508)
				Cost—market value stated—
57	50	63	89	above cost (102, 109, 136, 167, 489)
16	27	27	17	below cost (39, 213, 402, 405, 443)
39	37	31	18	Cost which approximates market (40, 81, 158, 168, 304)
17	18	17	17	Lower of cost or market (86, 113, 194, 230, 482)
8	8	8	4	Redemption value (241, 321, 327, 517)
6	8	7	...	Cost, not over market (290, 468, 502)
4	2	2	...	Cost which equals market (1, 279, 339, 524)
4	6	4	3	Market (23, 52)
3	6	7	7	Cost, less reserve (65, 360, 513)
2	3	2	...	Par (129, 268)
2	2	1	...	At or below cost (173, 273)
2	1	2	6	Face value (6, 38)
1	1	1	...	At or below cost—market stated above cost (315)
1	1	1	...	Approximate market or redemption value (380)
1	1	1	1	1934 written down values (36)
1	1	1	1	Lower of cost or principal amount (479)
...	1	1	...	Cost—market stated to be slightly lower
...	1	1	...	Cost or market plus accrued interest

(Numbers in parentheses refer to companies listed in Appendix.)

Of the companies showing additional marketable securities (mainly U. S. Government) twenty companies stated their basis to be cost (18, 93, 184, 299, 481, 520), with nine making some reference to their market value (40, 294, 451, 469, 524). Seven companies gave no valuation basis, although Newport News Shipbuilding and Dry Dock Co. disclosed a market value above carrying value (79, 107, 215, 332, 386, 466).

The majority of instances where securities were shown at cost without disclosure of market value pertained to U. S. Government securities. In a few instances, however, such items as "other marketable securities" or "short-term marketable securities" were shown separately, without any parenthetical disclosure of their market value.

Where cost was the basis used, accrued interest was often added thereto. (24, 96, 123, 140, 154, 174, 263, 269, 317, 467)

Of the seventy-one companies failing to disclose the specific basis of security valuation, eighteen either disclosed actual market value or made parenthetical reference to the relationship between carrying value and market. (52, 119, 220, 250, 256, 313, 354, 390, 437, 466)

The International Nickel Company of Canada, Ltd., continued to carry as a current asset "government and other marketable securities maturing after 1950," and National Biscuit Company made the following current asset presentation:

"Government securities:
(Approximately equal to amounts at market quotations)
United States.................... ....
Other........................... ....
Note: $1,800,000 principal amount deposited as collateral for notes payable by Canadian subsidiary; $741,500 deposited to comply with workmen's compensation requirements, etc."

A few examples of captions used by various companies to describe their marketable securities are listed below:

"Short term marketable securities at cost and accrued interest" (Chrysler Corp.)

"Other bonds and short term notes at approximate market value" (Air Reduction Co., Inc.)

"Marketable securities, at amortized cost (approximating market)" (Socony-Vacuum Oil Co., Inc.)

"Marketable securities, at cost which is below market" (Union Oil Co. of California and Universal Leaf Tobacco Co., Inc.)

"Marketable securities, at lower of cost or market quotations" (California Packing Corp.)

Inventories—basis of pricing

Little change was noted in the basis of inventory pricing in 1949, with "at the lower of cost or market" continuing as the generally accepted terminology.

Attention is directed to the fact that companies frequently have two or more bases for inventory pricing; e.g., goods in process and finished goods may be at the lower of cost or market while supplies may be at cost, or diversified products or processes may result in varying bases. Thus a number of the classifications in the table below relate to only a portion of a company's inventory.

1949	1948	1947	1946	
444	446	437	428	Lower of cost or market (44, 94, 100, 123, 136, 162, 191, 222, 280, 494)
114	112	113	111	Cost (42, 107, 150, 158, 192, 245, 333, 337, 475, 496)
34	43	44	46	At or below cost—market not mentioned (20, 74, 186, 315, 480)
18	17	17	13	Less than market—cost not mentioned (50, 165, 294, 393, 518)
16	20	19	23	Market (141, 223, 247)
11	11	11	11	At or below cost—not in excess of market (153, 224, 378, 380, 452)
10	12	15	15	Basis not stated (7, 47, 207, 360, 361)
9	11	10	14	Less than the lower of cost or market (3, 92, 119, 185, 399)
6	6	6	7	Contract price or sales price (32, 39, 164)
2	4	4	2	No inventories or inventories negligible (178, 486)
3	3	3	3	Cost or less—not exceeding replacement cost (396, 461)
2	2	2	2	Cost—not over estimated realizable amount (98, 483)
8	8	8	14	Miscellaneous (156, 360, 376)
677	695	689	689	

(Numbers in parentheses refer to companies listed in Appendix.)

Several statements contained footnote disclosure of elements of cost either included or excluded from the inventory valuation:

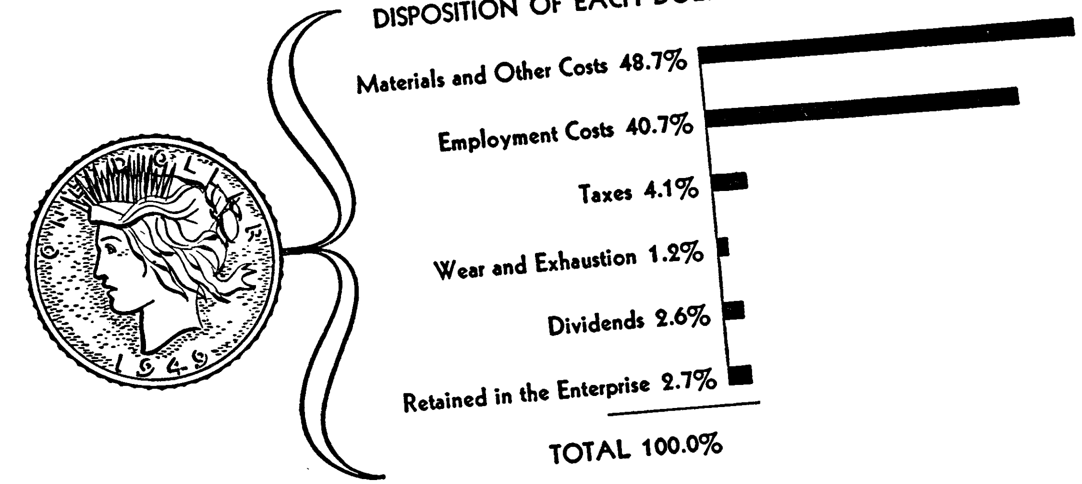
"It is the consistent accounting practice of the Company to include general and administrative expenses of aircraft operations in overhead charges to work in process because the Company is of the opinion that the amount of such expenses which do not clearly relate to production is relatively immaterial. Approximately $1,420,000 of general and administrative expenses is included in the inventory at December 31, 1949." (Glenn L. Martin Co.)

"The inventories are stated at average cost or market, whichever the lower. Cost at December 31, 1949, does not include any interest on plant investment as it did in prior years but the effect of the change on the

SIMPLIFIED STATEMENT OF OPERATIONS 1949

The company's revenues from sale of its products and services after deducting cash discounts, freight and other allowances were..................	$66,280,003
In addition the company received dividends, interest, purchase discounts, and other miscellaneous income items amounting to..................	394,272
Making total revenues of	$66,674,275
Wages and salaries, social security taxes, unemployment insurance taxes, workmen's compensation insurance and group insurance applicable to employment amounted to..................................	$27,113,846
Raw materials, supplies, fuel and other manufacturing, selling and administrative expenses cost	32,494,344
Buildings, machinery and equipment wear out with use. The company retained out of income to cover the cost of such wear and exhaustion......	813,148
In addition to social security taxes, the company paid or provided funds for other state and federal taxes amounting to..................................	2,714,529
Making total expenses of..................................	$63,135,867
The amount left over was $2.51 a share, or a total of..................	$ 3,538,408
Out of this amount the stockholders were paid $1.25 a share for the use of the plants, equipment and working capital they put into the business, or.	1,764,335
Leaving with the company a fund, to use for the purchase of additional tools to increase production and provide greater employment possibilities, amounting to	$ 1,774,073

DISPOSITION OF EACH DOLLAR OF REVENUE IN 1949



BLAW-KNOX

income of the year is not significant." (A.P.W. Products Co., Inc.)

"Inventories are priced at average unit cost or less, after the elimination of all significant amounts of inter-company profits, and are not in excess of market. Such cost, consistent with the policy previously adopted, does not include depreciation of fixed assets..." (Celanese Corp. of America)

"Merchandise inventories, at the lower of cost or market, less discounts." (Florsheim Shoe Co.)

"In accordance with the company's practice established in 1939, the appropriation representing the increase of $361,518 between the amounts of overhead included in the inventories at the end and beginning of the year has been deducted from income for the year." (Wagner Electric Corp.—auditor's report)

An unusual description of inventory pricing was the "coal, coke and by-products and mine supplies—at cost or useful value" of The Crow's Nest Pass Coal Co., Ltd.

Archer-Daniels-Midland Co. classified its inventory for balance sheet presentation as follows:

"Inventories:
- At lower of cost (last-in, first-out principle) or market:
  - Linseed oil, soybean oil, sperm and crude fish oil
- At lower of cost (first-in, first-out principle) or market:
  - Flaxseed, soybeans, and other raw materials
  - Sundry oils
  - Packaging materials
  - Manufacturing supplies
- At market:
  - Flour, wheat, and other grains including adjustment of open contracts to market
- At market or less:
  - Feed and meal including adjustment of open contracts to market"

Inventories—method of determining cost

No significant changes occurred in the 1949 methods of valuing inventories. Changes in the use of Lifo were limited to modification of existing procedures rather than complete changes in costing methods.

Eleven companies disclosed their costing methods for the first time in 1949 (42, 63, 222, 235, 236, 242, 252, 299, 366, 413, 416), while eight companies failed to continue their previous disclosure policy (265, 277, 357, 371, 373, 404, 457, 517).

1949	1948	1947	1946	
313	295	284	289	Not indicated
105	110	107	100	Average cost (78, 155, 288, 351, 358, 438)
91	91	86	79	Last-in first-out (31, 94, 158, 228, 399)
91	87	92	102	First-in first-out (37, 95, 181, 206, 224, 241, 353)
25	26	24	23	Standard cost (51, 191, 196, 422, 449, 481)
6	6	5		Retail method (236, 292, 305)
7	6	3	12	Lifo—retail method (63, 131, 204, 231, 321)
6	6	4		Fifo—retail method (92, 139, 431, 437)
10	10	9	...	Specific invoice costs
7	6	6	6	Base stock (22, 97, 156, 360)
6	8	7	...	"Actual" costs (287, 398, 402)
3	5	3	...	"Estimated" costs (226, 234, 342)
2	4	4	2	Inventories negligible (178, 486)
...	1	...	...	Relative value method
1	1	1	1	Market prices of ingredients plus manufacturing costs (412)
673	662	635	614	

(Numbers in parentheses refer to companies listed in Appendix.)

Several companies presented complete footnote descriptions of their method of inventory valuation. Some of these descriptions are quoted below:

"Inventory of metals in process and on hand includes metals sold under firm contracts but not delivered at the end of the year. These undelivered sales are valued at sales contract prices. In accordance with the Company's established practice unsold metals are carried at the average of prices prevailing at the time of production or purchase, or at market price at the end of the year, whichever is lower. In the case of metals in process there has been deducted from the inventory value the estimated cost of further reduction processes. Inventories of purchased ores, supplies, fuel and timber are carried at or below cost. There are no commitments for purchases of materials at prices which may have a material effect on future earnings." (United States Smelting, Refining and Mining Co.)

"The inventories are priced at cost or market, whichever the lower. In determining cost the individual items are priced at standard cost and the aggregate of such costs is adjusted at the end of the year to actual cost. Under the procedure followed, effect is given to the first-in, first-out method of determining cost." (Hamilton Watch Co.)

"*Crude oil and petroleum products:*

"Inventories of crude oil and petroleum products are valued at cost under the last-in, first-out method applied on a monthly basis, such cost being adjusted to exclude abnormalities and to not exceed estimated current realization.

"*Materials and supplies:*

"Inventories of materials and supplies are valued at cost or less, not exceeding market.

"In 1949 certain tubular goods and construction materials formerly carried in inventory account were transferred to property account as work in progress; for comparative purposes, a similar transfer has been reflected in the December 31, 1948, statement of consolidated financial position." (Union Oil Co. of California—footnotes)

"Inventories of crude oil are included at accumulated average price per barrel based upon cost of oil purchased and posted price of oil produced; quantities at refineries are priced at market at date of transfer to refineries. Refined products are priced at approximate cost to refineries, and materials and supplies are priced at or below cost. The amounts included for inventories, in the aggregate, did not exceed market." (Ohio Oil Co.—footnotes)

"The vegetable oils and their by-products included in the inventories were valued on the last-in, first-out basis at cost established originally at August 31, 1941, and for all of the oils in the inventory at August 31, 1949, cost was below market value as at that date. The other finished goods and other raw materials were valued at the lower of cost (computed on the first-in, first-out basis) or market. Inventories of supplies were valued at cost or less." (Wesson Oil & Snowdrift Co., Inc.—footnotes)

"Merchandise in retail stores was valued at approximate average cost (on the basis of first in, first out) which did not exceed market; other merchandise, materials and supplies (aggregating $14,229,970 at April 1, 1950, and $12,004,830 at April 2, 1949) were valued at cost on the basis of last in, first out, or at market where lower in the case of individual items.

"Partial replacement has been made of inventories which were involuntarily liquidated in prior years and, as permitted by the Internal Revenue Code, the company has elected to value the items replaced at their original inventory prices. The excess cost of replacing a portion of the inventories which were involuntarily liquidated, less estimated refunds of $290,000 of federal taxes resulting therefrom, has been charged to profit and loss.

"The use of the last-in, first-out method and the application of the involuntary liquidation and replacement provisions of the tax law are subject to review and acceptance by the Bureau of Internal Revenue." (First National Stores Inc.—footnotes)

"Inventories are stated at cost, generally on the principle of last-in, first-out, less reserves for shrinkage. Inventories of supplies, rolls, moulds, spares, etc., and of fabricated parts which, in the past, were priced generally at average cost, were priced at December 31, 1949, on the principle of last-in, first-out, using December 31, 1941, quantities and prices as a basis therefor, to conform to the basis used since that date with respect to the principal inventories of raw materials and finished and semi-finished products. It is estimated that the change had the effect of reducing inventories at December 31, 1949, and net income for 1949 by approximately $3,500,000. The prices used were not in excess of replacement market at December 31, 1949. Reserve for general contingencies, inventories, etc., carried in the liability section of the balance sheet includes $900,000 for possible loss in liquidation of inventories. Inventories reported in the Consolidated Balance Sheet of the Corporation at December 31, 1949, in the amount of $44,056,400 comprised (a) finished and semi-finished products $16,551,943 (b) raw materials $23,606,901 and (c) supplies, rolls, moulds, spares, etc., $9,167,518, less reserves for inter-company profit and inventory shrinkage in the amount of $5,269,962." (National Steel Corp.—footnote)

The inventory costing of General Refractories Company was described in the auditor's report (with a balance-sheet reference thereto) as follows:

"The inventories of brick finished and in process, amounting to $1,571,440.61 at December 31, 1949, and $1,491,848.78 at December 31, 1948, are valued at estimated cost calculated by the management on the basis of cost for 1932 with production estimated at seventy per cent of plant capacity. This procedure, which has been consistently followed since January 1, 1933, results in the inventories being valued at less than current cost or market. Raw materials and supplies are stated at cost or market, whichever the lower, cost being computed generally on the first-in, first-out method."

Industrial breakdown of companies using some Lifo costing

Industry	No. of reports examined	No. mentioning Lifo	References to companies listed in Appendix
Airplane	16	...	
Automobile	11	...	
Auto Parts	14	...	
Beverages	6	1	*359*
Building Materials	20	6	34, *59*, 158, *233*, 280, 399

Chemicals	16	4	25, 66, 294, 346
Food	22	6	80, 94, 96, 113, 307, 522
Grain	6		
Machinery	33	4	*118*, 258, *363*, 515
Meat Packing	12	7	58, *291*, 330, 349, 413, 473 518
Metals	16	9	*31*, 39, 50, 127, 151, 220 287, 420, *435*
Paper	13	4	274, *290*, 335, 511
Petroleum	26	17	65, 129, 153, 246, 378, 396, 407, 425, 444, 458, 459, 460, 461, 462, 468, 477, 483
Printing	7	...	
Retail	31	9	*13*, *63*, *131*, 204, 206, 231, 241, 321, 329
Rubber	5	1	228
Shipbuilding	4	...	
Shoes	7	2	275, 337
Steel	22	5	86, 283, 362, 419, 499
Textiles	13	7	44, *81*, 87, 116, 186, 344, 390
Tobacco	8	1	146
Transportation Equipment	8	1	225
Wholesale	8	...	
Miscellaneous unclassified companies	201	14	31, *54*, 61, 133, *171*, 195, *201*, 248, 252, *279*, 281, 400, 443, 510
	525	98	

NOTE: Numbers in italics indicate companies giving replacement value of LIFO inventory.

Hedging to minimize risks

Pillsbury Mills, Inc., and General Mills, Inc., explained their hedging operations in their notes to financial statements:

"Wheat, other milling grain, flour and millfeed, soybeans, and merchandising grain inventories have been stated on the basis of market prices of grain May 31, 1950, including adjustment to market of open contracts for purchases and sales. The company enters into commitments for the purchase and sales of these and other related commodities as an essential part of its established policy of hedging these inventories to the extent practicable, to minimize the market risk due to price fluctuations. The financial statements reflect the hedged position by taking into account all elements in the hedge (inventories on hand and long and short commitments) at market, so that the market gains and losses substantially compensate or offset one another, subject to the completeness of the hedge and certain other relatively minor elements. This procedure has been applied in a manner which does not result in taking unrealized profit into account.

"Inventories other than those specified above, on which there were no satisfactory hedging facilities, have been stated on the basis of cost (first-in, first-out and average bases) or market, whichever lower. In accordance with previously established policy, the excess of inventories of unhedged commodities so stated over their valuation at prices of May 31, 1946, is reflected in a reserve for inventory valuation. The reserve has as its purpose the reflection of the current costs of these commodities in cost of products sold. As a result of smaller quantities at May 31, 1950, and decreases in prices during the year ended that date, the reserve was reduced by $125,000 with a corresponding reduction in cost of products sold during the year.

"This reserve is not effective for income tax purposes, and taxable income is determined without adjustment of the reserve. If the reserve adjustment for the year ended May 31, 1950, were taxable, the provision for federal taxes on income would have been $47,500 greater. If the reserve remaining at May 31, 1950, were reduced by federal income taxes at the current rate, the amount would be $294,500 instead of $475,000." (Pillsbury Mills, Inc.)

"The company continues to hedge its flour and soybean product unfilled orders and inventories of raw materials and finished goods whenever adequate hedging facilities exist, as a means of minimizing the risk of adverse price fluctuations. All factors relating to items customarily hedged are reflected in the financial position at fair market value, including market adjustments for open transactions.

"Items for which no hedging facilities exist, such as formula feeds, ingredients, package foods, home appliances, etc., are valued at the lower of cost or market. In addition, for certain of these items, valuation allowances determined by specific formula are established in order to minimize the effect of fluctuating prices on earnings. The effect of these allowances is to revalue what are deemed to represent normal quantities of these inventories on a basis that is believed to reflect the normal costs thereof.

"Containers, supplies, mechanical inventories, etc., are valued at cost. For containers, a valuation allowance is established which has the effect of reducing the the value to what is considered to be normal cost.

"Total inventory valuation allowances as of May 31, 1950, amounted to $4,554,547. The decrease in these allowances during the year of $586,534 is reflected in earnings as an offset to inventory losses sustained because of price level declines as they applied to base or normal quantities of certain non-hedged items." (General Mills, Inc.)

Base stock

In 1949 seven companies disclosed their use of the normal base stock inventory method. A few excerpts from the notes to financial statements of several companies follow:

"(1) The Corporation employs the normal base stock method of inventory under which the inventories are stated on the basis of cost or market, whichever is lower, and a provision is made to reduce the established normal inventories to the following fixed prices:

	Fixed prices*
"Hide value in (a) raw hides and hides in process; (b) own upper leather; (c) own sole leather; (d) upper leather in footwear; and (e) sole leather in footwear..........	7 cents per lb.
Purchased upper leather.........	13 cents per ft.
Crude rubber (a) unprocessed; (b) in rubber footwear; and (c) in soles and heels in leather footwear	5 cents per lb.

* Fixed prices to which inventories are adjusted are substantially below current market levels.

"In addition to the above materials the provision includes that portion of inventory valuation attributable to the following items on the normal quantities to the extent such items exceed costs prevailing in 1939:

Labor and overhead costs
Certain miscellaneous raw materials and supplies
Purchased shoes, slippers and hosiery in retail stores

"The inclusion of purchased shoes, slippers and hosiery in retail stores represents an extension of the method as of November 30, 1948, and involved an addition to the provision of $698,235. At the same time, the quantities of the normal base stock were adjusted to reflect current conditions, and other refinements were made in the application of the method. As a result of these changes, the provision as of November 30, 1948, was decreased by $306,263 which was credited directly to 'accumulated retained earnings.' However, these changes in the application of the method did not materially affect earnings for the year.

"The normal base stock method is not recognized by the Treasury Department for federal income tax purposes. When the method was adopted in 1936, tax rates were sufficiently low as not to have any substantial effect on the application of the method, and the effect of taxes was not taken into account in the computations. Since that time, however, tax rates have increased materially. If effect were given to federal income taxes at the current rate of 38%, the provision at November 30, 1949 would be reduced from $16,283,790 to $10,095,950.

"The normal base stock method is designed to eliminate from earnings most of the inventory price increases or declines. As prices declined during the year for the first time since 1943, earnings include a transfer from the provision accumulated in prior years. However, since the decline also resulted in a reduction in 1949 federal income taxes, such credit to earnings has been reduced by $676,500, an amount approximately equivalent to the tax reduction, and this has been carried directly to 'accumulated retained earnings.'" (Endicott Johnson Corp.)

"The Company's practice in respect to inventory valuations is as follows: Normal working stocks of copper at fabricating plants and (in respect to the Company's own production) normal working stocks of copper in transit to and in process at refineries are valued at a fixed price which price is below market quotations. Copper in excess of normal working stocks is carried at the lower of cost or market and gold and silver at market quotations or less. In general, all other inventories are carried at the lower of cost or market. No intercompany profits of substantial amount are included in inventories." (Phelps Dodge Corp.)

"The Companies use the normal base stock inventory method with respect to corn, finished and in process goods manufactured from corn. This was effected by establishing normal stock requirements at fixed prices, based upon the lowest monthly cost of corn which has prevailed since the inception of the method. Corn, finished and in process goods manufactured from corn are priced at cost on the basis of first in–first out less a reserve to reduce the established normal base stock inventory quantities to the fixed base price. Milo, finished and in process goods manufactured from milo are priced at cost on the basis of first in–first out. Materials and supplies are priced at the lower of cost or market." (Corn Products Refining Co.)

"As heretofore, a fixed quantity of tinplate is carried at an amount which is substantially lower than the present market price; the remainder of the inventory is valued at the lower of cost or market, generally on a first-in, first-out basis." (American Can Co.)

Disclosure of replacement value of Lifo inventories

Of the ninety-eight companies valuing all or part of their inventories under the LIFO method, seventeen disclosed either the actual replacement value of such inventories or the difference between the LIFO value and the value under other valuation methods which might have been used.

Two companies made such disclosure by parenthetical comments on the balance sheet:

"Inventories stated at cost (principally standard costs periodically adjusted) or market, whichever is lower, except for certain items of resale merchandise and tubular products aggregating $14,034,191.17, which are stated on 'last-in, first-out' basis and had a current replacement cost of approximately $6,000,000 in excess of the stated value." (National Supply Co.)

"Inventories—at cost determined principally on the 'last-in, first-out' basis of valuation (approximate replacement cost, $2,527,329 in 1949 and $2,515,573 in 1948—see Note 1)":

"Note 1—In accordance with the 'last-in, first-out' principle, the excess of replacement cost over carrying value may be realized, if at all, only in the event of liquidation of inventories, in which event the amount realized might depend upon market conditions and be subject to income tax at that time." (Falstaff Brewing Corp.)

Five companies (32, 54, 59, 81, 290) disclosed the replacement value of LIFO inventories in footnotes, two of which are quoted:

"The above total includes approximately $4,540,000 with respect to commodities valued on LIFO basis; if such commodities were priced at current replacement costs, the comparable valuation would be approximately $7,915,000, a difference of $3,375,000." (Armstrong Cork Co.)

"The inventories of certain oils are priced on the basis of the last-in, first-out principle which was first adopted as of December 31, 1941. Under this principle base quantities were established and thereafter such quantities have been priced at the prices which prevailed when the LIFO principle was adopted, without recognition of subsequent increases in replacement cost except as to quantities in excess of the aforementioned base quantities. This method has obviously eliminated from inventory valuation and from reported profits the effect of increasing replacement cost during the period of price increases which has prevailed since 1941. It is estimated that at June 30, 1949, the inventory valuation of these oils on hand on the LIFO principle reflected in the balance sheet was less than the current replacement cost by approximately $8,000,000. Such difference, when and if realized, will be subject to taxes on income at the rates prevailing at the time of realization." (Archer-Daniels-Midland Co.)

The American Metal Co., Ltd., and The Derby Oil Co. carry only a portion of their inventories at LIFO values. The former company disclosed the market value of its total unsold metal inventory (carried at LIFO and average cost) while the latter stated that its inventory of crude oil and refined products (at LIFO and FIFO) was "approximately $540,000 less than market."

In the retail field, three companies (13, 63, 131) disclosed the difference between their LIFO valuation and value under the retail inventory method, Associated Dry Goods Corporation showing the difference in a footnote covering its claim for refund of federal and state taxes, as follows:

"Present Treasury Regulations do not provide for retroactive application of the LIFO method. Accordingly, it is possible that none of the $2,789,000 (tax refund claim) carried as an asset will be realized, but that would be offset to the extent of approximately $2,148,000 by restatement of the inventories on the basis formerly used."

The remaining disclosures of replacement value were made in the presidents' letters. (233, 279, 291, 359, 435)

It was noted also that six companies, while not disclosing actual inventory replacement value, made some reference to the difference between it and the LIFO value in the presidents' reports to stockholders:

"By use of the last-in, first-out method, our inventories are carried on an extremely conservative basis." (International Shoe Co.)

"There is a considerable difference between the current market value of the inventories and the value at which they are carried, and this constitutes a substantial reserve against future declines in product prices." (John Morrell & Co.)

"The aggregate value of mill inventories with respect to cotton, therefore, is substantially below Government loan of present market price of raw cotton." (Ely & Walker Dry Goods Co.)

"Inventory is carried well below market prices as a result of the use of 'last-in–first-out' method of inventory valuation." (Artloom Carpet Co., Inc.)

"At December 31, 1949, the inventory value of the inventories that were valued by the use of the last-in, first-out method was substantially less than the replacement cost of such inventories at that date." (Bethlehem Steel Corp.—footnotes)

"At the close of the year, inventory book values were somewhat below market values." (Atlas Powder Co.)

Pittsburgh Plate Glass Company presented the following balance sheet footnote:

"Inventories are stated generally at the lower of average cost (excluding certain fixed expenses) or market and are after deducting allowances of $2,271,-991 in 1949 and $4,682,001 in 1948 to reduce inventories of flax, linseed oil, and bristle to a last-in first-out basis of computing costs. On an average basis, such inventories amounted to $5,872,060 and $9,251,510 at December 31, 1949, and 1948, respectively."

The 1949 report of Holly Sugar Corp., which was not included in the study of the 525 companies tabulated furnishes the following information in respect of LIFO inventories under the last-in first-out (LIFO) method:

"Under the 'last-in first-out' (LIFO) method of sugar inventory valuation, established as of April 1, 1942, the sugar inventory is valued at approximately $4,800,000 less than under the more generally used 'first-in first-out' (FIFO) method. For the years since the adoption of LIFO, net income has totaled approximately $3,000,000 less than the net income would have been if FIFO had been used. During the eight years' use of LIFO, Federal Income Taxes have been approximately $1,800,000 less than if FIFO had been used. The difference in the value of the sugar inventory under the LIFO and FIFO methods this year is less than such difference in the previous fiscal year. This is due principally to lower unit costs in the fiscal year just closed and to liquidation during the year of a portion of the low cost inventory." (President's letter)

"The inventory of sugar at March 31, 1950, is valued at cost, using the last-in, first-out (LIFO) method of sugar inventory valuation adopted as of April 1, 1942, plus Federal excise taxes, prepaid freight, and handling charges. Such valuation is approximately $4,800,000 less than it would have been had the sugar inventory been valued at current cost (not in excess of market) under the more generally used first-in, first-out (FIFO) method. Net income (after deduction for income taxes) for the year ended March 31, 1950 would have been approximately $1,200,000 less had the FIFO method of sugar inventory valuation been used." (Notes)

Inventories—excess and slow moving

Several illustrations of slow moving or inventory in excess of one year's requirements shown in certain 1949 reports are:

As current assets

(1) "The inventories contain quantities of certain purchased parts and materials which are in excess of estimated current production requirements of the company. An allowance of $75,000.00 has been provided for losses which may be incurred in the liquidation of such excess quantities." (United Stove Co.—footnotes)

(2) "Materials and supplies include items which will not be utilized within one year but which are included in current assets in conformity with the company's established practice." (Mid-Continent Airlines, Inc.—footnotes)

(3) "The inventories of work in process, finished parts and equipment include approximately $1,600,000 in respect of parts and equipment, etc., which are slow moving but are believed to be conservatively valued and salable." (R. G. LeTourneau, Inc.—footnotes)

As non-current assets

(1) "Inventory in excess of one year's expected requirements, at estimated realizable value." (Autocar Co.)

(2) "Raw materials and purchased parts—Note B
Less: Reserve for possible inventory losses"

"Note B: Pending disposition of completed tractors, manufacturing in the Tractor Division has been temporarily suspended. Because of market conditions all tractor inventory has been provided with a reserve for loss. Only finished tractors have been considered as a current asset." (Federal Machine and Welder Co.)

(3) One balance sheet showed the following:

"Inventories (see accompanying notes)
Portion of Inventories Estimated to be not Realizable Within One Year (non-current above)
Less Valuation Reserve (applicable principally to Raw Materials and Purchased Parts)"

The "accompanying notes" referred to above are as follows:

"*Inventories*

"Physical inventories were taken as at September 30, 1949. The principles, procedures and methods used in determination of the valuation of inventories at the beginning and close of the current fiscal year were consistent in all respects. The basis of valuation and segregation as to current and non-current classification are as follows:

"Current Inventories—

"The current classification includes only the portion available for and deemed usable in production for sales requirements of airplanes and service parts during the fiscal year ending September 30, 1950, on the basis of estimated sales volume. The basis of pricing was the lower of actual, standard or replacement cost with reduction, where necessary, to allow for a reasonable margin of profit on present selling prices.

"Non-Current Inventories—

"The portion of inventories considered to be in excess of requirements for the coming fiscal year is composed principally of materials, fabricated parts and manufacturing supplies, and consists of three general classes:

"(a) Quantities which were estimated will be used in production of successors to present airplane models during the fiscal year ending September 30, 1951. The basis of valuation was the same as for current inventories.

"(b) Quantities pertaining to present airplane models but in excess of requirements in paragraph (a). An adjusted valuation reserve of $349,596.48 remains to reduce this portion of the inventory to an amount estimated to be realizable from use in manufacture of future airplane models. Since the estimated realization was predicated upon use in the period beyond presently planned production, the adequacy of the reserve is subject to numerous factors in the future. In the event of sale, without any use in production of this portion of the inventory, it is estimated that the amount realizable would result in a loss of approximately $150,000.00 in addition to the reserve provided.

"(c) Inventories pertaining solely to discontinued models were valued only to the extent of normal service parts requirements and a conservative estimate of realization from sale.

"The net effect of revaluation of surplus quantities on the basis of estimated future use, the recoveries through use or disposal and the loss from obsolescence has been a credit which is shown in the Statement of Profit and Loss under Other Income as Net Adjustments of Valuation of Surplus Inventory in the amount of $136,889.68. This amount is based on such records as were available and on estimates. The accounting records and procedures do not permit an exact determination of the amount or segregation of the component items." (Piper Aircraft Corp.—footnotes)

Current assets—unusual items, treatments, and presentations

Because of their interest to the reader, we have included below several examples which have appeared in prior years' studies.

Cash

Although cash was generally shown as one item in the current assets section of the balance sheet, several instances were noted where foreign currency items were shown separately.

Lone Star Cement Corporation continued its separation of cash on hand and on deposit in banks into that in the United States and that in Cuba and South America. The Atlantic Refining Company and The Electric Storage Battery Company showed "United States currency" and "foreign currencies" while International Telephone and Telegraph Corporation separated its cash into "in United States" and "in foreign countries."

The Bon Ami Company presented "cash, receivables and inventories less current liabilities" subject to foreign exchange restrictions as a separate current item again in 1949 while Sharpe & Dohme, Incorporated, showed "current assets of foreign subsidiaries and branches" in one current amount, with the applicable liabilities similarly treated.

Special deposits

Certain companies showed cash deposits as separate current assets:

"Margin deposits on commodity futures contracts" (Central Soya Company, Inc.)

"Post-office and other deposits" (Hearst Consolidated Publications, Inc.)

"Deposits with postmasters and postage stamps on hand" (McCall Corp.)

"Life insurance proceeds on deposit with insurer" (A. O. Smith Corp.)

Cash advances

As in 1948, Wesson Oil and Snowdrift Co., Inc., treated advances for purchases of raw materials and Pillsbury Mills, Inc., showed advances on grain purchases as separate current assets, while Central Soya Company, Inc., carried its advances on homes under construction for employees in the same manner. (See subsequent section for advances on construction treated as a non-current asset.)

Bayuk Cigars Inc. reported separately:

"Advances for tobacco grown for Company's account (including $1,503,116 (1949) and $2,700,000 (1948) to subsidiary not consolidated)."

Special funds

Amounts designated for payment of specific corporate liabilities were shown separately by several companies:

"Cash in special bank account for liquidation of sundry liabilities—contra" (District Theatres Corp.)

"Cash deposited for payment of dividends (see contra)" (International Silver Co.) (See Booth Fisheries Corp., Robertshaw-Fulton Controls Co. and

Reliance Engineering Co. for presentations with cash deducted from the current liability.)

"Cash on deposit with sinking fund trustees for redemption of debentures" (American Tobacco Co.)

"Preferred stock sinking fund" (Dictaphone Corp).

An alternative treatment was shown by A. G. Spalding & Bros. Inc. as "Cash (including deposit with trustee for payment of debenture interest—1949, $75,820; 1948, $77,890)." Hearst Consolidated Publications, Inc., separated cash as between "general funds" and "other funds" without disclosure of the purpose of the "other funds."

The Glenn L. Martin Co. showed "Cash (includes $1,888,253 restricted as to use)."

International Paper Co. carried U. S. Government obligations as a special fund:

"Special Fund—U. S. Governent obligations:
For restoration of 1949 decrease in U. S. inventories
For workiug capital of new dissolving pulp mill"

Payroll withholdings and deductions

The Baldwin Locomotive Works and Grumman Aircraft Engineering Corporation separated cash representing employee payroll deductions and savings bond subscriptions from general corporate cash, with contra current liabilities. (Pacific Mills and The Glenn L. Martin Company showed similar current liabilities without segregation of cash.)

Hooker Electrochemical Company separated "employees' U. S. Savings Bond fund" but combined the liability with taxes withheld.

(See subsequent section for treatment of such cash as a non-current asset.)

Cash in transit

S. S. Kresge Company again mentioned that cash in transit was included in its cash balance.

Cash hypothecated

Anderson, Clayton & Co. again indicated in notes to the financial statement that cash, cotton documents in process of collection and cotton had been hypothecated as security for indebtedness on notes payable and performance contracts.

The Trailmobile Company included cash in escrow with general cash as follows:

"Cash ($172,921.26 at December 31, 1949, and $53,298.11 at December 31, 1948, held in escrow as collateral to notes payable to banks—Note 2)"

O'Sullivan Rubber Corporation deducted from its accounts receivable "cash received on $495,463.02 of accounts hypothecated," following with a footnote description:

"The Corporation has entered into a contract with a banking institution to assign to them accounts receivable, with recourse, against which the institution agrees to advance immediately eighty per cent of the net balance due on the accounts, and the remainder when the accounts have been paid in full."

Cash held for consignor

"Cash in Bank for Account of Merchandise Consignors Less Amount due to Consignors for Merchandise Sold" (Byrndun Corp.)

Accounts receivable

Installment receivables

Installment accounts receivable were normally shown separately from regular trade accounts, with varying treatment of unearned profit.

Allied Stores Corporation, The Trailmobile Co. and The May Department Stores Company showed customers' accounts receivable less allowances for deferred carrying charges. Federated Department Stores made the following presentation in a statement accompanying its balance sheet:

"Due from customers:
Regular instalment accounts
Deduct accounts sold to banks (less Company's equity therein of $1,022,033 at January 28, 1950)
Revolving budget accounts
Thirty-day charge accounts
Other accounts receivable
Less provision for possible future losses and deferred service charges"

The Brunswick-Balke-Collender Company deducted a reserve for losses and unearned interest from notes and accounts receivable.

Long-term receivables

A large number of companies included receivables (often installment receivables) which were not expected to be collected within twelve months in current assets:

"Receivables (including approximately $1,100,000 at January 1, 1950, due in more than one year) less reserves for doubtful accounts, income taxes on installment sale profits, and unearned carrying charges of $1,687,200 and $885,775 at respective dates." (Goldblatt Bros., Inc.)

"Instalment accounts, a portion of which is due after one year." (R. H. Macy & Co., Inc.)

"Notes and Accounts Receivable—customers (in-

Exhibit 8: The Diamond Match Company

WHAT DIAMOND'S ASSETS AND LIABILITIES MEAN TO EACH EMPLOYEE

	Book Figures at December 31, 1949	*Amount Behind Each Employee*
EQUIPMENT AND OTHER PROPERTY SUPPLIED BY OWNERS:		
Materials, Supplies, Cash, etc.	$36,168,718	$ 4,245
Land, Buildings, Machinery and Tools	13,444,728	1,578
Standing Timber and Woods Facilities	5,703,033	669
Other Assets	4,523,541	531
Total Supplied by Owners	**$59,840,020**	**$ 7,023**
SOURCE OF MONEY NECESSARY TO PROVIDE ABOVE EQUIPMENT:		
Money Borrowed by Owners	$10,000,000	$ 1,174
Owners Money Invested	49,840,020	5,849
Total Money Invested for the Most Part Prior to 1949	**$59,840,020**	**$ 7,023**
CONSERVATIVE VALUE, IN TERMS OF 1949 DOLLARS, OF EQUIPMENT AND OTHER PROPERTY SUPPLIED BY OWNERS	$85,200,000	$10,000

A TEN YEAR COMPARISON

	Thousand Dollars						*Per Share of Common Stock*	
Year	*Net Sales*	*Net Income*	*All Dividends*	*Paid to Employees*	*Average Number of Employees*	*Dividends Per Share of Preferred Stock*	*Net Income Available for Dividends*	*Dividends*
1940	$31,451	$1,962	$1,950	$ 7,082	4,985	$1.50	$1.52	$1.50
1941	37,437	2,041	1,950	7,767	5,217	1.50	1.63	1.50
1942	42,419	2,136	1,950	8,836	5,006	1.50	1.77	1.50
1943	40,237	2,100	1,950	9,233	4,527	1.50	1.71	1.50
1944	39,353	2,117	1,950	9,434	4,408	1.50	1.74	1.50
1945	42,497	2,214	1,950	9,744	4,426	1.50	1.88	1.50
1946	48,218	2,826	1,950	11,564	5,034	1.50	2.75	1.50
1947	67,562	3,454*	2,717	17,553	7,097	2.00	2.63*	2.00
1948	78,537	3,446*	2,912	24,752	9,350	2.00	2.62*	2.00
1949	76,364	3,213**	2,912	23,087	8,520	2.00	2.35**	2.00

* After Appropriation of $1,500,000 for Reserve for Possible Inventory Decline.

** Not including the amount recoverable on a pending insurance claim for loss of profits during the year.

cluding balances of $158,056.13 maturing after one year." (National Supply Co.)

"Contracts receivable on equipment installations (of which $199,000 [1949] and $175,000 [1948] is receivable after one year from balance sheet date)." (Iron Fireman Mfg. Co.)

"Installments receivable (Note A)"

"Note A: Installments receivable, of which $7,541,155 are due subsequent to 1950, are secured by chattel mortgages, conditional sales agreements or leases." (Mack Trucks, Inc.)

"Advances to, and amounts due from joint ventures (a portion of which will be collected after a year)." (Arundel Corp.)

"Instalment notes, including amounts due after one year (1949, $4,870,295; 1948, $3,695,007)." (Brunswick-Balke-Collender Co.)

Receivables from employees and subsidiaries

Where such items were considered to be current assets, the predominant practice was to show a parenthetical reference to their inclusion in other balance sheet items.

"Sundry accounts and notes receivable (officers and employees, $20,083, 1950; $11,630, 1949)" (Godchaux Sugars, Inc.)

"Accounts (including $34,087.20 due from subsidiaries)" (Keystone Steel & Wire Co.)

"Trade accounts (including $256,272 from Fruehauf Trailer Company of Canada Limited and $97,209 from Fruehauf Trailer Sales, Inc.)" (Fruehauf Trailer Co.)

"Accounts and notes receivable—(including $1,655,000 for controlled retail store companies)" (General Tire & Rubber Co.)

Cost-plus-fixed-fee contracts

Eight illustrations were found of amounts reimbursable under cost-plus-fixed-fee contracts being shown on the balance sheet as separate items apart from either accounts receivable or inventories. (82, 89, 90, 148, 181, 326, 369, 418)

Other current receivable items

"Reimbursable expenditures for rehabilitation and improvement of plant facilities, insurance and other claims and deposits; duty drawback, etc." (Reynolds Metals Co.)

"Due from trustees of former subsidiaries" (Federated Dept. Stores)

"Unbilled shipments of sales orders at estimated selling prices" (Lukens Steel Co.)

"Maine timberlands (amount realized from sale in 1950)" (Southern Advance Bag & Paper Co., Inc.)

"Other current notes and accounts receivable and advances" (Glidden Co.)

"Properties to be offered for sale within one year under the company's real estate program, covered by purchase commitments—at cost less depreciation" (Safeway Stores, Inc.)

"Cotton Documents in process of collection
Market differences due from brokers and in outstanding contracts—net
Crop loans and accrued interest (less reserves . . .)" (Anderson, Clayton & Co.)

"Federal crop and soil conservation benefits accrued (estimated)" (Godchaux Sugars, Inc.)

Cash surrender value of life insurance

Predominant practice continued to be the showing of the cash surrender value of life insurance below the current assets section of the balance sheet, in accordance with Accounting Research Bulletin No. 30, "Current Assets and Current Liabilities—Working Capital" (August 1947).

1949	1948	1947	1946	
435	434	427	424	No such item shown
6	9	13	19	Shown as current asset (10, 174, 278, 279, 282, 333)
84	82	85	82	Shown below current assets
				18—As a separate item (115, 138, 209, 244, 452)
				26—As an investment (109, 123, 335, 337, 469)
				39—As an other asset (74, 229, 233, 277, 490)
				1—As a deferred charge (293)
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Four companies (141, 155, 183, 503) eliminated the item from their 1949 balance sheet and one company (H. K. Porter Co., Inc.) changed its presentation from current to non-current. A change in presentation occurred when four companies reclassified the item from investments to other assets. (91, 250, 323, 326)

Prepaid expenses and deferred charges

Approximately thirty per cent of the 525 tabulated reports carried some item of prepaid expense as a current asset, twenty-six of the items appearing for the first time in 1949. This continues the trend started in 1947 by Accounting Research Bulletin No. 30, "Current Assets and Current Liabilities."

1949	1948	1947	1946	
				All or part shown in current assets:
94	81	58	3	Described as "prepaid"—no deferred classification shown (12, 13, 115, 221, 265, 337, 393, 434, 437, 469)
2	1	1	...	Described as "prepaid and deferred" (31, 427)
2	2	3	3	"Prepaid and deferred" split between current and non-current (9, 465)
44	40	32	...	"Prepaid" in current—"deferred" in non-current (6, 109, 129, 226, 277, 397, 495)
1	1	1	...	"Deferred" split between current and non-current (207)
8	1	...	...	"Prepaid" current—miscellaneous title non-current (59, 161, 294, 307)
1	1	...	...	"Charges applicable to future operations" (304)
5	2	1	...	"Unexpired insurance premiums and other deferred charges" (75, 240, 281)
157	129	96	6	
				All shown in non-current section:
113	121	134	157	Headed "deferred" with some individual items described as "prepaid" (81, 158, 164, 192, 205, 270, 274, 477, 482, 518)
86	86	91	114	Title included words "prepaid" and "deferred" (26, 165, 246, 354, 374, 376, 401, 497)
84	90	98	133	Described as "deferred" (35, 162, 229, 301, 492)
46	65	73	79	Described as "prepaid" (352, 494, 508, 516)
31	25	24	23	Miscellaneous titles 6—Unexpired insurance, etc. (74, 323, 382) 5—Deferred charges to (future) operations (100, 180, 239) 4—Costs chargeable to future operations (89, 223, 524) 3—Charges applicable to future operations /periods (86, 263, 273) 2—Costs allocable to future periods (113, 118) 11—Other (see below)
360	387	420	506	
8	9	9	13	No such items separately shown
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Among the substitute titles and variations for "prepaid expenses" and "deferred charges" were:

"Prepaid royalty, unamortized discount and expense, taxes, insurance, and other costs allocable to future operations" (Jones & Laughlin Steel Corp.)

"Other prepayments" (Chicago and Southern Air Lines, Inc.)

"Supplies, insurance, etc." (Barker Bros. Corp.)

"Insurance premiums and other expenses paid but applicable to future years" (Westinghouse Electric Corp.)

"Insurance deposits, prepaid expenses, etc." (Walter Kidde & Co., Inc.)

"Deferred debit items" (Pepsi-Cola Co.)

"Insurance, taxes, etc., applicable to future periods" (American Locomotive Co.)

"Expenses paid in advance" (Lambert Co.)

"Prepaid expenses applicable to future periods" (Armco Steel Corp.)

In its notes to the financial statements General Mills, Inc., gave the following explanation of the items included in its caption "Sundry costs chargeable to future periods":

"This caption includes unexpired insurance premiums, advances for traveling, supplies, advertising and other prepaid costs expected to benefit operations over the next few years. The company considers automotive equipment to be a cost of this nature because of the relatively short life of such equipment; accordingly, amounts of $1,828,469 and $1,857,840 included in the figures at May 31, 1950, and 1949 represent the depreciated cost of automotive equipment at the respective dates."

Of those reports carrying prepaid expense or deferred charges as non-current items, twelve reports placed the item immediately following the current asset section. Borg-Warner Corporation showed two statement captions, e.g., "prepaid expense" immediately following current assets and "deferred charges" farther down on the statement.

A few illustrations of unusual items reported as "deferred charges" are:

"Dead season sugar expenses since termination of 1949 crop" (United Fruit Co.)

"Deferred general and administrative expenses applicable to U. S. Government contracts and subcontracts in process" (W. L. Maxson Corp.)

"Improvements to leased properties (recoverable) and miscellaneous deferred charges" (J. J. Newberry Co.)

"Costs Applicable to Future Periods (Deferred charges) Less Deferred Credits ($95,349 in 1949 and $141,840 in 1948)" (Copperweld Steel Co.)

"Depletion applicable to pulpwood in inventory" (International Paper Co.)

"Payment for past service under retirement plan—portion unamortized" (American Sumatra Tobacco Corp.)

"Retirement annuity plan" (General Baking Co.) (Written off as deductions are allowed for Federal income tax)

"Unapplied portion of advances to landlords toward construction costs to be offset against future additional percentage rentals" (City Stores Co.)

Unconsolidated subsidiaries—valuation basis

Cost continued to be the most general basis of valuation for unconsolidated subsidiaries on the 1949 reports of parent companies.

1949	1948	1947	
327	329	329	No investments shown
95	94	92	At cost (64, 83, 95, 128, 149, 212, 280, 508)
42	43	45	No basis of valuation indicated (66, 80, 94, 272, 444, 446, 490, 525)
25	25	28	At net equity (or related thereto) (222, 231, 299, 387, 397)
22	19	18	At cost or less—at or below cost (39, 287, 362, 374, 458, 482)
12	12	11	At cost less reserve (86, 97, 144, 153, 156)
9	8	9	At nominal value (111, 428, 513)
1	1	1	Estimated realizable value (456)
1	1	1	As valued at a specific date—subsequent additions at cost (380)
3	3	3	At par value of capital stock (13, 257)
2	1	1	At book values (281, 519)
4	3	3	As revalued in a specific year (294, 497)
1	1	2	At net assets in a specific year, less undistributed earnings and reserves (100)
2	1	1	Independent appraisal for subsidiaries written off during the war (314, 447)
1	1	1	At values determined by board of directors in 1940 (35)
1	...	...	Investment in stock written off; advances carried at actual amounts advanced less reserve (328)

(Numbers in parentheses refer to companies listed in Appendix.)

There are included under the caption "at net equity (or related thereto)" certain items which were not valued strictly on a current net equity basis but for which the stated valuations referred to either "net equity" or "net assets" (24, 50, 58, 168, 200, 224, 268, 307, 349, 355, 399, 411, 451, 489, 514). Illustrations of modification of the "net equity" basis are:

"...less reserve for certain profits carried in suspense" (John Morrell & Co.)

"...deduct earnings outside the Western Hemisphere not remitted to the United States" (National Cash Register Co.)

"...less reserve..." (Armour and Co.)

"...less reserve for loss in disposal or liquidation" (Curtiss-Wright Corp.)

"...at book value of net tangible assets at dates of acquisition" (Pittsburgh Plate Glass Co.—foreign subsidiaries)

During 1949 both Armstrong Cork Co. and Nash-Kelvinator Corp. eliminated reserves previously deducted from their investments in subsidiary companies, while Bridgeport Brass Co. created a reserve. Panhandle Producing & Refining Co. made this footnote comment:

"As of December 31, 1949, Panhandle Producing and Refining Company reduced its investment in James Stewart & Co. to $1.00 since 'the loss by Stewart during the year exceeded the remaining cost of $122,803 of Stewart stock owned by the Company...'"

In 1949 Bristol-Meyers Company wrote off against earned surplus all accumulated undistributed earnings of foreign subsidiaries previously consolidated and valued its investments at the net value of assets not subject to foreign exchange fluctuation (dollar deposits, fixed and capital assets).

Warner Bros. Pictures, Inc., made the following complete disclosure of its valuation basis:

"The amount of $2,056,946 shown in the attached consolidated balance sheet for investments in and advances to subsidiaries operating in foreign territories represents the adjusted cost of such investments and advances (adjusted for operating deficits and for devaluation of foreign currencies in September 1949) less a reserve of $1,187,438. The adjustment for the devaluation of foreign currencies amounted to $1,018,769 and has been reflected in the accounts as at August 31, 1949, by the application of this amount against the reserve provided in prior years..."

Mohawk Carpet Mills, Inc., continued to carry its subsidiary investments at cost, which due to 1949 losses was greater than the net equity, since "in the opinion of Management the reduction in equity represents only a temporary impairment in values."

American Radiator & Standard Sanitary Corporation, by action of its board of directors, reinstated the investment in its Italian subsidiary in 1949 by restoration of a 100% reserve to paid-in surplus. The company continued to carry its investments in German and Austrian subsidiaries at no value.

The W. L. Maxson Corp. had previously consolidated its wholly-owned subsidiary, Victor Electric Products, Inc., but as of September 30, 1949, it carried "advances to Victor Electric Products, Inc., (less reserve of $111,229) (Note 2)" explained as follows:

"Note 2: The Corporation's investment in common stock of Victor Electric Products, Inc., is not reflected in the accompanying consolidated balance sheet since no equity accrued thereto as Victor's cumulative deficit to September 30, 1949, exceeded its outstanding capital stock and capital surplus. On October 3, 1949, the Corporation gave up its entire investment in Victor's common stock.

"In place of its advances to Victor, amounting to $902,614 after deduction of reserve, the Corporation accepted on October 3, 1949, Victor's 4% non-cumulative income note for $750,000 due October 3, 1959, and 2,500 shares of Victor's newly issued 4% non-cumulative preferred stock having a par value of $250,000 and an equity of $152,614 in Victor's net assets. The Corporation's advances to Victor at September 30, 1949, were subordinate to Victor's indebtedness to Reconstruction Finance Corporation amounting to $397,500 at that date. The Victor note received on October 3, 1949, is also subordinate to such indebtedness."

The elimination of Victor Electric Products, Inc., from consolidation was mentioned and approved in the auditor's opinion.

Advances to subsidiary

Where the investment in subsidiaries included both capital stock holdings and cash advances, the predominant presentation was to combine both in a single amount.

Property—basis of valuation

Although the majority practice was to show fixed assets at cost, sixty-six companies gave no indication of the basis of their property values in their 1949 reports.

1949	
66	No basis given (8, 16, 17, 115, 301)
323	Cost (35, 80, 123, 136, 227, 228, 229, 290, 307, 508)
19	Less than cost (72, 78, 306, 392, 494)
	Based on appraisals
31	Year stated; subsequent additions at cost (98, 275, 397, 411, 473)
3	At "going concern value"—year of appraisal not stated (220, 348, 517)
7	Book value; subsequent additions at cost (129, 513, 516)
13	Revalued—no appraisal indicated (39, 153, 316, 380, 524)
5	Acquisition values; subsequent additions at cost (88, 217, 518)
	Multiple bases
56	Some property at cost; some at one or more of the above bases (14, 150, 273, 280, 393)
2	Some property at cost; some at par value of securities issued therefor (50, 410)
525	

(Numbers in parentheses refer to companies listed in Appendix.)

Falstaff Brewing Corporation, Link-Belt Company and The Federal Machine & Welder Company eliminated a description of the basis of their property valuation, although such description was made on prior years' reports.

Listed here are some illustrations of bases other than cost:

"Land at cost less write-down of $7,251.86" (Geo. E. Keith Co.)

"Property, Plant and Equipment, at cost (for assets acquired at organization, September 1, 1919, cost was determined by independent appraisal)" (Arundel Corp.)

"Land, as appraised in 1934

"Land, buildings, machinery and equipment, at 60% of appraisal in 1927 and subsequent additions at cost" (Industrial Brownhoist Corp.)

"Capital Assets

". . . at values determined by the Board of Directors as of January 31, 1932, with subsequent additions at cost" (Sinclair Oil Corp.)

"The amount at which buildings are stated in the accompanying consolidated balance sheet includes $344,214.33 which represents the excess of cost of the capital stocks (acquired from non-affiliated persons), of three wholly-owned subsidiary companies over the underlying book amounts shown by such subsidiaries' books. On evidence satisfactory to the management, such excess is deemed to be a portion of the cost of the buildings of such subsidiaries. Depreciation has been computed on such increased amount and charged to operations." (District Theatres Corp.—footnote) (See also Miller Manufacturing Co. and Paramount Pictures, Inc.)

The Studebaker Corporation, in addition to the normal depreciation reserve, showed a "reserve for loss on demolition, disposal and change in use of property and facilities, and carrying charges on property held for sale."

Fully amortized emergency facilities

Ten companies discontinued disclosure and three companies (83, 226, 327) added disclosure of fully amortized emergency facilities on their 1949 reports, leaving a total of fifty-seven such disclosures in the 525 reports tabulated.

The Federal Machine and Welder Company reinstated its emergency facilities with the following explanatory footnote in its 1949 report:

"Emergency facilities acquired during the years 1941, 1942 and 1943, which had been fully amortized, and carried at no net value, in the amount of $1,125,-072.24, have been reinstated at cost less estimated depreciation to date, creating a capital surplus in the amount of $870,967.51."

Typical of the disclosures made is the following footnote of The Sperry Corporation:

"Plant and equipment at December 31, 1949, includes facilities acquired for war purposes aggregating $8,174,488 at cost, which have been fully amortized under the provisions of the Internal Revenue Code. If depreciated at rates based upon their estimated useful lives, the undepreciated balance of such facilities would amount to $4,485,066 at December 31, 1949."

Claims for tax refunds

The tabulation of tax refund claims indicated a slight increase in the number of claims outstanding over those at the previous year end. Approximately one quarter of the tabulated reports carried some form of refund claim, with an additional nine per cent mentioning claims filed under Section 721 or 722 of the IRC but not recorded on the books.

1949	1948	
		In current assets:
26	18	Carry-back claims (67, 122, 160, 188, 209, 226, 266, 320, 341, 369)
17	16	Prior years' federal taxes (and interest thereon) (27, 133, 334, 419, 496)
9	11	Tax refunds (181, 184, 228, 350)
2	2	Replacement of basic LIFO inventories (54, 330)
2	2	Recoverable federal and Canadian taxes on income (198, 210)
..	2	Prior years' excess profits taxes
2	2	Canadian excess profits taxes (380, 430)
6	2	Refund claims for federal income and excess profits taxes and renegotiation rebate (175, 190, 234)
1	1	Resulting from adoption of LIFO (204)
1	1	State tax claim (202)
66	57	
		Below current assets:
20	28	Post-war refund—foreign excess profits tax (20, 26, 193, 239, 519)
15	16	Prior years' taxes on income (233, 255, 326, 401, 515)
16	13	Carry-back claims (15, 22, 31, 38, 48, 102, 280, 373, 421, 517)
15	14	Replacement of basic LIFO inventories (35, 96, 307, 335, 337)
12	11	Federal income tax refund—no explanation (52, 156, 256, 269, 479)
6	6	Resulting from adoption of LIFO method (63, 231, 241)

3	3	Recoverable state income or franchise taxes (261, 367)
1	1	Inventory restatements in prior years under Treasury rulings (413)
1	1	Excess profits refund claim (61)
1	1	Claims for refunds—federal and Canadian income taxes (485)
90	94	

(Numbers in parentheses refer to Companies listed in Appendix.)

Twenty-six companies showed claims for federal income tax carry-back refunds as a result of 1949 operating losses—eighteen as current and eight as non-current assets. (Current 1, 67, 97, 142, 160, 165, 187, 188, 203, 209, 254, 305, 320, 341, 404, 429, 451, 500; non-current 38, 48, 102, 328, 373, 421, 490, 517) The balance of the claims were carry-overs from 1948 reports, six of which (two current and four non-current) did not change in amount.

United Merchants and Manufacturers, Inc., showed no refund claim on its balance sheet but indicated that its provision for taxes was net of estimated refunds under carry-back provisions of the Internal Revenue Code. Mack Trucks, Inc., deducted from its "estimated recovery of Federal income taxes through carry-back" the fourth installment of 1948 taxes, showing the balance as a current asset.

Six companies showed refund claims in both current and non-current assets (105, 131, 184, 329, 380, 430). The Safety Car Heating and Lighting Company, Inc., and Paramount Pictures, Inc., split Canadian excess profits refunds, with the former company giving the following supplemental information in the president's report:

"Post-war refunds of Canadian excess profits tax collectable in 1950 are included in accounts receivable and the balance collectable in 1951 is carried as a non-current asset. As these payments have been authorized by the Canadian Government, the reserve of $71,140.08 has been carried to surplus."

Of the six retail companies showing refunds due to adoption of the LIFO inventory method, five carried the item as a separate non-current balance sheet item (63, 231, 241, 321, 329) while Federated Department Stores, Inc., carried such refund as a current item. Typical of the explanatory footnotes is the following from the report of The May Department Stores Company:

"As explained in the report for the year ended January 31, 1948, the Company adopted the LIFO method of valuing its inventories retroactively to January 31, 1941. By application of the LIFO method, federal taxes on income for the year ended January 31, 1950, and prior years have been reduced by $6,570,000. Of this amount, $5,990,000 represents overpayments claimed for the six years ended January 31, 1947. The balance of the reduction of $580,000 has been reflected in the reduced provision for federal taxes for the three years ended January 31, 1950. To date, regulations of the Treasury Department have not been modified to permit the Company to use the LIFO basis for tax purposes. Should the Company be denied the right to use the LIFO method, the claimed overpayments of $5,990,000 and the reduction of $580,000 in provisions for the three years ended January 31, 1950, will not be realized."

Intangibles

Method of valuation

[*See Accounting Research Bulletin No. 24, Accounting for Intangible Assets.*"]

The statistics below indicate the frequency with which various types of intangible assets were mentioned, as well as the number of each type valued at a nominal value, in excess of a nominal value, or shown in fixed assets with no amount indicated.

Type	1949 Total	At Nominal Valuation	Valued in Excess of Nominal	In Fixed Assets—Amount Not Shown
Patents	192	117	75	..
Goodwill	150	121	27	1
Goodwill arising from consolidation	8	...	8	...
Trademarks, trade names and brands	99	74	25	...
Patterns, drawings, dies, lasts and jigs	62	25	20	17
Lease holds	45	2	21	22
Licenses	23	5	18	...
Water rights	12	...	2	10
"Intangibles" (Type not specified in reports)	12	7	3	2
Processes	9	5	4	...
Copyrights	8	6	2	...
Formulae	7	5	2	...
Franchises	5	3	1	1

Value in excess of nominal—where shown on balance sheet

Of 208 various intangible items shown on the balance sheets at values in excess of nominal, approximately one third were shown either separately or combined with other intangibles in a separate group. "Leaseholds" and "patterns, drawings, dies, lasts and jigs" were the only types of intangibles which, when shown at values in excess of nominal, were generally included in the fixed asset group.

Value in excess of nominal—basis of valuation

Approximately 40% of the companies showing intangibles at values in excess of nominal did not disclose the basis for such values. A total of ninety-seven intangible items were indicated to be valued at cost.

The American Smelting and Refining Company presented a schedule showing "tangible property" and "intangible property." The "intangible property" consisted of "goodwill, patents, licenses, etc.," and was explained in the following manner:

"Intangible Property—Segregated and valued as of December 31, 1934, in accordance with authority and direction of the stockholders at a special meeting held on May 21, 1935."

Crown Zellerbach Corporation disclosed in a note that the investment in properties, which included "intangibles, consisting mainly of water power leases and licenses" represented amounts "based largely upon appraisals in 1925 or prior, plus subsequent additions at cost, less deductions for certain intangibles since written off and for depletion, amortization and reserves for depreciation." The income statement showed charges for amortization without indicating what part, if any, applied to intangibles.

The Quaker Oats Company explained in a note in its June 30, 1949, report:

"Property, plant and equipment and trade marks, trade rights and good will are stated at cost, including the par value of any capital stock issued as consideration therefor. The allocation of the cost of businesses acquired as entireties as between tangible assets and trade-marks, trade rights and good will was determined by the management as of the dates of acquisitions."

Examples of companies retaining intangibles on the balance sheet at fixed amounts are as follows:

Goodwill	The Curtis Publishing Co. Pathé Industries, Inc.
Water Rights	Heart Consolidated Publications, Inc. United States Potash Company
Goodwill and Trademarks	Quaker Oats Co. Macfadden Publications, Inc.
Patents, Goodwill, Trademarks	American Tobacco Co.
Patents, Goodwill, Trademarks and Processes	Allied Chemical and Dye Corp.
Patents and Trademarks	Diamond T. Motor Car Co. Briggs & Stratton Corp.
Patents and Goodwill	Atlas Powder Co. Chicago Railway Equipment Co.
Goodwill, Trademarks and Formulae	The Coca-Cola Co.
Patterns and Drawings	Blaw-Knox Co.
"Intangibles" (Type not specified in report)	National Lead Co.

A few companies showing goodwill resulting from consolidation on their 1949 balance sheets were:

General Motors Corp.
Bath Iron Works Corp.
Cities Service Co.
Loew's Inc.
American Wringer Co., Inc.
General American Transportation Corp.

Clear statement of amortization policy

Examples of a clear statement of amortization policy follow:

"Goodwill is the backbone of an established business. It is the high regard which people hold for products bearing our name. Because it is intangible and cannot be measured, goodwill is generally carried at the nominal value of $1.00. However, in 1946, the price paid for the Lustre-Creme business included $3,750,000 for the goodwill of this product. This goodwill is being absorbed in expense over a ten-year period starting in 1947." (Colgate-Palmolive-Peet Co.—uncertified statement entitled "The Balance Sheet Plainly Stated")

Bendix Home Appliances, Inc., disclosed a revision in 1949 in the rate of amortization of tools and dies in accordance with the Treasury Department's determination which resulted as a reduced charge to income for the year. Its amortization policy in respect of patents was explained in a footnote:

"The patents acquired through the purchase of the stock of H. J. Rand Washing Machine Corporation are being amortized over a ten-year period commencing July 1, 1949..."

"Excess in Consolidation:

Excess of cost of investments in subsidiaries over the book value of their net assets at date of acquisition	$400,607.10
Less: Amortization (over ten-year period)	176,934.84
	$223,672.26"

(Diana Stores Corp.—balance sheet)

"The excess of the costs over the underlying book amounts at dates of acquisition of the investments in (1) securities of three wholly-owned subsidiary companies, the net assets of which were acquired by the Corporation through liquidation in 1947, and (2) securities of partially-owned companies, amounted to $84,724.23 and $157,911.66 respectively, which amounts were allocated to goodwill by the management and are being amortized over five years." (District Theatres Corp.—notes to financial statements)

Pathé Industries, Inc., in 1949, changed its method of presenting "story rights and scenarios." In 1948, these intangibles were included in the inventory section of the balance sheet. In 1949, they were shown in "idle plant and related assets" just below "fixed assets," in the non-current section of the balance sheet. A write-down of these intangibles was also made in 1949 with the amount being charged to the "deficit" account (earned surplus). The valuation basis was, therefore, said to be at less than cost. No policy of future amortization, if any, was stated.

Pathé Industries, Inc., made a clear statement of policy in regard to "exchange franchises reacquired," in notes to financial statements, as follows:

"The cost of exchange franchises reacquired represents amounts expended in prior years to reacquire franchises conferring upon the holders thereof exclusive rights to distribute in territories defined in the franchise agreements certain motion pictures released for distribution by Pathé Industries, Inc., and its subsidiaries. The franchise agreements were originally made during a period when a market for the motion pictures produced by the companies was being developed and, at the time of their reacquisition, these franchises carried with them elements of goodwill which had been built up by the franchise holders during the period of their ownership. The cost of reacquiring the exchange franchises is being amortized by charges to expense at the rate of 10% of such cost per annum, the amount charged to expense during 1949 being $158,636.31."

1949 changes

There were few changes in intangibles during the year 1949.

Sixteen companies (see page 108) reported a reduction in intangibles by charges to retained income (earned surplus). American Safety Razor Corp. wrote off a portion of its "goodwill, patents and trade marks" by charging to "capital surplus" an amount equal to the total in that account and charging the balance to "earned surplus."

The president's letter in the report of Bucyrus-Erie Company made the following comment in respect of a partial write-off of "goodwill":

"The book value of Goodwill, consisting of Engineering Development, Trade-Marks and Patents, was reduced from $3,419,255 to $2,338,511 at the year end by a charge of $1,080,744 to Additional Paid-In Capital, and now approximates the cash value approved by the Government for use in determining the Company's invested capital."

Gillette Safety Razor Company explained its write-off of intangibles in a note:

"Goodwill, Trademarks and Patents, amounting to $23,955,970 and including all intangibles appearing on the Company's consolidated balance sheet at December 31, 1948, plus all further intangibles applicable to subsidiaries not consolidated at that date, have been written down at December 31, 1949, to the nominal figure of $3.00. Of the total of $23,955,970 an amount of $15,955,970, arising in the main from the acquisition of the Auto-Strop Company and its subsidiaries in 1930, has been written down to $3 by charges of $15,302,922 against available Capital Surplus and the balance of $653,045 against Earned Surplus, and the goodwill of $8,000,000 arising out of the acquisition of The Toni Company has been eliminated by a charge to Earned Surplus."

W. L. Maxson Corp. reduced the book value of "jigs, tools, dies and patterns" to $1 by additional amortization charged to income.

Non-current assets—unusual items, treatments, and presentations

Listed here are examples of balance-sheet items in the reports tabulated which were noted as being interesting or unusual:

Foreign assets

"Net assets of branches in countries where foreign exchange controls were in effect" (Time, Inc.)

"Other assets of foreign subsidiaries and branches" (Sharp & Dohme, Inc.)

"Amount Due from Foreign Government" (National Paper and Type Co.)

"Receivables from Canadian housing corporations" (Marathon Corp.)

"Net Current Assets in Foreign Countries
"(Withdrawals subject to prevailing restrictions in foreign exchange)" (Brunswick-Balke-Collender Co.)

"Miscellaneous investments, including stock and notes of wholly owned agency companies abroad less $3,938,800 notes and accounts payable to such companies" (United States Lines Co.)

"Receivables from customers in countries with currency restrictions, less reserve of $105,000" (Parker Pen Co.)

"Additional amount at which investment in capital stock of Malay States Tin Limited is included in the accounts of Pacific Tin Consolidated Corporation, in excess of cost plus undistributed earnings accumulated prior to date of revaluation:
"Credited to capital surplus for appreciation as of November 21, 1939,
"Less—Charged to capital surplus for amortization to December 31, 1949"
(Pacific Tin Consolidated Co.)

Plant and equipment

"Property, plant and equipment (at cost), (including $375,000 estimated cost to complete and equip facilities in process of construction) (Note 2)"
"Note 2—Estimated liability to complete and equip facilities in process of construction is based on contracts with construction companies, on purchase commitments and on estimates by the company's engineering and purchasing departments." (Central Soya Co., Inc.) ($375,000 was shown as a current liability as "Estimated liability to complete and equip facilities in process of constructions.")

Hearst Consolidated Publications, Inc., presented similar asset and liability items. These were as follows:

"Property, plant and equipment to be received under purchase and construction contracts"

"Plant and equipment purchase and construction contracts payable—
Amounts due within one year"

American Wringer Co., Inc., carried a "real estate purchase contract" immediately following its fixed assets, with a contra non-current liability.

The Eastern Malleable Iron Company deducted the non-current portion of its mortgage bond payable as follows in the fixed asset section:

"Used for manufacturing purposes:
Land, buildings, machinery and equipment, less accumulated depreciation of $3,122,087.22
Deduct: mortgage bond payable (non-current portion)—secured by mortgage on land and buildings situated at #64 William Street, Newburgh, New York (interest rate, 6% per annum)
Balance
"Other real property:
Land, dwellings and other buildings, less accumulated depreciation of $27,382.31"

Metal and Thermit Corporation showed "Miscellaneous assets acquired in liquidation of American Rutile Corporation," a subsidiary liquidated during 1949, as a separate item in the plant and equipment section of its balance sheet. The president's letter stated that most of the former subsidiary's assets were being disposed of.

McGraw-Hill Publishing Company valued its fixed assets at "cost, after charging off all expenditures for alterations and financing." Mid-Continent Airlines, Inc., separated its "flying units—aircraft and auxiliary equipment" between those pledged to secure chattel mortgage notes payable and those unpledged.

Funds

"Cash in Special Deposit Accounts, per non-current contra (Federal taxes and savings bonds)" (United Aircraft Corp.) (See also Carpenter Steel Co., Roberts & Mander Corp., General Electric Co., G. R. Kinney Co., Inc.)

"Plant Improvement and Replacement Fund" (Libbey-Owens-Ford Glass Co.) (See also National Sugar Refining Co., Marchant Calculating Machine Co., Cutler-Hammer, Inc., International Paper Co., Ohio Oil Co.)

"Deposits with First Mortgage Trustees"
"Note 3: First Mortgage Bonds, 6%, due January 1, 1956, in the amount of $1,000,000, have been authorized and issued but not sold. Under Article Two, Section 3, of the First Mortgage Indenture, these bonds may be delivered to the Company from time to time in an amount not exceeding 75% of the cash cost of acquisitions, betterments and improvements. In 1949 the Company deposited with the Trustees under the First Mortgage Indenture $20,200.00 received from the sale of certain assets. These deposits are refundable under the provisions of the Indenture." (American Writing Paper Corp.)

"Compensation Insurance Fund (per contra):
"Cash and United States savings bonds at redemp-

tion value, less in 1949 advance of $30,000 owing to general cash." (Harnischfeger Corp.) (See also General Cable Corp., Frank G. Shattuck Co., Colonial Stores, Inc.)

"Retirement Reserve Fund" (Stix, Baer and Fuller Co.)

"Pension Trust Contributions—advances for Employees" (E. Kahn's Sons Co.)

"Investments of appropriation for Employees' Pensions:
 Securities, at cost
 Cash"
(American Bank Note Co.)

"Pension trust fund (Note A)
 Cash
 Stocks, bonds and mortgages"
(Note A stated that a portion of the fund was invested in the Company's stock.) (Craddock-Terry Shoe Corp.)

"Government Securities Deposited to Guarantee Fulfillment of Sales Contracts" (American Bank Note Co.)

Funds not appearing on the balance sheet were disclosed in a footnote by E. I. du Pont de Nemours & Co. as follows:

"The Company held funds aggregating $5,843,403 at December 31, 1949, and $5,917,702 at December 31, 1948, restricted to performance under U. S. Government contracts. These funds, and the corresponding accountability therefor, are not reflected in the consolidated balance sheet."

Monsanto Chemical Co. and General Electric Company carried similar funds as non-current assets with a contra non-current liability of the same amount for the advances on government contracts.

Investments

"Investment in Capital Stock of Plantation Pipe Line Company (not a subsidiary)—at cost" (Standard Oil Co. (Kentucky))

"Listed securities—at net carrying value (comprising at December 31, 1949, 1,508,729 shares of Standard Oil Company (New Jersey) and other securities, the total having a quoted market value of $123,007,000)

"Investments held for operating purposes—at cost, less reserve" (Standard Oil Co. (Indiana))

"Investments and Other Assets:
 Partly Owned Subsidiary and Affiliated Corporations:
  Securities
  Advances
 Investments in and Advances to Allied Corporations
 Other Investments (Note F)"

"Note F. Includes securities issued by wholly and partly owned subsidiary companies—$691,927." (Loew's Inc.)

"Other Securities and Investments (Note 1-C)

"Note 1-C. Other securities and investments are carried at cost or less with the exception of a Canadian investment, revaluation of which in prior years resulted in $4,364,113 addition to Surplus. Included at December 31, 1949, are 1,371 shares of the Company's Common Stock ($5 par value) carried at $63,457, and at December 31, 1948, 156 shares ($20 par value) at $27,506."

"Investment in General Motors Corporation 10,000,000 Shares Common Stock (Note 1-D)"

"Note 1-D. General Motors Corporation common stock, in accordance with a practice followed since 1925, has been revalued annually to an amount which closely corresponds to the equity indicated by the consolidated balance sheet of General Motors Corporation at December 31 of the preceding year. The net additions to Surplus as a result of all such revaluations amounted to $285,878,242 at December 31, 1949, and $233,878,242 at December 31, 1948." (E. I. du Pont de Nemours & Co.)

"Investments and Advances—Note 2:
 Investments in Canadian and British related companies—less reserve $45,000
 Investments in Domestic related companies—less reserve $62,000
 Sundry investments—at cost"

"Note 2: Investments in the capital stocks of foreign and domestic related companies are stated at the lower of cost or the approximate book value of the Company's equity therein. Book values have been determined from audited and unaudited financial statements at latest available dates and, with respect to foreign investments, have been computed at exchange rates in effect at December 31, 1949. Changes occurring during the year 1949 in the book value of investments against which a reserve has been provided are reflected in the income account; the excess of cost over book value at December 31, 1948, has been charged to surplus." (P. R. Mallory & Co., Inc.)

In a supplementary financial information schedule of investments and long-term receivables, Pittsburgh Steel Co. stated that its investment in The National Supply Company (117,500 shares common stock—$3,172,500) was carried at:

"...fair value to the company as determined by board of directors upon acquisition in 1938. The closing sale of The National Supply Company common stock on December 31, 1949, was $16.125 per share. At that price, the indicated value for the shares held is $1,894,687."

Arden Farms Co. disclosed in its president's letter that it carried in its "investments" account (a non-current item) $2,000,000 U. S. Treasury Certificates of Indebtedness, due January, 1950. It was also disclosed that these securities had since been exchanged for a like amount due January 1, 1951.

Miscellaneous

"Fixed fees retained by U. S. Government under terms of cost-plus-fixed-fee contracts" (Glenn L. Martin Co.)

"Distributions withheld from foreign stockholders (contra)" (Kennecott Copper Corp.)

"Advance payment on account of possible federal income tax assessment" (Glidden Co.)

"Working and Trading Assets at Cost:
Inventories of Sulphur above Ground
Inventories of Materials and Supplies"
(Texas Gulf Sulphur Co.) (No inventories included in current assets)

"Advances to Trustees of the Master Electric Profit Sharing Trust" (Master Electric Co.)

"Installment sales contracts on customers' dies—maturing after October 31, 1950" (Harvill Corp.—October 31, 1949)

"Notes and Other Credit Instruments and Accounts Receivable Not Realizable within One Year (less reserve, 1949, $8,733; 1948, $988,377)" (Baldwin Locomotive Works)

"Equipment and repair parts for resale or use—at cost or less" (National Cylinder Gas Co.)

"Printing and other equipment for resale—at cost less allowance of $600,000 for loss on sale
Less allowance for depreciation" (Time, Inc.)

Current liabilities—interesting and unusual items

Offsetting items

Three companies (Booth Fisheries Corp., Robertshaw-Fulton Controls Co., and Reliance Electric & Engineering Co.) deducted cash on deposit for dividend payment from the current liability.

The Colorado Milling & Elevator Co. carried the dividend liability and the fund as current liability and current asset, respectively.

Hazel-Atlas Glass Co. showed the following note on its balance sheet:

"Funds for dividend of $651,613.50 payable January 3, 1950, were held by dividend disbursing agent on December 31, 1949."

A. O. Smith Corporation showed research and development expense as a current liability less a like amount of "segregated cash in banks."

Taxes

Federal income taxes were generally shown as a separate current liability, with U. S. Treasury notes, if held, deducted therefrom. Taxes other than federal income taxes were shown separately on many balance sheets.

The following listing of accrued liabilities of the Master Electric Company illustrates a complete tax presentation:

"Accrued liabilities:
Salaries, wages and other compensation
Taxes—state, county and city
Social security taxes
Federal income taxes
Less: U.S. Treasury Saving Notes, Series C and D, at current redemption value"

Pan American Petroleum & Transport Company showed the following grouping of tax liabilities:

"*Liabilities Payable Within One Year:*
"Taxes payable—including federal taxes on income (less $2,400,000 U. S. Treasury savings notes), taxes withheld and state and federal taxes on petroleum products collected from customers."

Thompson Products, Inc., included "maximum refunds on contracts subject to profit limitations—estimated" with its federal and Canadian tax accrual, and deducted its Treasury Savings Notes from the combined accrual.

Prior year taxes were frequently set out separately:

"Current year federal taxes on income—estimated
Prior year federal taxes on income
State and foreign taxes on income
Other taxes"
(Scovill Mfg. Co.)

"Federal Taxes on Profits
Prior year
Current year"
(Consolidated Paper Co.)

"Federal Income Taxes—1949
Reserve for Contingencies
Excess Profits Taxes withheld from payment in prior years"
(Park & Tilford, Inc.)

Celanese Corp. of America showed an item of "Federal taxes on income, net (Note 2)" with no amount extended. Note 2 explained the item as follows:

"The net accrued liability for Federal taxes on income is stated after the deduction of refund claims aggregating $2,484,753 and after applying U. S. Treasury Savings Notes, Series D and Series C, to the extent of $14,632,734 and $25,976,816, respectively at December 31, 1949, and 1948."

The National Cash Register Company discontinued its practice of showing "Deferred taxes on installment income" as a separate item, its 1949 report having only one tax caption, "Accrued taxes (estimated)."

Wording of federal income tax current liability

1949	1948	
99	113	"Accrued"
13	13	"Accrued...estimated"
3	1	"Accrual for"
105	116	"Provision"
8	8	"Provision...estimated"
1	1	"Provision for taxes accrued"
127	115	No qualifying words—just "Federal taxes"
84	76	"Estimated"
6	6	"Estimated liability"
55	66	"Reserve"
1	1	"Liability for..."
20	9	No provision shown
2	...	"Amounts provided for estimated federal income taxes"
1	...	Included in "Accrued liabilities" per footnote
525	525	

Employee benefits

The following current liabilities were related to employee services and benefit plans:

"Special Incentive Compensation Fund" (Bethlehem Steel Corp.)

"Reserve for Employees' Death Benefits"

"Reserve for Vacation Pay" (Consolidated Paper Co.)

"Estimated cost of past service benefits under pension plan, payable during year 1950" (Pratt & Lambert, Inc.)

"Pensions" (Jacob Ruppert)

"Accrued Incentive Compensation" (United Aircraft Corp.)

"Accrued vacation pay" (Glenn L. Martin Co., American Viscose Corp.) (See Camden Forge Co., W. F. Hall Printing Co. and National Steel Corp. for mention of accrued vacation pay as being included in accrued salaries and wages, etc.)

Container deposits

The following customers' deposits were included in current liabilities:

Deposits for returnable containers (General Cable Corp., Hercules Powder Co., Hooker Electrochemical Co., Monsanto Chemical Co., and Jacob Ruppert)

Liability for returnable samples (Hamilton Watch Co.)

Pepsi-Cola Co. treated container deposits as a non-current liability, but qualified the total of its current liabilities with the parenthetic note "exclusive of customers' deposits on bottles and cases, shown below." (See also Falstaff Brewing Corp. and The Harshaw Chemical Company for additional non-current presentations.)

Product warranties

The following items were shown as current liabilities:

"Reserves for cooperative advertising and service warranties" (Bendix Home Appliances, Inc.)

"Provision for returns and allowances" (Standard Stoker Co., Inc.)

"Provision for product warranty, commitments, etc." (Packard Motor Car Co.)

Nash-Kelvinator Corp. changed the position of its "Five-Year Warranty on Refrigerators" from a non-current to current liability in 1949.

(See subsequent section on "Reserve for Warranties.")

Sinking fund provision

The Cuneo Press, Inc., shows "Current portion of long-term debt and sinking fund requirement of preferred stock," with a deduction from the total of capital stock and surplus, explained by the following footnotes:

"...On or before May 1 in each year, the company is required to set aside a sinking fund ($42,600 for 1950), based on net income for the preceding year, for the purchase or redemption of preferred shares at not more than $106.50 per share."

"Current liabilities do not include provision for sinking fund of $275,000 payable on December 31, 1950, with respect to the sinking fund debentures maturing January 1, 1951."

B. F. Avery & Sons Company showed "Sinking fund deposits due within one year."

The D. Emil Klein Co., Inc., showed a similar, but unfunded, liability as follows:

Current Liabilities:

"Liability on Contract to Purchase Treasury Stock, Due March 1, 1950"

Deferred Liabilities:

"Liability on Contract to Purchase Treasury Stock, Due January 10, 1951"

Capital Stock, Surplus and Surplus Reserve:
"Total
Less: Contract to Purchase 24,880 Shares of Treasury Stock"

Miscellaneous current liabilities

"Replacement cost of pattern discards" (McCall Corp.)

"Provision for repairs to tugs and other floating equipment" (Pacific American Fisheries, Inc.)

"Accounts Payable:
Trade
Directors, officers, and principal holders of equity securities other than affiliates
Employees"
(Anderson-Clayton & Co.) (No further explanation shown.)

"Purchase Money Obligation—instalments due within one year" (Stahl-Meyer, Inc.)

"Estimated additional payment for beets (applicable to 1949-crop sugar sold to February 28, 1950" (Great Western Sugar Co.—fiscal year February 28, 1950)

"Accounts receivable—credit balances" (Belding Heminway Co., Inc.)

"Special Deposits on Uncompleted Contracts and Accounts Receivable Credit Balances" (A. B. Farquhar Co.)

"Advances received on sales contracts and customers' credit balances" (Lukens Steel Co.)

"Dividends Unclaimed" (American Smelting & Refining Co.)

"Drafts in transit" (U. S. Smelting, Refining and Mining Co.)

"Liability under foreign letter of credit" (Canada Dry Ginger Ale, Inc.)

"Sludge Disposal Costs" (National Cylinder Gas Co.)

"Advance payments received on contracts" (Koppers Co., Inc.)

"Contract advances, less related contract costs" (Electric Boat Co.)

"Progress payments and advances received on U. S. Government Contracts and Subcontracts
Less: Applied as a deduction from inventories" (W. L. Maxson Corp.)

"Amounts payable to the United States arising from price revisions in process or anticipated with respect to deliveries under price redetermination contracts" (Boeing Airplane Co.)

"Sundry liabilities (including admission, withholding, and other taxes) for which monies are on deposit in special bank account—contra" (District Theatres Corp.)

"Reserves for Current Liabilities" (Buckeye Steel Castings Co.)

Details of Pathé Industries "Notes payable to banks and others" (part shown as non-current liability) were given in the footnotes:

"*Notes Payable to Banks and Others:*

"The notes payable consist chiefly of notes issued in accordance with the following bank loan and credit agreements, the maturity of which has been extended since the close of the year to the dates shown below:

	Amount Due July 15, 1950	Amount Due January 15, 1951
Payables loan agreement, as amended	$1,600,000.00	$ ......
1947 Credit agreement, as amended	489,521.55	3,105,973.36
General loan agreement, as amended	......	3,225,000.00
	$2,089,521.55	$6,330,973.36

"The foregoing bank loans are secured by liens on all finished and unfinished photoplays which are now owned or will be produced by Pathé Industries, Inc., and its subsidiary companies, except those included in all program years preceding the 1944/45 program year and on all revenue therefrom; by the assignment of rights relating to motion picture costs advanced to certain producers and all revenue therefrom; by a lien on all the issued and outstanding stock of all but one of the domestic subsidiaries of Pathé Industries, Inc., and certain of the assets of such companies; and by a lien on other miscellaneous assets of Pathé Industries, Inc.

"The loan and credit agreements provide that no dividends, except stock dividends, shall be paid on the common stock of Pathé Industries, Inc., during the term of the loans, restrict the companies as to the assumption of further indebtedness, as to the payment of dividends by the subsidiary companies to Pathé Industries, Inc., as to the placing of further liens upon the assets of the parent company and its subsidiaries, and as to the maintenance of their financial condition as of October 4, 1947."

Current liabilities not accrued

The Sperry Corporation balance-sheet caption "Total Current Liabilities" carries the following footnote reference in respect of a current liability of undetermined amount which was not accrued at December 31, 1949:

"In September, 1947, the Company purchased the Common stock of certain corporations for $7,600,000. Under the purchase agreement, as amended, additional sums may be payable by the Company as the purchase price of such stock, depending on the consolidated net earnings, as defined in the agreement, of these acquired companies over the period of five years from July 1, 1947. If, during this five year period, such earnings from July 1, 1947, to the end of any calendar year or to June 30, 1952, exceed $5,-

Exhibit 9: Jones & Laughlin Steel Corporation

Changes in Working Capital—Receipts and Expenditures

	Total	Per Employe
AT THE BEGINNING OF 1949, WORKING CAPITAL WAS	$107,387,000	$ 2,587
Receipts during the year:		
We received from sale of products and services. . .	386,046,000	9,299
We received dividends, interest, rents, etc.	1,131,000	27
We received from sale of properties no longer needed and from miscellaneous investments. .	1,342,000	32
Total	388,519,000	9,358
Expenditures during the year:		
We paid for materials, merchandise and supplies, freight, insurance, and other services not including wages and salaries of our employes. . . .	183,959,000	4,431
We paid federal, state, and local taxes.	21,208,000	511
We paid interest on borrowed money.	1,674,000	40
We spent for improvements to our property and equipment, excluding $4,124,000 construction payroll included below in wages and salaries. .	38,904,000	937
Pension plans cost us, excluding $1,415,000 added to pension reserve.	1,772,000	43
We paid wages and salaries to 42,000 employes. .	143,903,000	3,466
We paid dividends to our 26,000 shareholders. . . .	8,063,000	194
Total	399,483,000	9,622
THEREFORE WE SPENT $10,964,000 MORE THAN WE RECEIVED AND WORKING CAPITAL AT THE END OF THE YEAR WAS REDUCED TO. . .	$ 96,423,000	$ 2,323

000,000, an amount equal to such excess will be paid by the Company as additional purchase price of the stock until a total of $2,000,000 has been paid. Similarly, if such earnings exceed $7,000,000, an amount equal to one-half of such excess will also be paid by the Company as additional purchase price of the stock.

"A supplement to the agreement, dated July 20, 1949, provides for certain deferments of payment of and subsequent revisions of the sum accruing pending realization of sales through collections. In view of this it is impractical to compute accurately the amount accruing at December 31, 1949, under these provisions, but at this time it is estimated to be approximately $275,000. The amount of such payments for capital stock when finally determined, representing additional payments for intangible assets, will be charged against earned surplus."

Non-current liabilities and deferred credits—interesting and unusual items

Employee stock-purchase plans

"Employees' Payments on Stock Subscriptions" (M. H. Fishman Co., Inc.)

"Employee Stock Plan Credits:
Accrued earnings credits applicable to employee stock options
Less stock held by trustee for issuance" (Libbey-Owens-Ford Glass Co.)

Workmen's compensation insurance claims

"Accident Compensation Payable After One Year" (Bethlehem Steel Corp.)

"Liability, as self-insurer for workmen's compensation, payable after end of ensuing year" (Camden Forge Co.)

"Workmen's Compensation Claims (fund contra)

"Payable over extended period of years (payment on claims of current and prior years amounted to $35,000 in 1949; estimated payments in 1950—$34,000.)" (Pennsylvania Coal and Coke Corp.)

"Accident compensation and pensions payable (exclusive of $1,174,982 in 1949 and $854,295 in 1948 payable within one year included with 'accrued salaries, wages and other compensation')" (Jones & Laughlin Steel Corp.)

Miscellaneous

"Advance on account of Agreement for Sale of Canadian Property" (American Bank Note Co.)

"Contingent compensation of executives for past years—deferred" (Gimbel Brothers, Inc.)

"Provision for non-current liabilities" (American Metal Co., Ltd.)

"Purchase obligations" (American Stores Co.)

"Equipment obligations:
Due within one year"
Due after one year"
(Greyhound Corp.)

"Royalties Accrued—payment deferred" (Struthers Wells Corp.)

"Discount on reacquired securities" (Hearst Consolidated Publications, Inc.)

"Premium coupon redemption and self-insurance" (Colgate-Palmolive-Peet Co.)

"Amount payable for commitment of Canadian subsidiary, due from 1952 to 1957" (Bridgeport Brass Co.) (1950 payment included in current liabilities.)

"Premium on 3% Sinking Fund Debentures, less Expenses" (Continental Can Co.)

"Deferred Credits" (Colorado Fuel and Iron Corp., American-LaFrance-Foamite Corp.)

"Billings to Customers in Excess of Costs of Uncompleted Erection Contracts" (H. H. Robertson Co.)

"Deferred finance income" (Iron Fireman Mfg. Co.)

"Deferred rental income—leased machines" (Ex-Cell-O Corp.)

"Deferred income—television service fees" (Emerson Radio & Phonograph Corp.)

"Deferred income—storage and handling charges" (Beatrice Foods Co.)

"Unearned Income (Marmon-Herrington Co., Inc.)

"Unearned transportation revenue" (Chicago and Southern Air Lines, Inc.)

"Deferred income (revenue on account of unfinished voyages, etc.)" (United Fruit Co.)

"Advance billings of future issues (less related production and shipping costs—1949, $598,378; $706,-452)" (Macfadden Publications, Inc.)

"Deferred income" (Dictaphone Corp.) (No further explanation given.)

"Excess of billings on shipbuilding contracts over expenditures and estimated profits recorded thereon" (Newport News Shipbuilding & Dry Dock Co.)

"Deferred Income on Installment Sales" (Charles E. Hines Co., Super-Cold Corp., City Stores Co.)

"Received in partial payments on Government fixed-price contracts (Note 5)"

"Note 5—The amounts shown in the accompanying balance sheets as deferred income arise from the fact that general and administrative expenses are included in the basis on which partial payments are received from the Government on fixed-price contracts, whereas such expenses are charged off by the Company as they are incurred. These amounts of deferred income are taken into income in ensuing periods as deliveries are made under the contracts." (Lockheed Aircraft Corp.)

"Unearned Handling Charges—Associate Store Owners' collateral contracts"

"Note 7: On installment receivables held as collateral to accounts of Associate Store Owners, the company takes handling charges into income as such accounts become due." (Western Auto Supply Co.)

"Deferred Credits to Income—Note 3"

"Note 3—This amount represents dividends, royalties and other items due from foreign subsidiary and affiliated companies at approximate transfer rates at December 31, 1949, which has not been included in income and is shown as a deferred credit pending release by exchange authorities." (Corn Products Refining Co.)

Reserves shown below current liabilities

(Inventory reserves are discussed separately in the next two sections following this one.)

As in previous years, the tabulation of "reserves" includes all items below the current liabilities section of the balance sheet in which the word "reserve" was used, as well as all earned surplus appropriations shown in the net equity section.

Although Accounting Research Bulletin No. 34, "Recommendation of the Committee on Terminology—Use of Term 'Reserve' " (October 1948), recommended that the use of the term "reserve" be limited to indicating "that an undivided portion of the assets is being held or retained for general or specific purposes," little change in terminology in the section immediately below "current liabilities" was noted in the 1949 reports. The majority of companies continued the use of the term "reserve." (See separate section on "Use of Term 'Reserve' " in connection with accounts receivable and depreciation.)

The tabluation below covers developments in the most widely used reserve categories. Changes in the 1949 presentations are discussed in subsequent paragraphs.

1949	1948	1947	1946	
182	222	243	272	"Contingency Reserves" shown separately, or words "and other contingencies" added to other specific reserves (113, 141, 265, 306, 317, 376, 433, 435, 468, 482)
145	144	142	143	Insurance reserves (1, 17, 35, 86, 182, 189, 223, 392, 483, 492)
5	4	10	50	War and post-war reserves (38, 214, 374, 499)
38	38	46	46	General, "other," "sundry," "miscellaneous" (15, 95, 106, 144, 223, 444)
63	83	87	51	Reserves involving plant and equipment
				24—Increased plant replacement costs (See discussion which follows)
				4—Depreciation (185, 242, 489)
				3—Repairs and maintenance (57, 123, 240)
				32—Other (39, 110, 121, 290, 375)
30	32	31	26	Taxes (4, 49, 155, 204, 215, 274, 294, 362, 406, 458)
17	19	21	22	Warranties or guarantees (18, 105, 174, 322, 350, 382, 374)
27	31	33	20	Foreign operations (126, 205, 238, 239, 290, 474, 518)
74	70	68	...	Reserves for employee benefits (23, 41, 59, 74, 123, 158, 224, 238, 307, 405, 469)
45	51	49	...	Miscellaneous titles (See discussion which follows)
626	694	730	630	

(Numbers in parentheses refer to companies listed in Appendix.)

Contingency reserves

A substantial reduction in the number of reserves for contingencies took place during 1949, with forty-one companies eliminating such reserves from their statements.

Thirty companies effected the reserve elimination by credits to retained income (earned surplus). (1, 3, 7, 10, 36, 40, 74, 81, 82, 85, 106, 135, 158, 161, 162, 165, 168, 175, 256, 264, 297, 334, 335, 358, 363, 395, 402, 405, 423, 521)

The Coca-Cola Company presented the following footnote to explain the elimination of its contingency reserve:

"Reserves. In order to show the specific purposes for which the reserves provided in prior years are to be used, such reserves have been reclassified into two accounts: reserve for unremitted foreign profits and reserve for employees' retirement plan. Deductions during the year from the reserves were: $2,095,725.81 from the reserve for unremitted foreign profits to cover foreign exchange losses applicable to prior years; and $552,661.23 from the reserve for employees' retirement plan, the amount funded during the year."

General American Transportation Corp. also reclassified its contingency reserve to "reserve for income tax contingencies."

Two companies, American Maize-Products Company and Montgomery Ward & Co., Inc., transferred their December 31, 1948, contingency reserve balances to specific current liabilities in 1949, the former to "estimated liability for federal income taxes and related contingencies" and the latter to "accrued expenses and insurance reserve." Addressograph-Multigraph Corportation substituted "reserve for other liabilities (income taxes and commissions)" for the "reserve for possible additional federal income and excess profits taxes and contingencies" shown on its 1948 statement.

Giddings & Lewis Machine Tool Co. explained its elimination of the reserve for inventory price decline and other contingencies in the following footnote:

"Of the $200,000 reserve for inventory price decline and other contingencies in the consolidated balance sheet at December 31, 1948, $100,000 provided by the wholly owned subsidiary prior to acquisition was applied in 1949 to reduce (from $191,762 to $91,762) the account 'cost of capital stock of subsidiary in excess of its book value at date of acquisition' which is added in consolidation to the fixed assets of the subsidiary, and is being depreciated over a period of ten years from July 1, 1948, data of acquisition."

Three companies eliminated contingency reserves by credits to 1949 income. Credits to income by Hayes Mfg. Corp. and The Cleveland Builders Supply Co. represented the reserve balances after application of specific items for which the reserves were created, and appeared prior to the determination of net income for the year. The Glenn L. Martin Company credited the reserve balance as of December 31, 1948, to the 1949 statement of income as one of several "special adjustments" between the captions "net income for the year before special adjustments" and "balance transferred to earned surplus."

Only one new contingency reserve appeared in 1949, that of the A. S. Campbell Co., Inc., described in the following balance sheet footnote:

"In connection with a claim made against the company a machine purchased in 1949 for $16,050 has been attached. Although the amount of the claim has not been determined, a reserve of $10,000 has been provided." (From income)

Trend toward decrease in use of general contingency reserves

In reviewing financial statements it is frequently impossible to determine whether the "reserve for contingencies" has been provided for specific contingent liabilities (including anticipated future inventory price declines) or represents a means of insuring the retention in the business of sufficient surplus to absorb any unforseen extraordinary losses which otherwise might reduce earnings.

A trend toward the discontinuance of general contingency reserves is indicated by the continued reduction in the number of these reserves appearing in the four-year tabulation, and in the previously mentioned breakdowns of contingency reserves into their specific components.

In addition to the complete elimination of contingency reserves, the following changes were noted in the 1949 presentations:

From: "Reserve for Contingencies"
To: "Reserve for Foreign Investments"
"Reserve for Contingencies (Surplus Reserve)"
(Firestone Tire & Rubber Co.)

From: "Reserves for contingencies and deferred liabilities"
To: "Reserves for severance compensation—South American Subsidiaries"
"Reserves for general contingencies"
(Lone Star Cement Corp.)

From: "Reserves for Possible Market Decline in Inventories, Contingencies, Insurance, etc." (in reserve section above net equity)
To: "Reserves for Contingencies, Insurance, etc."
"Reserve for Possible Market Decline In Inventories" (in net equity section)
(Allied Mills, Inc.)

From: "Reserves for Contingencies"
To: "Reserve for contingencies (appropriated earned surplus)"
(Willys-Overland Motors, Inc.)

From: "Reserve for contingencies"
To: "Reserve for contingencies (surplus reserve)"
(Goodyear Tire & Rubber Co.)

Of the thirty contingency reserves eliminated by transfer to earned surplus, seven companies (74, 158, 297, 335, 395, 402, 405) stated (usually in the president's report) that the specific contingencies for which the reserves were provided had ceased to exist. Eighteen companies gave no reason for the transfer, and four companies indicated that there were no known contingencies requiring retention of the reserves.

"In 1946 the Company provided out of earnings a reserve for possible inventory price declines in the amount of $1,500,000, and there has been accumulated out of earings over a period of years a general reserve for contingencies which amounted to $775,691. If and when inventory losses or extraordinary losses should occur in the future, they will be charged to income account or to earnings retained for use in the business, as may be appropriate in the light of generally accepted accounting principles. Under the circumstances the Board of Directors has decided to close out the two said reserves by transferring the total balance of $2,275,691 to earnings retained for use in the business." (American Stores Co.)

"The reserve for inventory price declines and contingencies, amounting to $2,000,000 was transferred to the surplus account because the management does not know of any items chargeable thereto." (Harnischfeger Corp.)

"During the war years the Board of Directors set aside out of net profits a total of $2,000,000, as a reserve to provide for certain contingencies. In view of the fact that no charges against this reserve have been made or are contemplated, the reserve was transferred to earned surplus as at June 30, 1949, by action of the Board of Directors." (McKesson & Robins, Inc.)

Of particular interest is the comment made by the president of the Adams-Millis Corporation, implying that stockholders' misconception of the term "surplus" was responsible for the creation of a general contingency reserve:

"A glance at the statement of financial position will show that your Company's capital, together with the accumulated portion of earnings retained throughout the years, are invested in plants and equipment, inventories, accounts receivable, and other necessary working assets. It is obvious that the business could not operate on the present scale with only the original capital. It is therefore necessary to retain for the requirements of the business a certain portion of the earnings from year to year. In recognition of this fact, such retained earnings are so described in the accompanying financial statements, in lieu of the term 'surplus' which did not indicate its true nature. Consistent with this principle, the amount heretofore reserved for general contingencies is now included in the amount representing earnings retained for requirements of the business."

With reference to the elimination of its reserve for contingencies, The Best Foods, Inc., stated in its president's letter:

"The Statement of Earned Surplus reflects the decision, made in the light of currently recommended accounting practice, to transfer to earned surplus the reserve for contingencies in the amount of $1,696,800. The elimination of the reserve does not mean that inventory risks are at an end, for, as the section on Raw Materials and Inventories indicates, vegetable oil prices are still unstable."

Insurance reserves

Two new reserves for self-insurance appeared in 1949, that of Diana Stores Corp. (charged to income) and that of Rexall Drug, Inc., (source of reserve not disclosed). The reserve of Diana Stores Corp. was explained by the following footnote:

"As of December 1, 1948, the Company's subsidiaries became self-insurers for stores fire losses to the extent of the first $15,000.00 at each location. As an initial provision for future losses an amount of $10,000.00 has been charged to profit and loss during the year."

Six companies transferred their insurance reserves from their 1948 balance sheet position below the current liability section—Montgomery Ward & Co., Inc., and The May Department Stores Company to current liabilities, Ralston Purina Company to "earnings retained for use in the business (appropriated for self-insurance)" and three companies (197, 275, 423) to unappropriated retained income (earned surplus).

In restoring its "reserve for self-insured risks" to capital (profit retained and employed in the business is dated from April 1, 1936), The Lehigh Portland Cement Company made the following comments:

"Attention is directed to the fact that the amount of $1,000,000 which was provided prior to April 1, 1936, as a reserve for self-insured risks has been transferred in 1949 to the 'amount in excess of par value' of common stock. Under present-day accounting practice, it is recognized that a reserve of this type may not be used to relieve future profits of charges that would otherwise be made against them and that all such general-purpose contingency reserves, which are in effect appropriations of retained profits, should preferably be reflected as part of stockholders' equity."

The reserve had been invested in government securities which had been included in the caption "Investments and other assets shown as a non-current asset."

After restoration of the reserve to capital in 1949, government securities on deposit under workmen's compensation laws (which had been

DISTRIBUTION OF SOHIO'S INCOME— SOURCES OF FUNDS FOR EXPANSION AND REPLACEMENT

	1949	*1948*
Total Income	$256,891,000	$249,048,000
The income was distributed as follows:		
Materials, merchandise, operating and other expenses including the cost of finding crude oil	$175,259,000	$158,818,000
*Wages, salaries and employee benefits	41,324,000	38,912,000
Depreciation and depletion (see table below)	12,326,000	12,482,000
Interest paid for borrowed money	1,315,000	1,081,000
Income and other taxes	10,525,000	13,972,000
Dividends paid to stockholders	8,074,000	6,635,000
Invested in the business (see table below)	8,068,000	17,148,000
Total	$256,891,000	$249,048,000

SOURCES OF FUNDS FOR EXPANSION, MODERNIZATION AND REPLACEMENT OF FACILITIES AND FOR OTHER CORPORATE PURPOSES

Funds Provided

Invested in the business (portion of net income remaining after payment of dividends)	$ 8,068,000	$ 17,148,000
Charges against income which were not current cash payments:		
Depreciation and depletion (wear and exhaustion of operating facilities)	12,326,000	12,482,000
Other	2,837,000	1,322,000
Received from assets sold and miscellaneous	4,408,000	9,114,000
Total provided from operations	$ 27,639,000	$ 40,066,000
Money borrowed by the Company	—0—	20,000,000
Total funds provided	$ 27,639,000	$ 60,066,000

Funds Used

Capital expenditures (for oil wells, pipelines, refineries, service stations, etc.)	$ 35,312,000	$ 27,772,000
Miscellaneous investments and other uses	1,145,000	1,978,000
Total funds used	$ 36,457,000	$ 29,750,000
Increase or (decrease) in working capital	$ (8,818,000)	$ 30,316,000

Funds used in 1949 exceeded funds provided by $8,818,000. This amount came from working capital which had been increased in 1948 mainly as a result of $20 million of borrowings. Such borrowings were obtained on a long-term basis to be used in connection with the current three-year expansion program expected to cost approximately $100 million. Working capital at 1949 year-end was $58,322,000 as compared with $67,140,000 at the end of 1948.

**Excluded are amounts of about $1,720,000 for 1949 and $1,535,000 for 1948 paid to employees in connection with capital expenditures and for operations and services performed by the Company for others.*

included as a part of the investment of insurance reserve) were retained in the investment caption and the balance returned to working capital.

War and post-war reserves

Five companies continue to carry reserves mentioning war or post-war transactions:

"Reserve for Post-War Adjustments" (principally Federal taxes) (Sprague Electric Co.)

"For War Loss Claim" (Otis Elevator Co.)

"For postwar adjustments and other contingencies" (principally Federal taxes) (American Shipbuilding Co.)

"For post-war contingencies" (Gaylord Container Corp.)

"For expenditures arising out of war" (U. S. Steel Corp.)

There was no significant change in the balances of the first three reserves. Gaylord Container Corp. charged its reserve with "excess of cost over proceeds from disposal of unused equipment acquired in anticipation of post-war requirements," and transferred the reserve balance to the stockholders' equity section of its balance sheet. U. S. Steel Corp. credited 1949 income with a portion of its reserve representing an amount equal to the "higher costs (net of tax reduction) of replacing inventories depleted during the war."

High cost of plant replacement reserves

Twenty-four companies continued to carry reserves or surplus appropriations relating to increased cost of fixed asset replacements, twelve shown as reserves immediately after the current liabilities section of the balance sheet (11, 105, 158, 180, 185, 238, 274, 309, 340, 430, 473, 525) and eleven as surplus appropriations in the net equity section (18, 34, 59, 96, 186, 197, 267, 292, 354, 469, 489). Pittsburgh Plate Glass Co. carried an appropriation for replacement cost of facilities under the caption "Appropriations (from income or retained earnings)" located just above the capital and retained earnings section of its balance sheet.

Of the twenty-four reserves, nine were increased during 1949, the majority being round-amount appropriations of retained income (earned surplus). (11, 59, 473, 489, 525)

Crane Company and Pittsburgh Plate Glass Company computed 1949 depreciation on the estimated replacement cost of their depreciable fixed assets, and appropriated the excess over normal depreciation, the former company showing the appropriation at the foot of its profit and loss statement before determination of net profit for the year.

Dwight Manufacturing Company showed an appropriation of profits in a combined profit and loss and earned surplus statement, after the determination of profit for the year and before the opening earned surplus. The B. F. Goodrich Company deducted a "special reserve for increased replacement cost of facilities" from "income before special reserves" at the foot of the income account.

Allied Chemical & Dye Corporation increased its reserve by a transfer of $10,000,000 from its "Reserve for investments and securities," this amount no longer being required since the market value of its securities exceeded their carrying value.

Sunshine Biscuits, Inc., decreased its appropriation for extraordinary depreciation with no disclosure as to the disposition of the reduction.

Other plant and equipment reserves

Five companies (156, 219, 232, 249, 374) restored reserves for plant expansion or replacement of facilities at current costs to retained income (earned surplus), Corn Products Refining Company first making an appropriation of 1949 income to the reserve before restoration of the entire reserve balance.

Sunshine Biscuits, Inc., and United Drill and Tool Corp. retained similar plant replacement reserves but carried them as surplus appropriations in the net equity section in 1949 for the first time.

Monsanto Chemical Co. deducted its depreciation reserve from the fixed assets in 1949, whereas the reserve had been previously carried on the liability side of the balance sheet.

Libbey-Owens-Ford Glass Co. restored its reserve for property replacement and/or excessive cost of new facilities to earned surplus and charged earned surplus for accelerated depreciation retroactive to January 1, 1947. The auditor's report described and approved the transaction.

The stockholders report of United Aircraft Corporation contained the following comments on the company's "reserve for development facility expenditures, plant relocation, etc.":

"The Corporation in 1949, as in 1948, utilized the Reserve for Plant Relocation to absorb a portion of the costs of moving the Chance Vought operations to Dallas, Texas. The charge to the Reserve in 1949 amounted to $1,400,000 representing the approximate difference between moving costs of $2,335,188 incurred during the year and the reduction in Federal income taxes resulting from such expenses. There will be no further charges to the Reserve of this nature in view of the completion of the move. As previously mentioned, it is presently the intention to use the Reserve for Development Facility Expenditures of $4,500,000 at December 31, 1949, to absorb a portion of the depreciation charges arising from the turbine development facilities program."

The Colorado Milling & Elevator Co. transferred its reserve for deferred maintenance to income, showing it on the statement of income as a reduction of income deductions.

Reserves for taxes

Thirty companies carried reserves for taxes on their 1949 statements below the current liability section. Of these reserves eight mentioned prior years taxes in their titles (4, 155, 188, 254, 274, 358, 362, 458) and seventeen mentioned the word contingency. (164, 215, 220, 230, 241, 246, 257, 294, 299, 328, 406, 407, 411, 432, 477, 478)

Some illustrative titles follow:

"Reserve for taxes" (Columbian Carbon Co.)

"Reserve for prior years Federal Income Taxes" (Eastern Stainless Steel Co.)

"Reserves for Foreign Income Tax Contingencies" (Gillette Safety Razor Co.)

"Reserve for contingencies including possible additional income taxes for prior years" (Pure Oil Co.)

"Special Tax Reserve (representing estimate for Federal income taxes which may arise from nondeductibility of depreciation on certain plant facilities fully amortized for tax purposes but subject to depreciation on the books of account." (Ampco Metal, Inc.)

"Reserve for deferred Federal taxes on installment rates and other tax contingencies" (W. T. Grant Co.)

Fourteen companies (123, 188, 220, 241, 257, 294, 299, 328, 406, 432, 452, 458, 477, 478) presented footnote comments regarding the tax reserves, the majority of which represent provisions for possible additional assessments on unaudited returns or proposed deficiencies under protest. The following footnote is typical:

"This reserve has been provided for additional taxes and interest in respect of deficiencies for the years 1943 to 1945, inclusive (including carry-back of 1947 operating loss), asserted by the Bureau of Internal Revenue as indicated in a Revenue Agent's report for those years. Such report disallowed, in full, claims for refund filed by the Corporation for relief under Sections 721 and 722 of the Internal Revenue Code, which disallowance has been protested by the Corporation; the Section 722 claims are now before the Excess Profits Tax Council. Management has been advised that its refund claims exceed in amount the deficiency asserted in the Agent's report, but no amount has been set up in the accounts for such refund claims under Sections 721 and 722. It is not the present intention of the management to pay these additional taxes until final decision regarding Sections 721 and 722 (as protested by the Corporation) has been rendered." (Eastern Stainless Steel Corp.)

The report of Tide Water Associated Oil Company stated that its reserve for "additional federal taxes and other contingencies" contained a prior year's tax provision less tax refundable as a result of the replacement of basic LIFO inventories.

Three companies continued to carry reserves for deferred taxes on installment sale collections. (City Stores Co., W. T. Grant Co., Spiegel, Inc.)

The treatment is explained in a footnote to the profit and loss statement of Spiegel, Inc.:

"In accordance with past practice, the foregoing statement of profit and loss was prepared on the accrual basis, whereas for federal income tax purposes the income arising from installment sales is reported on the cash collection basis. The federal income tax provision for the year 1949 was $1,255,000 on the accrual basis as compared with $245,000 payable on the cash collection basis. The latter amount is included under current liabilities while the deferred portion of $1,010,000 is included under reserves."

The May Department Stores Company, previously carrying such a reserve, reclassified the item to current liabilities in 1949.

Contrasting treatments of possible tax liability are illustrated by the following footnotes:

"The Company and its subsidiaries have made full provision as of July 31, 1949, for all known liabilities in respect of U. S. and local foreign taxes. In addition, there is included in Reserve for Contingencies (Consolidated) a reserve for theoretical tax liability which would have been incurred by the Company had it received in dividends during the year the distributable earned surplus of all subsidiaries. Such reserve has been provided from, and is adjusted annually through Earned Surplus (Consolidated). As of July 31, 1949, this reserve for theoretical tax liability amounted to $3,926,542.65 as compared with $3,946,171.82 as of July 31, 1948, a decrease of $19,629.17 during the current year. However, no such tax liability has been incurred; it may never be incurred, depending on the needs of the particular subsidiary; and the amount, if ever incurred, is presently indeterminable, being dependent upon income tax rates in effect at the actual time of transfer." (Anderson, Clayton & Co., Inc.)

"No provision has been made for income taxes which may be payable on distribution of profits of certain wholly owned subsidiary companies operating in foreign countries whose profits are included in the consolidated statements of income and surplus." (Standard Oil Co. of California)

Reserve for warranties

Curtiss-Wright Corp. and Wright Aeronautical Corp. restored their reserves for warranties to retained income (earned surplus) during the year 1949.

Seventeen companies continued reserves for product warranties on their 1949 balance sheets, all shown following current liabilities except that of American Asphalt Roof Corp. which carried "income reserved to repair or replace products sold under a guarantee" in the net equity section. (18, 68, 72, 95, 105, 174, 278, 280, 294, 322, 350, 374, 382, 428, 446, 451, 464).

Of the seventeen reserves, four remained unchanged from their round-amount December 31, 1948, balance, indicating that these reserves might possibly be considered surplus appropriations with current expenses being charged against operations (278, 322, 382, 464). The remaining thirteen reserves showed evidence of activity. The A. O. Smith Corp. furnished an analysis of all changes in reserves for the year in its notes to the financial statements.

Treatment of liabilities for product warranties was divided on the 1949 reports between noncurrent reserves, as herein described, and current liabilities. Of the eleven automobile and truck manufacturers included in the 525 tabulated reports, four companies carried the item as a current liability (224, 353, 377, 517), while Diamond T. Motor Car Co. showed it as a non-current reserve. A similar tabulation of fourteen automobile parts manufacturers disclosed four companies with non-current reserves (95, 350, 446, 464) and Bendix Aviation Corp. showing a current liability.

Foreign operations

Six reserves covering phases of foreign operations were eliminated by charges in connection with devaluation of Canadian and British currencies. (37, 151, 193, 323, 382, 431)

The reserves for "taxes on undistributed income of foreign subsidiaries" and "loss from devaluation of foreign currencies" previously carried by Johnson & Johnson were not shown in 1949 due to the elimination of foreign subsidiaries from the consolidated statements.

Only one new reserve item appeared in 1949 in this category, that of Chicago and Southern Air Lines, Inc., established by a charge to income entitled "reserve provision for foreign operations." The Coca-Cola Company and The Firestone Tire Rubber Company reclassified portions of their contingency reserves as reserves for foreign operations. (See prior section on contingency reserves.)

Employee benefit reserves

Notwithstanding the number of new pension plans under consideration, only two new pension reserves were noted on the 1949 statements. McGraw-Hill Publishing Company transferred $1,200,000 of its earned surplus to its reserve section immediately following deferred liabilities, to continue payments to employees pensioned prior to the end of 1949 and to cover the unpaid past-service liability under its funded pension plan. Although details of Copperweld Steel Company's new pension plans were not completed at December 31, 1949, the plans were effective as of October 1, 1949, and the company established a reserve by charging income with the estimated cost of the plans for the last quarter of 1949.

The Coca-Cola Co., The American Agricultural Chemical Co., and Lone Star Cement reclassified their reserves for contingencies in order to show the specific purposes for which the reserves were provided. In 1949, The Coca-Cola Company showed "reserve for employees' retirement plan," The American Agricultural Chemical Co. carried "reserve for retirement payments" and Lone Star Cement Corp. presented "reserves for severance compensation—South American subsidiaries." These reserves appeared as non-current items above the net worth section.

R. J. Reynolds Tobacco Co. transferred its reserve for retirement and group insurance to earnings retained.

Miscellaneous reserves

Some illustrative titles of reserves classified as miscellaneous follow:

"Research and development" (A. O. Smith Corp.; National Cylinder Gas Co.)

"Unemployment taxes" (Kingan & Co.)

"Special" (Liggett & Meyers Tobacco Co.)

"Redemption of Trading Stamps" (City Stores Co.)

"Unrealized profit in customers' balances on layaway merchandise sales" (Diana Stores Corp.)

"Probable future expenditures or losses (Reserves—including inventory contingencies at December 31, 1949, and 1948, $14,699,179; 1947, $12,009,179)" (Westinghouse Electric Corp.)

"Doubtful accounts and general contingencies" (Art Metal Construction Co.)

"Workmens' Compensation Awards" (Eastern Malleable Iron Co.)

"Operating reserves" (71, 83, 105, 151, 154, 155, 206, 362, 419)

During 1949 the Pepsi-Cola Company appropriated $1,525,000 of its earned surplus as a "reserve for excess of equity in net assets of a Cuban subsidiary over estimated net proceeds from sale, in 1950, of investment in such subsidiary."

Inventory reserves—where shown

Although the majority of companies continued to show their inventory reserves (mainly reserves for future inventory price declines) below the current liability section of the balance sheet in their 1949 reports, thirteen companies changed the location to the net equity section, clearly earmarking the reserves as appropriations of retained income (earned surplus).

1949	1948	1947	
390	368	360	None shown
61	99	114	Shown on liability side of the balance sheet above net equity section (22, 39, 47, 170, 173, 274, 276, 370, 414, 420, 498)
45	44	34	Deducted from assets—purpose indicated (see analysis which follows)
12	12	19	Deduced from assets—purpose not indicated (4, 29, 74, 346, 364)
23	15	9	Shown in net worth section (14, 78, 139, 154, 206, 240, 269, 272, 295, 354, 469)
6	4	4	Shown in current liabilities (all relating to replacement of basic LIFO inventories) (54, 58, 96, 363, 473, 518)

(Numbers in parentheses refer to companies listed in Appendix.)

In changing the balance sheet location of the reserve to the net worth section, American Optical Co. also changed its title from "general inventory reserve" to "appropriation for possible inventory losses." Allis-Chalmers Manufacturing Company used the following retained income (earned surplus) terminology:

"Appropriated for inventory and other contingencies (no change during year—formerly included in Reserves)."

For the names of the remaining companies changing their reserve to the net worth section refer to the following numbers in the Appendix: 78, 151, 206, 221, 240, 269, 292, 295, 347, 469, 489.

Among the companies retaining a "reserve for possible future decline in inventory values" above the net equity section was the Buffalo Bolt Company, which provided the following description in the president's report:

"The appropriated net income of $300,000 and $360,000 in the respective years 1947 and 1948 was part of a reserve standing at $800,000 as of December 31, 1949, for possible future decline in inventory values. In future years this reserve will be reversed and shown as an addition to net income in amounts reasonably reflecting the loss in inventory value due to deflationary influences."

In addition to the four companies previously showing reserves for replacement of basic LIFO inventories, E. J. Brach & Sons treated the portion of its reserve which represented estimated replacements during 1950 as a current liability instead of showing it as a non-current item as in prior years.

A semi-current treatment was found in the reports of Libby, McNeill & Libby, Oscar Mayer & Co., Inc., and Wilson & Co., Inc. These statements showed a short-extended sub-total of "total current liabilities" to which was added the LIFO replacement reserves and the combined total extended as "total current liabilities and inventory replacement reserve."

Titles of the reserves deducted from inventories on the asset side of the balance sheet included:

16	Obsolescence (64, 71, 90, 107, 151, 189, 194, 268, 339, 341, 363, 372, 398, 476, 514, 520)
8	To reduce to LIFO or normal stock basis (61, 156, 158, 223, 258, 397, 399, 442)
6	Inventory price decline (26, 203, 305, 337, 464, 515)
4	Unrealized inter-company profit (222, 286, 362, 497)
2	Unrealized losses on market valuations (113, 171)
2	Amortization of released production (314, 384)
1	To reduce inventories to lower of cost or market (326)
2	For possible loss on liquidation (369, 500)
1	Inventory contingencies (109)

1	Valuation reserve for containers and supplies (141)
1	Increased cost to replace opening inventories (11)
1	Estimated expenses of shipment from Cuba (164)
45	

(Numbers in parentheses refer to companies listed in Appendix.)

In addition to the obsolescence reserves included above, J. I. Case Co. and Deere & Company carried obsolescence reserves on the liability side above the net equity section, the former company combining the reserve with a price decline reserve created by a charge to retained income (earned surplus) in 1949 and stating on its balance sheet that the reserve had previously been deducted from inventories.

Ingersoll-Rand Company retained its obsolescence reserve as a deduction from inventory but transferred a portion of the reserve to a position below current liabilities with the following parenthetical reference:

"This reserve was included in the $4,500,000 inventory reserve shown in 1948 as a deduction from inventories."

Inventory reserves—classification

The majority of inventory reserves appearing on the 1949 reports continued to represent provisions against future inventory price declines, and, although a few changes in position were noted, they were usually shown above the net equity section of the balance sheet.

Since there was generally little information relative to the purpose of the reserves, other than might be inferred from the title used, separate tabulations were made of those reserves specifically mentioning inventory price decline and those whose title implied this purpose.

1949	1948	1947	
390	368	360	No reserves shown
47	51	50	Reserves with varying titles not providing specifically for future inventory price declines, but, in most cases, probably intended for that purpose (26, 34, 109, 120, 193, 272, 274, 276, 354)
43	57	69	Reserves providing specifically for possible future inventory price decline (12, 28, 94, 180, 206, 238, 269, 295, 347, 464)
17	18	10	Obsolescence (71, 90, 107, 151, 194, 363, 520)
12	12	19	No indication of purpose of reserve deducted on the asset side (4, 29, 230, 333, 506)
11	12	13	Replacement of inventories (mainly LIFO) (11, 58, 96, 307, 349)
7	7	6	To reduce inventories to LIFO basis (61, 158, 258, 399, 442)
4	5	5	Normal stock method (97, 197, 360, 420)
3	2	1	For unrealized losses based on market valuations (113, 171, 326)
2	1	1	Amortization of released production (314, 384)
1	...	...	Valuation reserve for containers and supplies (141)
1	1	1	To reduce inventories from cost to lower of cost or market (514)
1	1	1	Surplus reserve based on inventory overhead (505)
4	5	4	Unrealized inter-company profits (and discount) (222, 286, 362, 497)
1	1	1	Estimated expense of shipping from Cuba (164)
1	1	1	Metal stock reserve—used to absorb price fluctuations occurring during processing period (39)
...	1	1	Loss indicated on completed production not released

(Numbers in parentheses refer to companies listed in Appendix.)

The following list illustrates the variety of titles used which were considered to represent provisions for future inventory price declines:

Deducted from assets

"Inventory contingencies" (Burlington Mills Corp.)

"Possible losses on revaluation" (Federal Machine & Welder Co.)

Shown between current liabilities and net equity section

"Inventory price adjustment" (Universal-Cyclops Steel Co.)

"Inventories" (Bigelow-Sanford Carpet Co., Inc.)

"Inventory losses" (Curtis Publishing Co.)

"General inventory reserve" (National Lead Co.)

"Inventory and other contingencies" (Yale & Towne Mfg. Co.)

"Possible loss in liquidation" (National Steel Co.)

"Shrinkage and Markdowns" (City Stores Co.)

"Unusual market conditions" (Ely & Walker Dry Goods Co.)

"Surplus reserve based on inventory overhead increase" (Wagner Electric Corp.)

EASTMAN KODAK COMPANY AND SUBSIDIARY COMPANIES IN THE UNITED STATES

STATEMENT OF FINANCIAL CONDITION—DECEMBER 25, 1949

NET ASSETS IN WHICH CAPITAL AND RETAINED EARNINGS WERE INVESTED

	December 25, 1949	December 26, 1948*
Current Assets:		
Cash	$ 22,594,027	$ 25,004,652
United States Government securities, at cost (Market value: $42,722,998)	42,698,170	42,565,448
Receivables (less reserves for doubtful accounts: $1,173,583)	37,511,344	43,084,401
Inventories of raw materials, work in process, finished goods and supplies, at cost or market, whichever is lower	85,776,011	94,661,526
Prepaid insurance, taxes and other charges applicable to future operations	2,166,942	2,295,672
Total current assets	$190,746,494	$207,611,699
Less—Current Liabilities:		
Payables	$ 37,268,797	$ 38,258,120
Provision for federal, state and other taxes (less $25,000,000 U. S. Treasury Notes)	17,336,632	46,952,364
Cash dividends payable to stockholders January 3, 1950	6,590,549	6,282,518
Total current liabilities	$ 61,195,978	$ 91,493,002
Working capital	$129,550,516	$116,118,697
Properties:		
Buildings, machinery, and equipment, at cost	$323,113,310	$300,495,756
Less: Reserves for depreciation and amortization	148,764,140	138,251,671
Net balance of depreciable assets	$174,349,170	$162,244,085
Land, at cost	5,758,676	5,228,834
Net properties	$180,107,846	$167,472,919
Other Assets:		
Investments in and advances to subsidiary companies and branches not consolidated	$ 7,132,261	$ 19,952,389
Sundry investments and deposits	1,710,207	1,528,864
Total other assets	$ 8,842,468	$ 21,481,253
Total net assets	$318,500,830	$305,072,869

SOURCES FROM WHICH NET ASSETS WERE OBTAINED

		December 25, 1949	December 26, 1948*
Capital:			
Six Per Cent Cumulative Preferred Stock:			
Authorized 100,000 shares, $100 par value			
Issued 61,657 shares		$ 6,165,700	$ 6,165,700
Common Stock:			
Authorized 20,000,000 shares, $10 par value			
Issued	13,060,214 shares		
Less: In treasury	61,145 shares		
Outstanding	12,999,069 shares		129,990,690
To be issued January 21, 1950	649,811 shares		
	13,648,880 shares	136,488,800	
Total capital stock		$142,654,500	$136,156,390
Retained earnings transferred to capital		38,064,450	18,570,120
Total capital		$180,718,950	$154,726,510
Retained Earnings Used in the Business:			
Reserved for general contingencies		$	$ 12,670,987
Reserved for intercompany profit in inventories of subsidiary companies and branches not consolidated			4,400,000
Reserved for workmen's compensation and other insurance			1,878,653
Retained and used for general business purposes		137,781,880	131,396,719
Total earnings retained and used in the business		$137,781,880	$150,346,359
Total capital and retained earnings invested in the business		$318,500,830	$305,072,869

*Adjusted to include only the accounts of the Eastman Kodak Company and subsidiary companies operating in the United States.

AUDITORS' REPORT

To the Stockholders of Eastman Kodak Company:

In our opinion, the accompanying statement of financial condition and related statement of earnings, together with the supplementary financial information, fairly present the position of Eastman Kodak Company and its consolidated subsidiaries at December 25, 1949, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles. These principles were applied on a basis consistent with that of the preceding year except that the accounts of wholly owned subsidiary companies and branches operating in Canada, Mexico, Cuba, Panama, and South America, heretofore included in the consolidated financial statements, have been eliminated from the 1949 consolidated financial statements, which change has our approval. The foregoing change has been reflected in the accompanying 1948 financial statements for purposes of comparison.

As auditors elected at the annual meeting of stockholders held on April 26, 1949, our examination of the consolidated financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N. Y., March 7, 1950 — Price, Waterhouse & Co.

"Fluctuation in prices of metals and other contingencies" (International Silver Co.)

"Metal price fluctuations" (U. S. Smelting, Refining & Mining Co.)

"Inventory contingencies" (Westinghouse Electric Corp.)

"Contingencies (with description in footnotes or president's report earmarking the reserve for inventory price decline)" (American Wringer Co., Inc.)

Shown as retained income (earned surplus) appropriations

"Inventories" (National Biscuit Co.)

"Inventory losses" (American Optical Co.)

"Inventory adjustment reserve" (General Cigar Co.)

"Contingencies" (International Harvester Co.)

"Adjustments in materials and supplies" (United Fruit Co.)

"Possible inventory adjustments and other contingencies" (Industrial Brownhoist Corp.)

"Future inventory losses and necessary price adjustments" (Quaker Oats Co.)

"Appropriated for contingencies on account of unusual market conditions and other contingencies" (Rice-Stix, Inc.)

1949 changes

Twenty-nine companies eliminated reserves for inventory price declines from their 1949 reports, twenty-eight by credits to retained income (earned surplus), and one without disclosure of the account credited (1, 40, 45, 93, 95, 123, 155, 162, 229, 358). No new reserves for future inventory price declines were noted in 1949.

Boeing Airplane Company provided a reserve for obsolescence against its inventory of parts and materials, and United Stove Company charged income with an "allowance for possible loss on excess quantities."

Suspension of the manufacture of certain products caused The Federal Machine & Welder Company to carry a portion of its inventory as a non-current asset from which was deducted a "reserve for possible inventory losses." In addition, a "reserve for loss on unbooked claims" was carried following current liabilities as explained by the following footnote:

"Due to the suspending of manufacture of tractors the Company has inventory and work in process in creditors' plants which, on the basis of claims filed, approximates $1,200,000. As a reserve for possible loss through final cancellation and disposition of this inventory the sum of $400,000.00 has been provided."

Northrup Aircraft, Inc., presented the following footnote covering a possible future loss on the uncompleted portion of a government contract:

"Provision has been made in the balance sheet and the profit and loss statement for loss of $4,400,000.00 anticipated in the performance of a contract with the U. S. Government on which approximately $8,000,000.00 has been expended to July 31, 1949. The amount of the provision is necessarily based on estimates of future events and it is possible that an additional provision of substantial amount may be required in the ensuing fiscal year, in which year completion of the contract is expected. The amount of refund of federal income taxes which may result from carrying back a portion of this loss is uncertain and no provision is made therefor."

Contingency and possible future inventory price decline reserves—how created or increased

Following prior years' practice, these two types of reserves are tabulated together since in many cases they are combined into one account (such as "reserve for inventory price decline and other contingencies") or the statements indicate that possible decline in inventory values is the chief contingency covered by the reserve.

The 1949 reports disclosed only half the number of charges increasing this type of reserves as were shown in a similar tabulation for 1948.

1949	1948	1947	1946	
4	9	27	52	Charge against income prior to the determination of "net income for the year" (11, 167, 362, 396)
4	28	53	36	Charge after the determination of net income but prior to the determination of a net balance carried to retained income (earned surplus) (164, 226, 370, 391) or
1	5			Charge made at the end of the income account but with wording of items or sub-totals either omitted or so vague that it was not clear whether the provision was considered to be a charge before net income or an appropriation after net income was determined (238)

9	26	15	11	Charge made to retained income (earned surplus) (115, 131, 170, 319, 333)
7	9	4	15	Charge made to other reserve or liability account (22, 246, 475, 492)
24	23	26	14	Increase in contingency or inventory reserve apparent but no indication of retained income (earned surplus) charge or appropriation of net income (12, 129, 144, 274, 354, 428, 516)
1	3	...	...	Charge made in statement of disposition of net income (240)
...	1	...	...	Exploration costs capitalized with corresponding credit to contingency reserve
2	...	...	...	Charge made in combined income and retained income (earned surplus) (117, 505)
1	...	...	...	By consolidating a subsidiary with reserve (404)
53	104	125	128	

(Numbers in parentheses refer to companies listed in Appendix.)

National Steel Company disclosed charges against income as a provision for contingencies for the first time in 1949. Of the six companies which discontinued or did not disclose such charges to income in 1949, two indicated by income statement footnote (Texas Gulf Sulphur Company) and by comment in the president's report (Lone Star Cement Corporation) that provisions against 1949 income were not deemed necessary; American Wringer Company, Inc. stated that all inventory price losses that took place during the year were charged to direct operations, leaving its contingency reserve intact; The Coca-Cola Company eliminated its contingency reserve by division into specific-purpose reserves; Marshall Field & Company did not increase its reserve but took into 1949 income $900,000 representing the decrease in its reserve for possible future decline in market value of inventories.

Thus, while the charges against income decreased in 1949, it is apparent that the decrease was due to varying circumstances and, that had the need for increased reserves been deemed necessary, there might have been a number of additional provisions from current earnings.

In the four instances noted in 1949 where reserves were increased by a charge in the income statement prior to determination of net income for the year, all resulted in increases in contingency reserves except the charge made by The Curtis Publishing Co. for its reserve for inventory losses. None of the auditors took exception in the opinion to the charge.

Company	Contingency Provision	Net Income
Allied Chemical & Dye Corporation	$1,500,000	$37,150,977
National Steel Corp.	2,000,000	39,311,269
Phillips Petroleum Company	740,238	44,514,371
	Inventory Provision	
Curtis Publishing Co.	$ 270,000	$ 5,185,943

An amount "accrued for contingencies" by Camden Forge Company appeared in the statement of profit and loss and earned surplus prior

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"Note 5—Reserve for Contingencies

"Changes in the reserve for contingencies during 1949 are summarized as follows:

Balance, December 31, 1948		$10,475,066
Additions:		
Provisions for contingencies charged to 1949 Income Account in the amount of $740,238 and provision of $76,759 charged to other accounts	$ 816,997	
Transferred from Accounts Payable	500,000	1,316,997
		$11,792,063
"Deductions:		
Payments for which the reserve was established	$ 515,222	
Loss from investments in Colombia	831,177	
Prior year's accruals—not now required—credited to current year's income	1,347,049	
Provisions for war contingencies—transferred to surplus	1,500,000	4,193,448
"Balance, December 31, 1949		$7,598,615"

(Phillips Petroleum Co.—footnote.)

to the determination of "net income transferred to earned surplus," yet no contingency reserve appeared on the statement of financial condition, the provision apparently being carried in one of the liability accounts.

Allied Chemical & Dye Corporation stated in a footnote that its provision was not included in deductions for purpose of arriving at the amount of federal income taxes for the year.

A charge against current year's income was only one method used by Phillips Petroleum Company in increasing its contingency reserve. A balance-sheet footnote (see preceding page) disclosed the reserve transactions.

The four companies increasing their contingency reserves by appropriations of income after the determination of net income for the year were all continuing their previous practice. (164, 226, 370, 391)

The Ohio Match Company did not include an income statement in its annual report, but the increase in earned surplus as shown on its balance sheet was termed "net income for the year ending December 31, 1949 (after deduction of $650,000.00 covering appropriation to provide additional reserve)."

Contingency and possible future inventory price decline reserves—how decreased

Credits to retained income (earned surplus) continued to account for the majority of decreases in contingency and inventory price decline reserves, with thirty companies completely eliminating contingency reserves from their 1949 statements. (See preceding section on Reserves.)

1949	1948	1947	1946	
69	41	32	20	Credits to retained income (earned surplus) (36, 95, 100, 165, 234, 376, 469, 479, 511)
13	16	20	30	Credits to cash, inventory, or other asset or liability accounts with direct charges to reserves (151, 205, 246, 380, 396, 475)
7	2	5	5	Credits in the income statement appearing before the determination of net income for the year (270, 286, 442)
2	6	7	13	Credits appearing in the income statement after the designation of net income for the year resulting in a balance carried to surplus (326, 436)
...	1			Credits made at the end of the income statement but with wording of items or subtotals either omitted or so vague that it is not clear whether the credit is before or after net income
5	4	7	8	Credits to other reserve accounts (17, 31, 101, 136, 205)
3	3	2	9	Credits to income statement described or shown as offsetting specific expenses included therein (223, 325, 397)
19	17	8	5	Decrease in contingency or inventory reserve but no indication of where credited (27, 39, 41, 53, 149, 168, 200, 211, 265, 417, 514)
...	...	1	...	To "other accrued liabilities"
1	2	2	...	To current liability (for additional prior year taxes) (347)
...	1	...	...	Cancellation of reserve by board of directors
...	1	...	...	Adjustments made to opening surplus balance
2	3	...	...	Credits to capital surplus (36, 497)
121	97	84	90	

(Numbers in parentheses refer to companies listed in Appendix.)

Contingency reserves—decreases

As detailed in the preceding section entitled "Contingency Reserves," thirty companies eliminated contingency reserves from their 1949 statements by credits to retained income (earned surplus).

American Republics Corp. (also restored a portion to earned surplus) and United States Rubber Company restored reserves to capital surplus by reason of prior year's corporate reorganizations, with United States Rubber Company presenting the following footnote explanation:

"The Company provided reserves during the years 1930 to 1937, as well as corporate and financial adjustments as of June 30, 1938, for various contingencies including losses on obsolete inventories and on disposal of machinery upon closing of obsolete plants. The balance of these reserves, $1,583,091, being no longer required and having been provided prior to July 1, 1938, has been credited to capital surplus."

American Woolen Company, Inc., transferred an amount equal to the inventory loss for the year from its contingency reserve to unappropriated earned surplus.

Five companies reduced contingency reserves by credits to 1949 income, four of the five stating that the contingencies for which the reserves had been provided no longer existed.

Company	Income Credit	Net Income
Cleveland Builders Supply Company	$ 54,845	$ 423,573
Interchemical Corporation	150,000	2,335,572
Hayes Manufacturing Corp.	28,888	1,111,706
Phillips Petroleum Company	1,347,049	44,514,371
Geo. E. Keith Company	155,000	10,144

No explanation was given for the reduction in the reserve of Geo. E. Keith Company, which provided for "inventory losses, extraordinary items and machinery return charges." A separate reserve "for inventory" remained unchanged from December 31, 1948.

Five instances were noted of reductions in or eliminations of contingency reserves by transfer to other reserve or liability accounts:

The American Agricultural Chemical Company—
To "reserve for retirement payments"

American Maize Products Company—
To "estimated liability for federal income taxes and related contingencies" (current liability)

Brockway Motor Company, Inc.—
To "allowance for doubtful notes and accounts"

The Coco-Cola Company—
To "reserve for unremitted foreign profits" and "reserve for employees retirement plan"

The Firestone Tire & Rubber Company—
To "reserve for foreign investments"

The following list illustrates the types of transactions charged direct to "contingency" or "general" reserves:

"Replacement of inventories involuntarily liquidated in prior years" (Gulf Oil Corp.)

"Federal income and excess profits taxes and interest thereon" (Paramount Pictures, Inc., Cuban-American Sugar Co.)

"Adjustments due to devaluation of foreign currencies" (United States Rubber Co., Firestone Tire & Rubber Co., International Nickel Co. of Canada, Ltd.)

"Exploration costs" (Texas Gulf Sulphur Co., Standard Oil Co. of California)

"Accounts receivable written off as uncollectible" (Texas Gulf Sulphur Co.)

Two companies eliminated their contingency reserves by a credit on the income statement after the determination of net income for the year. These companies were the Glenn L. Martin Company and The Scranton Lace Company. (See tables at bottom of page.)

The Electric Storage Battery Company restored a portion of a contingency reserve to earned surplus, adding it to net income before the opening earned surplus balance on its combined statement of income and earned surplus. The following explanation is given in the president's report:

". . . Declines in the market price of lead caused us to sustain losses resulting from selling lead contained in finished batteries at prices which were less than cost. Also it was necessary, at the close of the year, to make a moderate write-down in the value of lead in inventories to the basis of cost or market, whichever the lower. The combination of these realized lead losses and year-end revaluations had the effect of re-

The Glenn L. Martin Company			
"Net Income For The Year Before Special Adjustments			$5,131,500
"Special Adjustments:			
Charge—Excess of renegotiation refund applicable to the year 1945 over reserve provided therefor		$2,809,339	
Credits:			
Reversal of reserve for contingencies no longer required	$275,212		
Federal and State income tax adjustments applicable to prior years—net (Federal $194,884; State $42,140)	237,024	512,236	
Remainder—special adjustments—net			2,297,103
"Balance Transferred to Earned Surplus			$2,834,397"

The Scranton Lace Company	
"Net Earnings for Year	$315,152
Transfer from Reserve for Contingencies	60,000
Balance	$375,152"

ducing net income for the year by $2,400,000—the equivalent of $2.64 per share. As previously stated, reserves were set aside from earnings of prior years to provide for this situation, which is met by transferring $2,400,000 from reserves for contingencies to surplus. The combined additions to surplus from earnings and all reserves amount to $4,415,517.74 for the year 1949, or $4.86 per share." (Electric Storage Battery Co.)

Doehler-Jarvis Corporation restored a portion of its contingency reserve to surplus in their statement of operations and earned surplus by adding it after the determination of net income but before the opening earned surplus balance. In a footnote to the company's "Brief Summary of Operations" the amount was indicated to be equal to "...losses from metal price declines and abnormal costs of rearranging production facilities amounting to approximately $2,550,000, less applicable reduction of Federal taxes on income of $1,000,000..."

Reserves for possible future inventory price declines—decreases

Twenty-nine companies restored inventory price decline reserves to retained income (earned surplus) in 1949 (1, 40, 45, 67, 93, 95, 100, 105, 123, 132, 137, 155, 157, 162, 165, 229, 251, 264, 297, 317, 341, 358, 374, 376, 428, 479, 500, 510, 511). In commenting on the transfers, The Autocar Co. and Copperweld Steel Co. stated that the anticipated inventory losses were charged against 1949 income. Borg-Warner Corp., Otis Elevator Co. and Wesson Oil & Snowdrift Co., Inc., stated they no longer anticipated substantial inventory losses, the last company making the following explanation in the president's report:

"It was not necessary to use any of the reserve for possible future inventory losses provided out of 1948 earnings. Since we are now probably close to a normal price level for vegetable oils we are transferring this $7,200,000 reserve to earned surplus. Our 'lifo' oil inventory at August 31, 1949, is priced below current market value."

An opposite view was taken by the president of Raybestos-Manhattan, Inc.:

"No changes occurred in these two reserves (contingencies and possible decline in inventory values) during 1948 and 1949 and they amounted to $4,579,502 at December 31, 1949.

"Due to the economic conditions which exist and the instability of price levels, it has been deemed advisable to continue these reserves which were provided in prior years. Any unused portion of these reserves can be credited to the Surplus account."

Of the twenty-nine reserves for possible future inventory price declines restored to retained income (earned surplus) in 1949, twenty-seven had been shown on the balance sheet immediately following the current liabilities section. That of Timken Roller Bearing Co. had previously been shown on the balance sheet as an "allowance for adjustments and obsolescence" and deducted from the inventory account. That of the Champion Paper and Fibre Company had been reported in the net worth section as "appropriated for possible losses from revaluation of inventories."

Four companies partially reduced their inventory price decline reserves by credits to retained income (earned surplus), with Continental Steel Corp. stating that the reduction was equivalent to the 1949 income adjustments to bring inventories in line with current market prices less related reduction in federal income tax. (28, 32, 73, 154)

Sunshine Biscuits, Inc., transferred the "appropriation for inventory decline" to the net equity section of its balance sheet and reflected a reduction in the appropriated amount in the closing balance.

Five companies showed reduction in inventory price decline reserves as credits to 1949 income, all resulting from declines in commodity price levels.

Company	Income Credit	Net Income
Stewart-Warner Corp.	$ 250,000 (net of tax effect)	$ 2,163,106
The Sherwin-Williams Co.	1,852,000	7,645,411
General Mills, Inc.	586,534	13,251,218
Pillsbury Mills, Inc.	125,000	1,524,915
Marshall Field & Company	900,000	8,657,779

The first four of the above reserves were carried as valuation reserves deducted from the related assets on the balance sheet, the first two reducing certain inventories to a Lifo basis. General Mills, Inc., and Pillsbury Mills, Inc., reduced their reserves as an offset to inventory losses sustained because of price level declines as they applied to base or normal quantities of certain non-hedged items.

Marshall Field & Company explained its reserve reduction (carried below its current liabilities) by the following comment in its shareholder's report:

"Because prices declined in 1949, we reduced our reserve against decline in market value of inventories by $900,000, crediting this amount to current earnings. This procedure reversed that followed in 1948, a year during which prices advanced. We are following the policy of adjusting this reserve at each year-end, the amount of the adjustment depending on the magnitude of price changes during the year, and the size of our inventories. Our inventory reserve at December 31, 1949, was $7,200,000, or 17.3% of total inventory and commitments."

Use of term "reserve"

Over 50% of the 1949 reports tabulated used other terminology for the word "reserve" in connection with either accounts receivable or depreciation, as recommended in Accounting Research Bulletin No. 34, "Use of Term 'Reserve' " (Oct. 1948). In both instances the wording "allowance for" was most widely used.

Substitute terminology appeared most frequently in connection with depreciation, due to the practice of many companies of showing accounts receivable as one net figure on the balance sheet without disclosure of any applicable reductions.

"Reserve" for doubtful accounts

1949	1948	
109	70	Allowance for doubtful accounts (possible losses) (losses on collection) (78, 224, 233, 244, 441)
31	25	Provision for doubtful accounts (bad debts) (uncollectibles) (possible losses) (accounts which may prove uncollectible) (26, 106, 128, 337, 411)
16	13	Estimated uncollectible accounts (amounts) (98, 209, 399, 462)
11	8	Estimated doubtful accounts (balances) (301, 461, 525)
7	8	Estimated losses on/in collection (371, 397, 421)
3	1	Deduction for estimated doubtful receivables (89, 109, 140)
2	1	Net of allowances (226)
1	1	Accounts receivable, considered collectible
1	1	Estimated bad debts (499)
1	...	Stated on basis of realizable values (118)
...	1	Less amount not recoverable—estimated
...	1	Less estimated claims and allowances
...	1	Less estimated amounts which may not be collectible
182	131	

(Numbers in parentheses refer to companies listed in Appendix.)

"Reserve" for depreciation

1949	1948	
78	63	Allowance for depreciation (and amortization) (67, 78, 226, 291, 354)
61	34	Accumulated depreciation (and amortization) (80, 128, 233, 263, 483)
54	52	Depreciation (140, 350, 359, 374)
11	5	Provision (59, 79, 296, 492)
6	5	Accrued depreciation (56, 256, 400, 501)
5	1	Depreciation to date (45, 264, 342)
5	2	Portion allocated to operations to date as depreciation (77, 107, 281)
5	...	Stated at balance of original cost allocable to future operations (118)
3	4	Estimated depreciation and depletion (133, 280)
3	2	Depreciation provided (355, 487)
3	2	Wear and exhaustion
2	1	Reduced by the estimated cost of wear and tear (depreciation) (18)
236	171	

(Numbers in parentheses refer to companies listed in Appendix.)

Caterpillar Tractor Co. showed one amount for accounts receivable "stated on basis of realizable values," and a separate amount for depreciable property entitled "Buildings, machinery and equipment—balance of original cost allocable to future operations." The latter amount was supported by a separate schedule showing original cost, and the "portion of original cost allocated to operations to date."

Johnson & Johnson adopted similar substitute terminology for depreciation reserve in its "less portion of cost charged to operations of current and prior years."

The United States Finishing Company and City Products Corporation reverted to "reserve for doubtful notes and accounts" and "reserve for claims and allowances," respectively, after using substitute terminology in 1948 reports.

Surplus "reserves"

Fourteen companies changed the titles of their surplus reserves in connection with a change in position from beneath current liabilities to inclusion in the net equity section. (14, 34, 78, 131, 151, 206, 269, 292, 293, 327, 412, 469, 488, 489)

General Cigar Co., Inc., adopted the term "appropriated" when it changed its reserves to the net worth section but continued to include in the appropriation the insurance "reserve."

Endicott Johnson Corporation changed from "reserved for" to "appropriated for" in connection with its surplus reserves.

Koppers Company, Inc., and Borg-Warner Corporation continued to show their surplus reserves above the net equity section but adopted "provisions" in place of "reserves" in the titles. The majority of companies showing reserves as non-current items above the net worth sections continued the use of the word "reserve" in the titles. (Also, see section on Surplus Appropriations.)

"Net equity" terminology

While there was not as much variation in the titles used for the net equity sections on the balance sheets of the 525 companies as there was in the retained income (earned surplus) titles, the tabulation disclosed that headings using the words "capital stock" and "surplus" were the most popular on balance sheets using the conventional form where assets equal liabilities plus net worth.

In reviewing current practice in the use of center captions on the "liability" side of the balance sheet, it was found that the majority of companies used "liabilities" centered at the top of the credit side of the balance sheet with no corresponding center caption over the net equity section. Use of such center captions was classified as follows:

(1) No center captions on the "liability" side of the balance sheet (15).

(2) Center caption "Liabilities" with an additional heading "Capital" centered over the net equity section (50).

(3) Center caption "Liabilities" without any additional heading centered over the net equity section (286).

(4) Center caption "Liabilities and Capital" (including variations of the word "capital") with no net equity center caption (63).

(5) Center caption "Liabilities, Capital Stock and Surplus" with no net equity center caption (64).

While the above breakdown refers to center captions on the credit side of the conventional form of balance sheet, a further study was made of the subheadings used in the net equity section. These subheadings differed from the center captions in that they were smaller and appeared at the left margin rather than being centered over the net equity section.

Sub-Heading(s) of Equity Section	(1)	(2)	(3)	(4)	(5)	Total
Capital Stock and Surplus	4	1	82	10	25	122
Same as above with additional indented sub-headings covering:						
Capital Stock	1	...	23	3	3	30
Surplus	...	...	24	4	6	34
Both	...	...	21	1	7	29
Capital Stock; Surplus (two separate captions)	2	10	26	5	5	48
Stockholders' (Shareholders', Investors') Equity (Interest)	3	...	27	9	1	40
Stockholders' Investment (Ownership)	4	...	16	7	...	27
No sub-headings	1	20	13	9	2	45
Sub-heading for "Capital Stock"; surplus items (one or more) not covered by sub-heading	...	13	23	9	1	46
Capital and Surplus	...	...	12	...	...	12
Capital	...	...	6	5	2	13
Net Worth	...	...	1	...	3	4
Capital Shares and Surplus	...	...	2	...	...	2
Miscellaneous	...	6	10	1	9	26
	15	50	286	63	64	478

Included in the captions listed as "miscellaneous" in the above tabulation are:

Investment of Stockholders Represented by
Capital Contributed
Paid-in Capital
Equity of Common Stockholders
Capital Invested
Capital Stock
Shareholders' Ownership
Capitalization

Listed below are the various titles used for the net equity sections by the forty-two companies presenting balance sheets where current assets minus current liabilities, plus other assets, minus other liabilities equal net equity:

6 Represented by
6 Stockholders' (Investors) Equity
1 Stockholders' Equity Represented by

2 Shareholders' Ownership Represented by
1 Above Stockholders' Investment Represented by
1 Stockholders' Interest
1 Stockholders' Interest Represented by
2 Ownership Evidenced by
2 Ownership
1 Ownership Equities
4 Sources From Which (Stockholders) Capital Was Obtained
2 Source of Net Assets
4 Sources From Which (The Above) Net Assets Were Obtained (derived)
1 Capital Stock Outstanding; Surplus
2 Excess of Assets Over Liabilities
1 Net Worth
1 Capital and Accumulated Earnings Retained for Use in the Business
1 Derived From
1 Investment:
  Represented by
1 Funds Entrusted to the Management by the Stockholders
1 Total Common Stockholders' Interest:
  Consisting of

42

American Maize-Products Company, Armour and Company and General Aniline & Film Corporation included bonds or long-term notes in their equity sections.

American Asphalt Roof Corporation and Briggs Manufacturing Company, which are not included in the above tabulations, presented balance sheets showing "stockholders' investment" first, followed with "used in the business as follows" by American Asphalt Roof Company and "This investment was used as follows" by Briggs Manufacturing Company.

Minority interests in consolidated subsidiaries—where shown

Of the sixty-four companies in this year's study showing on their balance sheets the minority interests in their consolidated subsidiaries, all but five companies placed them immediately above the net worth section. (For names of a few companies showing minority interests above the net worth section refer to the following numbers listed in Appendix: 9, 10, 23, 68, 75, 80, 120, 152, 165, 192, 271, 314, 323, 333, 358.)

A brief description of the presentations employed by the five companies which included the minority interests in consolidated subsidiaries in their net equity sections follows:

(1) *American Wringer Company, Inc.*

Minority interest in capital stock and in surplus shown separately and added to the company's capital stock and surplus respectively. The total surplus of $3,913,305.52 carried a reference to Note A which read as follows:

> "Note A: The amount of $2,461,359.83 included in surplus of $3,913,305.52 is restricted from dividend payment in accordance with Trust Indenture dated May 1, 1946."

No amounts applicable to minority interests were shown separately in the income statement. This treatment was consistent with that of the preceding year.

(2) *American Metal Company, Ltd.*

"Minority interests in subsidiaries" was shown as the first item in their "capital" section immediately above the company's capital stock. The minority interest in income for the current year was not disclosed as had been the practice in previous years. A footnote stated that 1948 figures were restated to conform to classifications adopted for 1949.

(3) *Crown Zellerbach Corporation*

Minority interests in subsidiaries were shown as the first item in the "capital" section:

> "MINORITY INTERESTS:
> "Capital stocks of subsidiaries in the hands of the public and proportionate interest in surplus, principally Pacific Mills, Limited."

In the consolidated income statement, "minority stockholders' equity in earnings, principally Pacific Mills, Limited" was deducted as the last item. This treatment was consistent with that of the preceding year. A surplus restriction applicable to the parent company's surplus was also disclosed.

(4) *Standard Oil Company (Indiana)*

"Minority stockholders of subsidiaries" was presented as the first item in the "stockholders' ownership" section. In the income statement, as in the previous year, the last item shown was a deduction for "minority stockholders' interest in net earnings of subsidiaries." A surplus restriction applicable to the parent company's portion of the "earnings retained and invested in the business" was reported.

(5) *Armour and Company*

The "minority stockholders' equity in subsidiary consolidated" was shown in the "investors' equities" in 1949 following the inclusion of Winslow Bros. & Smith Co. in the consolidation for the first time beginning November 1, 1948. The "portion of net earnings of subsidiary company applicable to minority interest" was included in "costs" in the consolidated earnings statement.

Capital stock

There have been only slight changes during the past three years in the disclosures made on the balance sheet in connection with capital stock issues. In 1949, 335 companies showed the number of shares authorized and outstanding and the par or stated value for each class of stock; nine companies gave all information except the number of shares authorized; and two others failed only to show the number of shares authorized for their preferred stocks. There were 159 companies which showed neither par nor stated value for their common stocks (these were generally no-par stocks) and thirty-five others failed to give the information for their preferred stocks. However, the par or stated value could be obtained by a simple calculation. Three companies (124, 235, 347) showed their preferred stocks at liquidation values. Three companies (167, 208, 439) gave the number of shares authorized and outstanding for each class of stock but extended their combined total.

Two unusually complete balance sheet presentations of capital stock and surplus are quoted below:

"Equity of Stockholders (see note):

"Prior preference stock ($4.50 cumulative) without par value—stated value, $5 a share; callable at $105 a share and accrued dividends (dividends paid to December 31, 1949). Authorized and issued 30,500 shares, whereof 2,024 in treasury, leaving 28,476 shares outstanding 1950 and 1949—at liquidation value of $100 a share.

"Class A stock without par value—stated value, $5 a share. Authorized, 200,000 shares; issued and outstanding 1950 and 1949, 85,250 shares (minimum liquidation value, $50 a share)—equity ($58.00 a share, 1950; $55.58, 1949).

"Class B stock without par value—stated value, $5 a share. Authorized 200,000 shares; issued 85,250 shares, whereof 2,000 shares in treasury, leaving 83,250 shares outstanding 1950 and 1949—equity ($58.00 a share, 1950; $55.58, 1949)."

"Note:—The total equity of stockholders at January 31, 1950, and 1949 is comprised of the liquidation value of the prior preferred stock, $2,847,600, the stated value of the Class A and B stocks, $842,500, and surplus as set forth in the accompanying statement. The excess of the minimum liquidation value of the Class A stock over the stated value thereof does not constitute a restriction on earned surplus." (Godchaux Sugars, Inc.)

"Capital Stock and Surplus:

"Cumulative $4\frac{1}{2}\%$ preferred stock, $100 par value; convertible prior to 1957 at one share of common for each $23.70 par value of preferred; authorized 300,000 shares; outstanding 94,773 shares.

"Management stock, $10 par value; convertible share for share into common stock after fifth January 1 following date of sale; in disposition, holders are required to offer this stock to the company at book value; authorized 100,000 shares; issued 39,150 shares, less 2,500 shares held in Treasury; outstanding 36,650 shares.

"Common stock, $10 par value; authorized 5,000,000 shares of which there are reserved 399,887 shares for conversion of preferred stock, 100,000 shares for conversion of management stock, and 2,817 shares for sale to an officer; outstanding 2,032,896 $\frac{2}{3}$ shares.

"Capital account—generally (not in respect of any designated class of stock)—arising from capitalization of surplus in 1947.

"Capital surplus—per accompanying statement.

"Earned surplus—(the amount available for cash dividends and management stock is limited to $1,000,000 until additional net earnings exceed $2,295,319)—per accompanying statement." (United Air Lines, Inc.)

Two balance sheet disclosures of possible future transactions in capital stock appeared as follows:

"Preferred stock, 4% cumulative, par value $100 per share, redeemable at $2 to $1 per share premium.

"In accordance with preferred stock retirement provisions, open market orders are outstanding on November 14 for the purchase of 4,480 shares at par—

"Authorized and outstanding 58,500 shares at September 30, 1949	$5,850,000
"Par value of shares held pending retirement	*2,000*"

(Walgreen Co.)

"Common stock, par value $10 per share, authorized 600,000 shares, issued or to be issued in respect of note and preferred stock of the predecessor company, 274,601 shares." (American-La France-Foamite Corp.)

Geo. A. Hormel & Company changed in 1949 from a no-par to a $15 par value common stock, and stated that its outstanding shares included 160 shares represented by unexchanged scrip.

Treasury stock

Approximately 47% of the tabulated reports showed treasury stock, with disclosure fairly evenly divided between deduction from issued stock of the same class and deduction from the total of capital stock and surplus. This represents no significant change over the prior year.

1949
101 Deducted from total of capital stock and surplus
- 10 Basis not stated (180, 193, 522)
- 80 At cost (64, 115, 265, 411, 504)
- 7 At par or stated value (187, 191)
- 2 Below cost—cost less reserve (250, 410)
- 2 At reduced amount (206)

126 Deducted from issued stock of same class
- 69 At par or stated value—aggregate dollar amount of treasury stock not extended (93, 128, 244, 417, 476)
- 33 At par or stated value—aggregate amount extended (23, 305, 353, 397)
- 9 At cost (no par or stated value) (172, 263)
- 6 Par or stated value not shown—aggregate amount not extended (87, 482)
- 5 Par or stated value not shown—aggregate amount shown (17, 98)
- 2 Carried at no value (153, 480)
- 1 Preferred stock at liquidation value—common at remaining equity (235)
- 1 Donated shares—aggregate amount not shown (517)

12 Deducted from earned surplus
- 6 At cost (217, 471, 510)
- 3 At par (20)
- 1 At book value (519)
- 1 At stated value (62)
- 1 Basis not stated (473)

14 Shown as an asset
- 8 Reason stated (222, 224)
- 6 Reason not stated (15, 230)

4 Deducted from total of capital and earned surplus (189, 233)

1 Deducted from total of preferred and common stock (71)

1 Deducted from total of capital stock and capital surplus (444)

3 Parenthetical reference on the balance sheet to treasury stock with some indication of charge to earned surplus (478, 515)

(Numbers in parentheses refer to companies listed in Appendix.)

Some of the less frequently used methods of presentation are described here:

"Treasury common deducted from total of common stock, capital and earned surplus, 'below cost.'" (Harbison-Walker Refractories Co.)

Deducted from total of capital stock and earned surplus—

"Less 892 shares of preferred and 2,447 shares of common stock held in treasury and reserved for employees, at cost less reserve." (Quaker Oats Co.)

"Common stock held in treasury—9,057 shares at reduced amount carried on books" (First National Stores, Inc.)

"824 Treasury Shares (Nominal Value)" (Billings & Spencer Co.)

"Capital Stock:
Authorized—6,000,000 shares, par value $5 each
Outstanding—4,879,499.8 shares of which 56,041.3 shares were held in treasury and carried at no value (Note 2)"

(Note 2 refers to a stock purchase option of 50,000 shares held by its president.) (Continental Oil Co.)

Alternative treatments of treasury stock held for retirement are illustrated:

"Capital stock (as of September 30, 1949):
Cumulative preferred stock, without par value:
Authorized 238,200 shares issuable in series $4.50 Series A, convertible on or before December 31, 1953; issued 155,145 shares; outstanding, less 10,900 shares held for retirement, 132,445 shares"
(Willys-Overland Motors, Inc.)

"Capital stock:
Preferred, 4 per cent cumulative, $100 par value, callable at $105 per share:

Authorized and issued	16,000 shares
Less, retired in accordance with sinking fund provisions	1,276 shares
Issued (including 64 shares held in treasury)	14,724 shares"

(The treasury stock was deducted, at par, from earned surplus, described as "64 shares preferred stock held in treasury and available to meet sinking fund requirements.") (Dictaphone Corp.)

Of the fourteen companies carrying treasury stock as a non-current asset, eight stated reasons for such presentation as follows:

"Corporate purposes, including employee bonus and incentive compensation plans." (General Motors Corp., General Electric Co., Willys-Overland Motors, Inc.)

"Sale to employees" (J. I. Case Co., Ely & Walker Dry Goods Co.)

Exhibit 12: American Asphalt Roof Corporation

STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 1949 AND 1948

	1949	1948
STOCKHOLDERS INVESTMENT		
Common Capital Stock of $5 par value authorized 100,000 shares. Issued 68,196 shares	$ 340,980.00	$ 340,980.00
Less cost of 2,053 shares held by the company	28,065.00	28,065.00
	$ 312,915.00	$ 312,915.00
Capital Surplus created through retirement of Preferred Stock	187,650.00	187,650.00
Income invested in the business	1,578,395.57	1,452,638.05
Income reserved for the following purpose.		
For replacement of existing buildings and machinery in excess of original cost	250,000.00	250,000.00
To repair or replace products sold under a guarantee	105,837.88	85,417.58
	$2,434,798.45	$2,288,620.63
USED IN THE BUSINESS AS FOLLOWS		
Working Capital:		
Assets required to carry on daily transactions		
Cash	$ 466,491.17	$ 463,507.21
U. S. Government Securities at cost plus accrued interest	251,489.03	301,917.79
Amounts receivable from customers and others, less estimated amounts which may not be collected	704,597.84	500,782.02
Inventories of raw materials and finished products	477,930.53	550,523.78
Current Assets	$1,900,508.57	$1,816,730.80
Amounts owing by the company for purchases, wages, taxes, etc.		
Unpaid bills for materials and services	$ 338,650.58	$ 190,523.41
Wages, salaries and commissions owing to employees	74,910.39	60,819.85
Estimated income taxes owing to U. S. Government	187,924.03	358,389.04
Owing for social security, property and other taxes	24,618.29	24,917.86
Dividends due stockholders payable January 15	82,678.75	82,678.75
Current Liabilities	$ 708,782.04	$ 717,328.91
Working Capital	$1,191,726.53	$1,099,401.89
Cost of Land, Buildings and Equipment used for the production and sale of products, reduced by the estimated cost of wear and exhaustion (depreciation)	1,078,046.94	1,028,344.82
Other Assets	165,024.98	160,873.92
	$2,434,798.45	$2,288,620.63

"Held by subsidiary company" (California Packing Corp., International Nickel Co. of Canada, Ltd., United Shoe Machinery Corp.)

In connection with its stock acquired for distribution under its employee incentive plan, Willys-Overland Motors, Inc., included the following footnote:

"There were no "incentive earnings" or incentive compensation for the fiscal year but these shares were acquired for this purpose and are presently held for any future distributions to officers and key executives, as may be determined by a committee. . ."

S. H. Kress & Company continued to show its 6% cumulative special preferred stock at no value since all the 1,000,000 authorized shares have been reacquired for its treasury.

Disclosure of contingent liabilities

Contingent liabilities were mentioned by 203 companies, with the footnotes as the chief source of disclosure.

112	Lawsuits	
	25	Anti-trust (15, 58, 64, 65, 162, 165, 185, 438, 483, 492)
	7	Patent infringement (12, 148, 224)
	70	Other (319, 354, 503, 517)
43	Purchase commitments (93, 156, 226, 283, 305, 371, 481)	
41	Taxes	
	21	Additional assessments (193, 233, 294, 408, 465)
	4	On transfer of subsidiary dividends (109, 192)
	16	Other (231, 327, 433, 457)
35	Guaranties	
	15	Subsidiary indebtedness (52, 204, 417, 441, 499)
	8	Bank loans (343, 509, 514)
	12	Other (55, 97, 211, 223, 447)
29	Commercial paper (174, 212, 246, 252, 320)	
17	Subsidiary indebtedness (58, 94, 129, 461, 474)	
10	Renegotiation (168, 245, 326, 367, 517)	
11	Pensions (153, 258, 306, 312, 363)	
2	Installment sales agreements (514, 524)	
1	Subsidy refund (413)	
1	Disputed items (260)	
1	Mutual fire insurance policy assessments (514)	
1	Claims (458)	
13	Miscellaneous	
307		

(Numbers in parentheses refer to companies listed in Appendix.)

Some of the various types of items are described below:

In its notes to the financial statements, The Sperry Corporation disclosed that in connection with the purchase of common stock of certain corporations, additional sums may be payable as the purchase price of such stock depending on the consolidated net earnings of the acquired companies over the period of five years from July 1, 1947. (See section on Current Liabilities for complete note.)

"The companies have purchase commitments for additions to plant and equipment aggregating approximately $2,900,000, of which approximately $1,600,000 is reimbursable under firm sale and lease back commitments." (Cuneo Press, Inc.—notes to financial statements)

"No provision has been made for the company's liability to its attorneys for legal fees for special services rendered prior to December 31, 1949 as the amount thereof has not been determined." (Pathé Industries Inc.—notes to financial statements)

"The companies were contingently liable at August 31, 1949 in respect of the following:

For additional income and excess profits taxes, if any, and for pending litigation including anti-trust suits	amount indeterminable
As guarantor of bank loans of another company	$547,000
As guarantor or obligors of leases of other companies, approximate annual rentals	110,000"

(Warner Bros. Pictures, Inc.—notes to financial statements)

"The subsidiary, W. T. Grant Realty Corporation, is contingently liable on mortgages, aggregating $139,813 at January 31, 1950, created by it covering two store properties subsequently sold subject thereto and now under lease to W. T. Grant Company. There are no other contingent liabilities except those incident to the normal course of the companies' business." (W. T. Grant Co.—balance sheet)

"Income taxes have been settled through 1944. Returns for the years 1945, 1946 and 1947 have been examined and no material adjustments are contemplated other than as relating to the company's possible income tax liability of up to $2,500,000 in connection with a distribution made by a consolidated foreign subsidiary upon its outstanding capital stock. The company intends to contest an adverse ruling issued by the Bureau of Internal Revenue and has made no provision for any part of such tax. If assessed, the tax will be charged against earned surplus." (American Metal Co., Ltd.—notes to financial statements)

Disclosure of long-term leases in financial statements of lessees

In accordance with recommendations contained in Accounting Research Bulletin No. 38, eighty reports disclosed information in respect of significant long-term leases.

Bulletin No. 38 stated, "The committee believes that material amounts of fixed rentals and other liabilities maturing in future years under long-term leases and possible related contingencies are material facts affecting judgments based on the financial statements of a corporation..." In the absence of a more specific definition of "long-term," many companies appeared to have adopted the requirement of the Securities and Exchange Commission Regulation S-X, Note 5 to Rule 12–16, and disclosed only leases maturing three years after the balance sheet date.

It was noted that thirty-four companies disclosed deferred rentals or leasehold improvements on their statements without further description of the leases involved. Only one of these companies had a fiscal closing prior to the release of Bulletin No. 38. (4, 75, 110, 172, 218, 299, 319, 339, 347, 352, 399, 478, 489, 519)

Disclosure Made In: President's Report	Footnotes	Financial Statements	
...	...	445	No leases disclosed
			Lease disclosed
14	6	1	No details shown (197, 205, 244, 274, 490)
...	6	2	Annual rental mentioned (34, 55, 63, 384, 487)
2	3	...	Term of lease mentioned (67, 87, 204, 470, 485)
...	34	1*	Annual rental and term of lease mentioned (13, 162, 227, 231, 292, 337, 469)
...	4	...	Same as above with other obligations assumed (taxes, repairs, etc.) (270, 294)
...	3	...	Annual rental, term of lease and option to purchase mentioned (174, 419)
1	3	...	Overall description of several leases disclosed with no individual terms disclosed (21, 151, 416, 447)

* Auditor's report

(Numbers in parentheses refer to companies listed in Appendix.)

These excerpts from 1949 reports are examples of long-term lease disclosures by corporations:

"As of December 31, 1949, the Companies had 45 leases expiring subsequent to December 31, 1952, the annual rentals of which in 1953 amount to $161,606. The aggregate rentals of these leases, subsequent to December 31, 1952, amounts to $555,306." (American Optical Co.—footnote)

"At December 31, 1949, the company and/or its subsidiaries were lessees on 45 leases with stipulated rentals aggregating approximately $2,175,000, expiring at various dates over the next 19 years, about $300,000 being payable in each of the next two years. One lease contains a purchase option at $50,000.

"Of the above leases, 26 expire after 1952 and have an aggregate rental of approximately $1,863,000, as compared with 17 leases at December 31, 1948, expiring after 1951 with an aggregate rental of $1,973,000." (Autocar Co.—footnotes)

"The aggregate minimum amount of rentals, exclusive of taxes and other expenses, for the year ending December 31, 1950 on all real property now leased to the company and its subsidiaries for terms expiring after December 31, 1952 will approximate $8,638,880 (including an estimated amount of $151,500 for certain leases under which no minimum annual rentals are specified). Such rentals are stipulated in 732 leases of which 165 leases provide for some increase in annual rental after 1950. The leases for the most part provide for payment by the lessee of taxes, repairs and insurance. The amount of rentals and expenses paid for the year 1949 on properties covered by the aforementioned leases aggregated approximately $9,403,664 for rentals, $2,503,705 for taxes and $1,228,442 for repairs and insurance." (S. S. Kresge Co.—footnote)

"The Company had seventy-one leases in effect at January 31, 1950 having terms of more than three years after that date. The leases provide for aggregate minimum annual rentals of approximately $2,260,000 plus, in certain instances, real estate taxes (such amounts being included in taxes) and other expenses, and in respect of some of the minor leases, additional amounts based on percentages of sales. Of these seventy-one leases, seven of the principal ones providing for aggregate annual rentals of $1,222,620 pertain to three major stores; these leases expire in 1953, 1972 and 1996. Those expiring in 1953 contain renewal options which may be exercised by the Company extending the term to 1978." (May Department Stores Co.—footnotes)

"A major portion of the land and buildings used by the Company is leased from the United States Government under a five year agreement expiring December 31, 1950. The rental is based on sales and for the year 1949 was $786,878, and for the year 1950 cannot be less than $629,503 nor more than $786,878. Negotiations are in progress for the continued occupancy of the leased premises." (Republic Aviation Corp.—footnotes)

"The aggregate annual minimum amount of rentals upon all real property now leased to the companies for terms expiring more than three years after August 31, 1949, is approximately $4,106,000 covered by one hundred eighty-nine leases. One hundred fifty-five of these leases with minimum annual rentals of $2,983,000 expire prior to August 31, 1967 and thirty-four leases with minimum annual rentals of $1,123,000 expire subsequent to August 31, 1967." (Warner Bros. Pictures, Inc.—footnote)

The following disclosures were made concerning sale-and-lease transactions:

"The company leases the majority of its warehouses and store locations. At December 31, 1949, there were in effect 154 leases running for periods of more than three years, including those referred to in the following paragraph; such leases provide for minimum annual net rentals aggregating $989,187, of which approximately 73% relates to leases expiring within ten years and the balance to leases expiring in from ten to twenty-five years.

"During the year ended December 31, 1949, the company sold to institutional investors for $2,505,282, nine store buildings and one warehouse building which, with one exception, it erected in 1948 and 1949. Such properties were leased back to the company by the purchasers for initial periods of fifteen to twenty-five years at annual net rentals aggregating $184,722." (Colonial Stores Inc.—footnotes)

"The newly erected store buildings of Macy's-Flatbush and Macy's-White Plains, as well as the newly erected warehouse of L. Bamberger & Co., located in Bloomfield, New Jersey, were sold during the year to various insurance companies while continued use of the properties was secured under long-term leases. These foregoing transactions provided, in part, the funds necessary to finance our capital expenditure program without having to increase our long-term debt or outstanding capital stock." (R. H. Macy & Co., Inc.—president's letter)

"At July 30, 1949 the Corporation had 70 leases having terms of more than three years from that date. The rentals under these leases for the year ending July 29, 1950 amount to a minimum of $3,370,000 plus, in certain instances, real estate taxes and increased amounts based on percentages of sales. Leases which require the payment of annual rentals in excess of $100,000 each expire from 1964 to 1982 and most of them have renewal privileges. Real estate taxes under the lease agreements are included with other taxes in the accompanying Statement of Earnings." (R. H. Macy & Co., Inc.—footnotes)

"In 1949 the company constructed and sold a converting plant in Wausau, Wisconsin to an insurance company and immediately leased it back for a period of twenty-five years with renewal options covering a maximum of twenty-five additional years. The annual rental amounts to $118,714 for each of the first five years, decreasing approximately $14,000 at five years intervals for the remaining twenty years. In addition the company has agreed to pay property expenses such as real estate taxes, assessments, insurance premiums and repair and maintenance costs." (Marathon Corp.—footnotes)

"Pursuant to an agreement entered into in 1947, a consolidated subsidary sold during the year its new office building and garage to an insurance company for $11,745,000 and leased back the buildings for 30 years at a specified yearly rental. The agreement contains provisions for extending the lease at specified reduced rentals and grants options to repurchase the property in 1969 and in certain subsequent years for specified sums. Prior to 1949 the offices of this consolidated subsidiary were located in rented space which it was obliged to vacate." (Socony-Vacuum Oil Co., Inc.—footnotes)

Safeway Stores, Inc., and subsidiaries handle their leases through a wholly-owned non-consolidated subsidiary whose activities are confined to the ownership and financing of store and other equipment leased to Safeway Stores, Inc., and its U. S. subsidiaries. A footnote stated:

"At December 31, 1949 the parent company and all its subsidiaries occupied under lease a total of 2648 stores, warehouses, plants, etc. Of these leases, 1967 contain options to cancel which, if exercised, might necessitate the purchase of 956 properties. The minimum rentals under these leases, some of which contain percentage of sale clauses, and exclusive of any taxes, insurance and maintenance payable by the lessee amount for the year 1950 to approximately $7,351,000 in the United States and $390,400 (Canadian Dollars) in Canada; these aggregate amounts decrease annually to 1999 as leases expire."

Bond Stores, Incorporated, disclosed the requirements of other than inter-company leases:

"As at December 31, 1949, the aggregate minimum annual rental upon real property leases, other than inter-company leases, expiring after December 31, 1952 amounted to approximately $1,847,670.00. Certain of these lease agreements provide for additional rentals based on sales or for payment of certain expenses, such as real estate taxes and maintenance costs."

Inter-company leases, pertaining to properties owned by wholly-owned consolidated subsidiaries, were mentioned in a separate footnote with disclosure of the terms of applicable mortgages. The footnote concluded with:

"The Corporation is not liable under any of such mortgages, being in each case a lessee of the property, or a substantial part thereof, under a long-term lease; such leases are assigned as security under the mortgages, respectively.

section 3: income statement

Title of income statement

The titles "income statement" or "statement of income" were used most frequently in 1949 statements although there was only a slight increase in the aggregate number of companies using such titles.

The trend towards the use of other terminology for "profit and loss statement" continued, with a total of twenty-two companies adopting other titles. The titles substituted were generally those containing the words "earnings" or "income," with Motor Wheel Corporation changing to "statement of operations."

Twenty-four companies initiated the use of the titles "earnings statement" or "statement of earnings" in their 1949 reports. (3, 10, 26, 34, 59, 106, 143, 146, 182, 197, 206, 222, 281, 290, 292, 327, 337, 365, 387, 414, 416, 423, 453, 489)

The various titles used during the last four years and the number of companies using each are:

1949	1948	1947	1946	
182	182	185	173	Income (statement or account) or (statement or summary) of (net) income (accounts) (15, 67, 162, 189, 218, 239, 246, 340, 407, 408, 417, 428, 479, 486, 495)
98	96	89	75	Income (statement or account) or statement (summary) of income and retained earnings (including variations in earned surplus terminology) (83, 150, 156, 163, 230, 271, 299, 307, 390, 399, 418, 430, 437, 451, 525)
114	127	154	164	Profit and loss (statement or account) or statement (summary) of profit and loss (60, 109, 136, 139, 151, 158, 228, 375, 380, 385, 411, 464, 506, 516)
27	31	36	51	Profit and loss (statement or account) or statement (summary) of profit and loss and retained earnings (including variations in earned surplus terminology) (20, 71, 82, 132, 186, 217, 270, 276, 279, 282)
59	39	22	6	Earnings (statement) or statement (summary) of (net) earnings (58, 59, 95, 113, 212, 280, 290, 335, 395, 524)
4	2	...	...	Earnings (statement) or statement (summary) of (net) earnings and retained earnings (including variations in earned surplus terminology) (3, 143, 144, 159)
16	16	7	4	Statement of operations (and earned surplus) (18, 22, 121, 240, 241, 320, 500, 508, 514)
5	7	7	6	No income statement presented (187, 237, 370, 386, 492)
4	7	8	4	(Condensed statement or statement) of income and profit and loss (248, 334, 344, 409)
4	4	4	...	Results of operations (and profits retained in the business) (107, 118, 223, 278)
4	4	3	...	Statement of income and expenses (and summary of earnings retained and invested in the business) (56, 378, 384, 459)

2	2	1	...	Statement of profit (and earned surplus) (4, 304)
1	1	1	...	Income and expense account (167)
1	1	1	...	Summary of profit (99)
1	1	1	...	Income, costs and changes in earned surplus (456)
1	1	3	...	Condensed statement of gross profit and net earnings (133)
1	1	...	...	Income and unappropriated retained earnings (earned surplus) (354)
1	...	...	...	Statement of income, earned surplus and capital surplus (79)
...	3	3	42	Unclassified variations
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Income statement titles used by some companies not included in the above tabulation are:

"Results of Operations and Summary of Net Income Retained in the Business" (Maremont Automotive Products, Inc.)

"Consolidated Statement of Operations and Surplus" (Marshall-Wells Co.)

"Comparative Consolidated Statements of Income, Expenses and Surplus" (Benson and Hedges)

"Statements of Consolidated Profit and Loss" (U.S. Plywood Corp.)

"Comparative Statement of Earnings" (General Foods Corp).

"Statement of Profits and Income" (Goebel Brewing Co.)

"Condensed Consolidated Statement of Operating Income and Expenses and of Earned Surplus" (Best & Co., Inc.)

"Consolidated Statement of Earnings" (G . C. Murphy Co.)

"Summaries of Consolidated Net Income" (St. Joseph Lead Co.)

"Statement of Consolidated Operations" (Stix, Baer and Fuller Co.)

"Statement of Consolidated Income" (National Gypsum Co.)

Form of income statement

Although the multiple-step form continues to be the popular form of the income statement, there appears to be a gradual tendency to limit the number of steps used in arriving at the net income figure.

For purposes of this analysis, the single-step form was considered to be the separate grouping of all income items, followed by a separate grouping of all costs and expenses, the total of the latter being deducted from the total of the former without the use of any other subtotals or intermediate balances prior to net income for the year.

There were a number of income statements which incorporated certain features of the single-step form yet varied in different ways. For example, the single-step form might be followed except for the separate addition or deduction of certain non-recurring items, the income tax provision, or the minority stockholders' interest.

1949	1948	1947	
326	335	357	Multiple-step form (83, 115, 123, 162, 175, 229, 261, 363, 395, 481)
105	95	81	Single-step form (161, 224, 239, 307, 332, 347, 417, 479, 494, 508)
46	45	42	Single-step form with exception of income-tax provision (or credit) deducted (or added) separately (131, 172, 180, 283, 350, 377, 401, 434)
10	11	16	Single-step form with exception of income-tax provision and other item(s) deduced (or added) separately at end of statement (107, 111, 113, 126, 317, 480)
8	8	7	Single-step form with exception of items other than income-tax provision shown at end of statement (93, 346, 349, 355, 447, 522)
25	24	14	Abbreviated—beginning after "gross profit" item—not classified (19, 33, 45, 136, 176, 220, 420)
5	7	8	No income statement (187, 237, 370, 386, 492)
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

An example of the multiple-step form is the International Minerals and Chemical Corporation consolidated statement of income for the three years ended June 30, 1950. (See Exhibit 14, p. 95.)

Lehn & Fink Products Corporation presented its comparative statement of consolidated income for the years 1949 and 1950 in the single-step form. (See Exhibit 15, p. 97.)

Volume of business

The method used in reporting the sales figure has varied only slightly during the last three years, with the majority of the companies continuing to show net sales as the opening figure on the income statement.

1949	1948	1947	
355	351	354	Sales or revenues reported—net (68, 106, 221, 255, 299, 353, 355, 490, 493, 495, 520)
27	29	29	Sales or revenues reported—gross (65, 74, 117, 271, 366)
82	78	77	Sales or revenues reported—net or gross not indicated (113, 223, 245, 281, 339, 430)
10	13	12	Sales or revenues reported—both gross and net (156, 211, 469, 503)
46	47	46	Sales or revenues not reported (20, 45, 220, 244, 488, 489)
5	7	7	No separate income statement
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

The Cuban-American Sugar Company reported "refined sugar sales and raw sugar and molasses produced." For classification purposes it is included above as "sales or revenues reported—net or gross not indicated."

City Stores Company showed "net sales—including leased departments."

Barber Oil Corporation described its sales figure as:

"Total volume of business done by Barber Oil Corporation and its subsidiaries as represented by their combined net sales and earnings, exclusive of intercompany sales and transactions."

A note explained:

"The consolidated net income includes $53,487.09 net income resulting from operations of subsidiaries in foreign countries. This amount is after deducting the loss arising from sterling devaluation."

Wages and salaries (employment costs)

Although many companies continued to discuss employee relationships, the number furnishing specific information about employment costs either in the president's letter or in the operating data declined slightly in 1949. The supplementary information of total wages and salaries was generally disclosed in charts or uncertified statements. (See Exhibits 7, p. 36; 9, p. 59).

Hercules Powder Company and Harbison-Walker Refractories Company changed the form of their certified income statements to one showing wages and salaries as a separate item under the heading "costs." Inland Steel Company discontinued showing parenthetically in the income statement the amount of wages and salaries included in "cost of goods sold, selling, general and administrative expenses" but continued to show this information in an uncertified statement titled "comparison of employees' earnings with cost of living."

1949	1948	1947	1946	
307	302	320	391	Employment costs not shown (6, 25, 100, 129, 193, 209, 271, 321, 420, 437)
193	198	184	122	Shown as supplementary information by means of uncertified statements, pie charts or graphs or mentioned either in the president's letter or the financial review (35, 94, 106, 113, 128, 222, 263, 269, 270, 280, 281, 334, 396, 431, 481)
25	24	19	10	Shown as a separate cost in the certified income statement (57, 86, 93, 104, 118, 332, 347, 453, 456, 514)
...	1	2	2	Shown parenthetically in the certified income statement
525	525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Armco Steel Corporation's statement of consolidated income presented employment costs separately, as illustrated in Exhibit 16, p. 100.

Companies other than those tabulated which showed employment costs in the certified income statement were:

American Steel Foundries
The Cleveland Graphite Bronze Co.
Colt's Manufacturing Company
The Duplan Corporation
Maremont Automotive Products, Inc.

Cost of past service pension credits

Of the seventy-two companies disclosing costs of past service pensions for the year 1949, all but fourteen companies provided for the cost out of the current year's income.

Exhibit 13: United Fruit Company
(See Stockholders Equity)

Liabilities

CURRENT LIABILITIES:			
Accounts payable (including deposits of $1,040,938.70)			$ 8,816,386.47
Accrued liabilities			4,242,979.39
Estimated United States and foreign income taxes		$ 36,020,671.63	
Less United States Treasury tax notes and accrued interest thereon		28,183,920.00	7,836,751.63
Dividend, payable January 13, 1950			4,387,498.50
Total current liabilities			25,283,615.99
DEFERRED INCOME (revenue on account of unfinished voyages, etc.)			2,156,588.74
ACCUMULATED DEPRECIATION			167,527,694.60
STOCKHOLDERS EQUITY:			
Capital stock—authorized, 9,000,000 shares without par value—issued, 8,775,000 shares		200,000,000.00	
Earnings retained in business less amounts transferred to capital stock account:			
Appropriated:			
Self-insurance	$12,103,981.63		
Abnormal construction and increased replacement costs	21,000,000.00		
Adjustments in materials and supplies	1,000,000.00		
Earnings of European subsidiaries at December 30, 1939 not realized in U. S. dollars	7,902,010.31		
	42,005,991.94		
Not specifically appropriated	39,927,061.31	81,933,053.25	281,933,053.25
			$476,900,952.58

NOTES: The principle of consolidation followed by the Company is to include all assets, liabilities and operations, except those in the United Kingdom and Continental Europe. The net investment in the assets thus excluded, $11,766,680.30, is shown separately in the consolidated balance sheet and in detail on page 14. All foreign assets and liabilities are stated at their appropriate United States dollar equivalents.

Of the United States Government securities owned, $3,345,000.00 par value (market value, $3,523,231.29) are deposited with United States Government departments and others as guarantees for performance of contracts. There have also been deposited as guarantees under contracts, securities carried at $205,862.21 (net) under the heading Other Investments.

Of the Other Investments, $2,738,437.55 are carried at less than cost, $2,783,081.35 at book value (market value, $2,847,276.20) and $136,067.87 at estimated or nominal value as market values are not obtainable.

1949	1948	1947	
33	28	22	Not separately shown but indicated in the footnotes or president's letter to be included in costs and expenses (180, 197, 209, 223, 428)
13	12	11	Combined with current pension costs, total thereof shown as a separate amount in the income statement (26, 78, 150, 306, 307)
7	8	8	Shown separately as an operating expense (194, 225, 351)
3	1	2	Remaining cost provided for in full by provision in income statement (412)
...	...	1	Shown as last item in income statement after tax provision but before "net profit"
2	1	1	Included in income statement as pensions are paid (165, 261)
13	13	11	Charged to pension reserve (23, 52, 123, 136, 325)
1	2	1	Transfer from contingency reserve to income statement in respect of past service cost or direct charge to contingency reserve (299)
...	1	9	Charged to retained income (earned surplus)
...	1	...	Payment charged after "income for year" in combined income and surplus statement, less one-tenth charged to income
...	1	...	One-tenth of total cost of past service pensions charged to surplus, remainder set up as a deferred asset
72	68	66	

(Numbers in parentheses refer to companies listed in Appendix.)

The Lambert Company charged income with:

"Contributions to Employees Retirement Plan
Current service of participants and expenses
Service of participants prior to 1944"

To the excess of income over deductions was added as the last credit before arriving at "net income for the year" an item described as "transferred from reserve in respect of above-stated prior service contributions to Employees' Retirement Plan and pensions paid to employees retired outside Plan, less attributable reductions in income taxes."

American Car and Foundry Company made the following explanation in a footnote:

"The Reserve for Employees' Welfare Plan has, during the year, been charged with the net amount (after tax benefits) of $161,191.51 on account of employees' retirement cost applicable to past services."

R. H. Macy & Co., Inc., reported a change in the basis of deducting contributions for past services from earnings in the notes to financial statements:

"The Retirement System of the Corporation includes a Pension Plan under which contributions for past services are allowable for federal income tax purposes for a period of not less than ten years. Previous contributions have been deducted from earnings since the inception of the Retirement System, February 1, 1944, on the basis of the ten year period. This basis has now been revised by the Corporation so that subsequent contributions will be completed over a period of ten years from February 1, 1949. As a result, the past service cost for the year ended July 30, 1949 amounted to $538,000 as compared with $701,000 for the preceding year. It is estimated that contributions to be made in respect of past services, to be deducted from income in future years, are $3,800,000 subject, however, to termination or amendment of the Plan at the option of the Corporation."

West Virginia Pulp and Paper Company noted:

"At the request of the Securities and Exchange Commission the company's annual report to that Commission on Form 10-K for the year ended October 31, 1948 has been amended so as to charge the amount of $4,976,079 to income for that year instead of to income reinvested or employed in the business."

Extracts from footnotes with reference to past service pension costs in connection with present or proposed pension plans follow:

"Cities Service Company and most of its subsidiaries have adopted retirement plans, effective January 1, 1949, providing for monthly payments for life for eligible employees upon reaching retirement age. The cost of current service benefits is shared by the employees and the companies, but the cost of past service benefits is borne by the companies alone. The plans may be terminated by the companies at any time without further payment. It is contemplated that the cost of past service benefits will be paid over a twenty-year period; the amount thereof (approximately $1,400,000) applicable to 1949 has been charged to income. That figure does not include past service costs applicable to an electric utility whose plan calls for such payments (approximately $193,000 per annum) to commence with 1950." (Cities Service Co.)

"Payments of $867,534 under the employees' retirement plans applicable to past service costs have been charged against earnings of each year. It is estimated that, as of January 31, 1950, the aggregate amount which may ultimately be paid in respect of past service costs, if the plans continue, will approximate $3,990,000; no provision therefor has been made in the accounts." (May Department Stores Co.)

"Reserve for employes' pension plan

"On January 27, 1950, the Board of Directors authorized the liberalization of employes' benefits under the Company's Group Life Insurance and Pension Plans. Included therein is an amendment to the present Pension Plan under which pensions based upon the first ten years or less of service prior to July 1, 1937, will be increased from 0.5% to 1.5% of the employe's salary on June 30, 1937, for each of such years. The cost of the increased pension benefits is to be borne solely by the Company and will be spread over a twenty-year period through annual payments which will average about $1,210,800 (including carrying charges). If this amendment is ratified by the stockholders at their annual meeting to be held on April 25, 1950, a reserve (estimated at $11,500,000 after adjustment for carrying charges and future Federal income taxes) will be set up on the books of the Company by a charge to deferred expenses which will be amortized against income in equal amounts annually over a twenty-year period." (Texas Co.)

Allocation of income taxes

In 1949 there was a continued decline in the number of tax allocations or disclosures of tax allocations. This may be due, in part, to the noticeable decrease in post-war and contingency reserves and in the number of charges and credits to retained income (earned surplus).

Accounting Research Bulletin No. 23, "Accounting for Income Taxes" (December 1944) stated, among other things, that ". . . facts with respect to taxes must be clearly set forth . . ." and recommended allocation of income taxes in situations where there are material differences between taxable income and the income shown in the income statement. In Accounting Series Release No. 53, the Securities and Exchange Commission favored one of two alternative methods of presenting the tax effect of items charged to surplus and to a deferred-charge account. The SEC rejected the showing of the tax provision as if the item were not deductible for tax purposes and favored showing the tax provision at the actual amount legally due and including a charge in the income statement for a portion of the extraordinary item equal in amount to the tax reduction resulting therefrom.

The following tabulation discloses that both of the foregoing methods have continued to be used:

1949	1948	1947	
			Charges to Reserve, Net of Tax Effect:
2	2	5	Item charged in the income statement and a portion of the reserve, equal in amount to the excess of such item over the related tax reduction transferred to the income statement as a credit (299, 485)
2	3	4	Provision for income taxes shown as if charge were not deductible for tax purposes, the total amount of tax estimated to be legally due for the year or the tax effect of the special charge being indicated in a footnote (23, 325)
...	1	2	Amount equal to the tax reduction charged separately in the income statement
			Credits to Reserve, Net of Tax Effect:
...	1	1	Tax effect of credit to reserve stated in footnote
			Charges to Surplus, Net of Tax Effect:
4	4	10	Provision for income taxes shown as if charges were not deductible for tax purposes but amount of tax legally due not indicated either in the income statement or in footnotes (In 1949 two reports showed tax effect in wording of surplus charges.) (10, 491)
3	2	4	Separate charge included in the income statement equal to the tax reduction (209)
1	1	2	Provision for taxes shown in income statement as if charge were not deductible for tax purposes but total amount of tax estimated to be legally due for the year indicated in footnote (45)
			Credits to Surplus, Net of Tax Effect:
1	6	5	Provision for taxes shown in income statement as if surplus credit were not taxable, and amount of tax legally due not indicated either in the income statement or in footnotes (484)
...	2	3	Provision for taxes shown in income statement as if surplus credit were not taxable, but total amount of tax estimated to be legally due for the year indicated in footnote

...	1	...	Amount equal to tax reduction credited separately in the income statement after tax provision stated at amount legally payable
...	1	...	Net adjustment due to replacement in prior year of LIFO inventories involuntarily liquidated during the war
...	1	...	Tax effect of capital surplus credit deducted separately from income statement provision
			Other Allocations:
9	10	10	Extraordinary or non-operating costs or profits net of related tax effect shown in the income statement before "net income," usually following the provision for federal income taxes, the latter being shown as if the extraordinary items were not deductible for tax purposes (200, 246, 363)
...	1	1	Reduction in current income taxes, resulting from payments for past service annuities previously charged to surplus reserves, treated as a general expense in the income statement and added to surplus
...	1	...	Foreign subsidiaries reinstated. Portion of recovery equivalent to tax effect thereof credited to income—not clear where remaining credit was entered
4	3	...	Mention of difference between taxable and reported income (224, 360)
2	1	...	Difference in federal income taxes between LIFO and FIFO methods deferred (33, 118)
...	1	...	Portion of loss on subsidiary bankruptcy equal to tax effect on 1948 return transferred to income and credited to investment account
...	1	...	Prior year adjustments less related taxes shown after net income
1	1	...	Excess of inventory reduction upon replacement of basic LIFO inventories over tax refund shown before federal income tax provision (113)
...	1	...	Extraordinary write-off of development expenditures charged off net of prior year tax provisions—after earnings from operations
1	1	...	Tax effect of repairs and standby expense charged but not spent credited to tax provision (corresponding debit apparently to reserve) (45)
1	1	...	"Deferred adjustments for federal taxes" (asset) adjusted for deductibility for tax purposes of prior year past service payment (also in 1948 for losses and expenses charged to reserve) and non-deductibility for tax purposes of depreciation on fully amortized facilities (420)
1	1	1	Excess cost of replacing inventories on a LIFO basis involuntarily liquidated over estimated tax refund shown after tax provision and before net income (206)
1	...	...	Recovery (in part) of war loss, less related provision for federal income taxes (113)
1	...	...	Portion of past service pension costs, less federal income tax reduction shown after tax provision and before net income (220)

(Numbers in parentheses refer to companies listed in Appendix.)

Accrual of vacation allowances

Six reports were noted in 1949 which disclosed a change in policy in respect of vacation payrolls. These companies now accrue vacation allowances during the period in which the employees qualify for vacations rather than in the period in which vacations are granted, the charges for the increased liability being equally divided between income and retained income (earned surplus).

The National Supply Company made a charge to income for "adjustment of vacation accruals to tax basis—less allowance for tax benefit" without further comment.

National Biscuit Company did not show a separate deduction in its income statement but made the following explanation in the president's letter:

"Prior to 1949 National Biscuit Company included wages paid to employees during vacations as an expense in the year the vacations were granted. Due to changes in Company practice and in labor agreements, these vacation payments now accrue during the period in which employees qualify for vacations. Therefore, 1949 results reflect the cost of vacation payments made in 1949, as well as those that have been earned but will not be paid until 1950. Net profit for 1949 was reduced approximately $2,000,000 (equivalent to 32 cents per share of common stock) because of the accrual of the estimated amount of the 1950 vacations less the related federal income tax effect."

W. F. Hall Printing Company showed a deduction in its statement of income for "payments for vacations earned in previous year, adjustments of prior years' income taxes, etc. (net)" without further comment.

Allegheny Ludlum Steel Corporation charged earned surplus with "vacation allowances considered earned by employees prior to 1949, less estimated applicable income taxes." A note with respect to the vacation allowances stated:

"The corporation, in years prior to 1949, included the cost of vacation allowances in its accounts in the year in which they were paid. Because of recent legal interpretations of labor contracts, this policy was changed effective January 1, 1949, and such vacation costs are now considered accrued during the period in which employees qualify for a vacation. Pursuant to this new policy, the allowances earned prior to 1949 but payable in 1949 of $1,342,642, less income taxes of $535,000, have been charged to earned surplus. The effect of the new policy on the income for the year is not significant."

In the above instance the auditors commented in their report upon the change in accounting for vacation allowances and expressed approval of the change.

The Billings & Spencer Company and Clark Equipment Company also charged earned surplus for the adjustment resulting from the change to the accrual basis in accounting for vacation pay.

The United Piece Dye Works, which was not included in the above six companies, charged earnings retained for use in the business with "vacation salaries of prior year less federal income taxes applicable thereto" but did not indicate whether or not this charge was due to a change in the method of accounting.

Accelerated depreciation and plant replacement charges

Only thirty-nine companies included in this year's study reported either increased charges for accelerated depreciation or appropriations of retained income (earned surplus) for increased costs of plant replacements.

1949	1948	1947	
487	480	481	No increased charge shown
25	21	17	Charge made prior to net income (see summary which follows)
9	10	5	Charge made directly to retained income (earned surplus) (11, 59, 156, 197, 239, 469, 473, 489, 525)
4	14	22	Charge made as an appropriation of net income (158, 186, 238, 399)
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Charge made prior to net income

Last year the auditors of American Asphalt Roof Corp. took exception to the charge made in the income statement for an additional provision for estimated wear and exhaustion of facilities computed on the basis of present replacement cost. This practice was discontinued in 1949. Two other companies, which reported increased charges in their 1948 reports, did not disclose additional charges in 1949. (Scovill Manufacturing Co., Struthers Wells Corp.)

The remaining eighteen companies which last year reported charges against the current year's operations for accelerated depreciation continued that policy. None of the auditors concerned expressed disapproval. Although the formulae used in computing such additional charges varied considerably, the plans may be summarized as follows:

8	Write-off of abnormal costs of newly acquired facilities during the early years where economic usefulness is greatest. (30, 128, 185, 224, 275, 419, 437, 468)
4	Stated percentage of cost of new facilities written off in the first and the succeeding year, adjusted ratably for operating variances and generally providing that no increased charges will be made when operations drop to certain levels. (11, 44, 499, 501)
2	Provision for depreciation of all or a certain portion of fixed assets based on activity. (87, 225)
2	Higher rate of depreciation on new facilities during the first three years. (281, 479)
1	Provision for special depreciation—$35,000. (same amount provided each year since 1946) (Artloom Carpet Co.)
1	No explanation in 1949 statement—see discussion which follows. (National Steel Corp.)
18	

Although the method used by National Steel Corp. in computing accelerated depreciation was not explained in the 1949 financial statements, in

CONSOLIDATED STATEMENT OF INCOME

FOR THE THREE YEARS ENDED JUNE 30, 1950

Years Ended June 30	1950	1949	1948
NET SALES	$58,402,180	$53,394,760	$50,123,269
OPERATING COSTS AND EXPENSES:			
Cost of goods sold	$41,904,546	$38,757,418	$37,158,689
Depreciation and depletion	2,907,755	2,523,752	2,176,800
Amortization of patents and processes	93,244	93,244	93,244
Selling and administrative expenses	5,200,802	4,140,743	3,598,793
	$50,106,347	$45,515,157	$43,027,526
NET OPERATING INCOME	$ 8,295,833	$ 7,879,603	$ 7,095,743
OTHER INCOME:			
Dividends received from affiliated companies	$ 10,830	$ 13,285	$ 21,635
Interest earned	21,168	25,378	38,291
Miscellaneous	7,044	29,186	29,451
	$ 39,042	$ 67,849	$ 89,377
	$ 8,334,875	$ 7,947,452	$ 7,185,120
INCOME DEDUCTIONS:			
Interest expense	$ 433,215	$ 451,435	$ 350,281
Premium on long-term debt retired			93,811
	$ 433,215	$ 451,435	$ 444,092
NET INCOME BEFORE PROVISION FOR INCOME TAXES	$ 7,901,660	$ 7,496,017	$ 6,741,028
PROVISION FOR INCOME TAXES:			
Federal income taxes	$ 2,050,000	$ 1,965,000	$ 1,640,000
Other income taxes	75,000	110,000	85,000
	$ 2,125,000	$ 2,075,000	$ 1,725,000
NET INCOME	$ 5,776,660	$ 5,421,017	$ 5,016,028

ROBERT P. RESCH, *Vice President and Treasurer*

1948 the accountant's report contained the following:

"...The method adopted in 1948 takes into consideration, among other things, the high rate of operations and the desirability of charging off a portion of the abnormally high costs during the early life of the assets..."

In his report on the company's operations for the year 1949, the chairman of the board discussed depreciation and depletion, in part, as follows:

"The 1949 charge for depreciation and depletion included regular depreciation of $13,171,857 and accelerated depreciation of $11,850,000, or a total of $25,021,857. In annual reports over the past several years, I have called attention to the greatly increased cost of replacement and new construction. Previously, we expressed the hope that costs might be lower, as more nearly normal conditions became established in the country. We are now thoroughly convinced that there will be no substantial reduction in costs and, in fact, believe that over the next 10 years, the cost of material and labor will be higher than today. This makes necessary a new appraisal of the cost of replacement and of the amount per year which should be charged off as depreciation.

"We now have capacity for production of 4,500,000 tons of ingots per year. A most conservative estimate shows that to replace all of our properties as they exist today would cost $1,000,000,000, or about $220 per ingot ton. Other steel companies estimate the cost per ton at from $250 to $300 and we, ourselves, consider our figure low, rather than high.

"Replacement is a continuing, year-by-year necessity because facilities wear out or become obsolete, and we know from experience that there is not a single piece of equipment in our plants today that will not have to be replaced within a maximum of 35 years. By charging accelerated depreciation in the past several years, we have accumulated over $25,000,000 against this replacement cost which would reduce the total amount required to $975,000,000, or $27,500,000 per year over a 35-year period. I cannot overemphasize the fact that there can be only one way to get the money for replacement and that is by charging amounts for depreciation which give recognition to the reality of replacement costs."

"Finally, I must point out that the above discussion is limited strictly to the problem of providing money to replace our present property and that no part of such provision will be available for construction to increase capacity. Money required to increase capacity must either come out of earnings or be provided by the public in loans or equity capital."

In 1949, seven additional companies revised their former depreciation policy. Kimberly-Clark Corp. and H. H. Robertson Co. deducted depreciation on certain Canadian properties used on a multiple-shift basis at rates in excess of normal, as permitted under Canadian income tax laws. United Aircraft Corp. and National Lead Co. computed depreciation at accelerated rates on specific properties. First National Stores Inc., charged current operations with accelerated depreciation at $7^1/_2\%$ per annum. Libbey-Owens-Ford Glass Co. and Lukens Steel Co. applied their increased charges retroactively to 1947.

The following excerpts from 1949 reports provide information about the amended depreciation policies adopted during the year:

(1) *First National Stores, Inc.*

"As stated in the accompanying letter of the president to the stockholders, the company adopted during the fiscal year ending April 1, 1950 the policy of providing accelerated depreciation at the rate of $7^1/_2\%$ per annum during the first two years of use on completed additions to warehouses, store fixtures, machinery and equipment. The provision charged to operations during the current year, which was based on additions completed during the two years ending April 1, 1950, amounted to $1,064,724. The previous practice of charging operations with additional depreciation in anticipation of future obsolescence of store buildings has been continued and the provision of $318,010 has also been classified this year as accelerated depreciation. The total of $1,382,734 has not been deducted in computing the provision for federal income taxes. The accelerated depreciation is in addition to the normal depreciation on such facilities but the total depreciation over their expected lives will not exceed the cost of the facilities." (Footnote)

(2) *Kimberly-Clark Corporation*

Note 8 with reference to the provision for depreciation states:

"Provisions for depreciation, depletion, and ordinary obsolescence amounted to $5,570,689 in 1949 and $3,307,633 in 1948. As permitted by the Canadian Department of National Revenue there is included in the above amount for 1949, $1,008,993 of depreciation in excess of normal." (Footnote)

(3) *Libbey-Owens-Ford Glass Company*

"In 1947 and 1948 the Company made provisions of $2,000,000.00 and $3,000,000.00 respectively, for property replacement and/or excessive cost of new facilities by a charge to costs and expenses in 1947 and an appropriation of net profit in 1948. During the year the Company continued its study of the depreciation and obsolescence problem and adopted the policy which has our approval and is effective retroactively to January 1, 1947, of providing for accelerated depreciation and obsolescence (not treated as deductible for federal income tax purposes) on prop-

LEHN & FINK PRODUCTS CORPORATION AND DOMESTIC SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND PROFITS RETAINED IN THE BUSINESS

FOR THE YEAR ENDED JUNE 30, 1950

(With comparative figures for the year ended June 30, 1949)

	1950	1949
Income:		
Net sales	$16,346,617	$15,763,310
Other income (net of other deductions) including interest, royalties, etc. and, in 1949, the net profit of South American branches ($150,722) less net loss of Canadian subsidiary companies ($7,001)	3,758	232,578
	16,350,375	15,995,888
Costs and expenses:		
Cost of goods sold, selling, general and administrative expenses	15,144,802	14,987,247
Depreciation and amortization (portion of cost of buildings, improvements, machinery and equipment, etc., applied to operations for the year)	164,821	150,564
Interest paid	70,000	74,063
State, local and miscellaneous taxes	165,128	123,367
Federal income taxes	306,000	220,000
	15,850,751	15,555,241
PROFIT FOR THE YEAR	499,624	440,647
Dividends paid to stockholders	247,937	99,175
BALANCE OF PROFIT FOR THE YEAR RETAINED FOR USE IN THE BUSINESS	251,687	341,472
Profits of prior years retained in the business at beginning of the year	3,873,166	3,460,297
	4,124,853	3,801,769
Refundable federal taxes on income of prior years	165,000	
Amount, less federal income tax applicable thereto, by which net assets in certain foreign countries were reduced when translated to U. S. dollars as a result of currency devaluations in September 1949 (Note 1)	(151,721)	
Management fees and advertising expenses charged to Canadian subsidiary for prior years, less balance of federal income taxes applicable thereto		71,397
	13,279	71,397
PROFITS RETAINED IN THE BUSINESS AT END OF THE YEAR, PER BALANCE SHEET	$ 4,138,132	$ 3,873,166

erty additions constructed after January 1, 1946. The reserve of $5,000,000.00 for property replacement and/or excessive cost of new facilities has been returned to earned surplus, and provisions of $2,291,114.14 and $2,075,756.39 for accelerated depreciation and obsolescence for 1947 and 1948, respectively, have been charged to earned surplus, and the provision of $2,392,209.19 for 1949, has been charged to costs and expenses for the year. As so revised, the net profits for 1947 and 1948 and the net profit for 1949 were $2,291,114.14, $2,075,756.39 and $2,392,209.19, respectively, less than the amounts the net profits would have been if no change had been made in the method followed in providing for depreciation and obsolescence prior to 1947; and for the years 1947 and 1948, the revised net profits amount to $10,881,961.42 and $15,131,582.14 respectively. In other respects, the principles of accounting maintained by the Company during the year were consistent with those of the preceding year." (Opinion)

(4) *Lukens Steel Company*

"During the fiscal year 1949, the company adopted a policy, effective retroactively to the beginning of its fiscal year 1947, of providing for accelerated depreciation on property additions completed in the fiscal year 1946 and subsequent fiscal years, subject to the limitation that no acceleration of depreciation is to be made in any year in which the company's rate of operations is seventy per cent or lower. Pursuant to this policy, which has the approval of the company's auditors, provision has been made for accelerated depreciation in the amount of $652,771 of which $313,833, applicable to the year 1949, has been charged against current income and $338,938, applicable to the fiscal years 1947 (amount not significant) and 1948, has been reflected in the accompanying financial statements as a deduction from income for the fiscal year 1948. The financial statements previously submitted for 1948 have been restated accordingly.

"The amount of accelerated depreciation has not been deducted in computing the provision for Federal taxes on income." (Footnote)

(5) *National Lead Company*

"During 1949, the company adopted the diminishing balance method of computing depreciation on the manufacturing facilities of its Titanium Division, in lieu of the straight-line method theretofore employed. As a result of this change, depreciation charges for 1949 are approximately $2,571,000 higher, and consolidated net income for 1949 is approximately $2,571,000 lower, than would have been the case if the company had continued the use of the straight-line method." (Footnote)

(6) *H. H. Robertson Company*

"Included in costs and expenses in the statement of consolidated income are charges for depreciation on property, plant, and equipment aggregating $407,716 for 1949, and $302,104 for 1948. Included in the 1949 amount is a special accrual of $59,612 applying to Canadian assets. This additional depreciation is the result of increased rates, as compared with prior years, which rates are permitted by changes in the Canadian income tax statutes effective in 1949." (Footnote)

(7) *United Aircraft Corporation*

"The facilities in Stratford, Connecticut, previously occupied by Chance Vought, and approximately 80% government-owned, are surplus to the Corporation's needs...The Corporation has accelerated the depreciation of its proportion of the facilities by charges to operations in 1949 of $637,187 and the value in the accounts is now nominal in amount." (President's letter)

Foreign exchange losses

The devaluation of the British pound sterling by 30% on September 19, 1949, followed shortly thereafter by devaluation in many other countries, resulted in extraordinary foreign exchange losses for many companies.

To meet the urgent requests for advice on certain problems arising from the currency devaluations, the research department of the American Institute of Accountants issued a statement "Accounting Problems Arising from Devaluation of Foreign Currencies" (November, 1949). This memorandum stated:

"While the possibility of losses from currency devaluation may ordinarily be considered to be a risk inherent in the conduct of business in foreign countries, the world-wide scope and unprecedented magnitude of the recent devaluations of foreign currencies are such that they cannot be considered recurrent hazards of business. Accordingly, the losses resulting from such devaluation would appear to be of such a nature that, if they are so material in amount that their inclusion in the income statement would impair the significance of net income to an extent that misleading inferences might be drawn therefrom, they might appropriately be charged to retained income (surplus) under the provisions of Bulletin No. 32."

Bulletin No. 32 states:

"...it is the opinion of the committee that there should be a general presumption that all items of profit and loss recognized during the period are to be used in determining the figure reported as net income. The only possible exception to this presumption in any case would be with respect to items which in the aggregate are materially significant in relation to the company's net income and are clearly not identifiable with or do not result from the usual or typical operations of the period."

As the result of the extraordinary foreign exchange losses incurred, sixteen companies reported charges to retained income (earned surplus) as follows:

Loss arising from conversion of Canadian net assets to dollars (Drackett Co.)

Loss arising from conversion of foreign net assets to dollars (Gruen Watch Co.)

Net foreign exchange adjustments for unrealized losses in addition to charges made to income (Lone Star Cement Corp.)

Unrealized exchange loss on conversion of net assets of British subsidiaries resulting from devaluation of British pound (John Morrell & Co.)

Adjustment of unrealized Canadian exchange losses (Rexall Drug, Inc.)

Exchange adjustment from conversion of net current assets of the Canadian subsidiary into U. S. dollars (F. W. Woolworth Co.)

Unrealized exchange loss arising from devaluation of foreign currencies (Wilson & Co., Inc.)

Adjustment arising from devaluation of Canadian dollar (Union Carbide and Carbon Corp.)

Exchange loss arising from devaluation of the Canadian dollar (Bristol-Myers Co.)

Unrealized exchange loss arising from devaluation of Canadian dollar (Iron Fireman Mfg. Co.)

Adjustment resulting from conversion into equivalent U. S. dollars at September 30, 1949 of foreign net working capital, deferred assets and certain reserves (International Paper Co.)

Exchange adjustments arising from expressing Canadian subsidiary company's net assets in U. S. A. dollars (S. S. Kresge Co.)

Decline in conversion value of funds and investments in Canada (Safeway Stores, Inc.)

Provision to reduce net current assets of foreign subsidiary companies to rates of exchange prevailing at December 31, 1949 (American Bank Note Co.)

Exchange loss on translation of net assets of foreign subsidiaries, resulting from devaluation of British and Canadian currencies, less amount charged to reserve (American Safety Razor Corp.)

Adjustment for devaluation of Canadian currency (Avon Allied Products, Inc.)

In addition to the charge to retained income (earned surplus) shown above, Lone Star Cement Corporation included a "provision for other foreign exchange losses" in order "...to reduce the foreign earnings for the year (before provision for depreciation and depletion) to the basis of exchange rates to which assets were written down at the end of the year..." The total write-down amounted to $1,685,839, of which $860,000 was charged to income and $825,839 to surplus. The total write-down represented unrealized foreign exchange losses, resulting from fluctuations in exchange rates during the year of $599,001 and a write-down of $1,086,838 explained in the president's letter:

"All amounts for Cuban currency are stated at par of one Cuban peso equals one U. S. dollar. Amounts for net current and working assets in South American currencies are in general converted at current exchange rates prevailing at the balance sheet date, except for the following special provisions for 1948 and 1949. South American current rates of exchange have been subject to local government controls of varying degrees in each of the countries in which the subsidiaries of our Corporation operate, and in recent years there have been delays in obtaining remittances in U. S. dollars. While it was hoped that these would be only temporary, such delays and the then instability of foreign exchange rates made it seem prudent at the end of 1948 to make special provision of $1,321,066 against the possibility of decline in South American exchange rates which provision was absorbed by the declines which occurred in 1949. In October 1949 there was devaluation of the Argentine peso, but there are still delays in obtaining remittances and possibility of still further decline in South American exchange rates. Accordingly, in the balance sheet and in the foregoing summary the amounts stated for net current and working assets located in South America at December 31, 1949 have been reduced by an amount of $1,086,838 against possibility of a decline in the current exchange rates prevailing at that date.

"Fixed assets in Argentina and Uruguay acquired prior to 1935 are converted at the then par of exchange; all other fixed assets in South American currencies are converted at rates prevailing at date of acquisition."

American Metal Company, Limited showed in its income statement a profit on foreign currency obligations in contrast to eighteen companies which included losses on foreign exchange in their income statements. (See later section on "material extraordinary items shown separately in the income statement.")

The Firestone Tire & Rubber Company and H. H. Robertson Company, included in the eighteen companies referred to in the preceding paragraph, charged a portion of their losses to reserves provided in prior years.

Pratt & Lambert, Inc., charged its reserve for contingencies and The B. F. Goodrich Company charged its reserve for foreign losses with losses caused by currency devaluations.

General Motors Corporation commented in a footnote:

Exhibit 16: Armco Steel Corporation

Statement of Consolidated Income

FOR THE YEARS ENDED DECEMBER 31, 1949 AND 1948

	Year Ended December 31, 1949 (Note 4)	*1948*
REVENUES		
Sales less discounts, allowances, etc.	$341,350,147	$382,563,811
Other revenues	7,699,374	3,262,190
TOTAL	$349,049,521	$385,826,001
COSTS AND EXPENSES		
Employment costs:		
Wages and salaries	$ 95,218,754	$104,024,776
Social Security taxes	1,413,718	1,472,886
Pensions and group insurance	2,223,262	1,917,561
TOTAL	$ 98,855,734	$107,415,223
Materials and services purchased	184,983,248	211,803,717
Provision for depreciation	9,591,016	8,161,074
Losses on assets retired	443,974	662,328
Interest and expense on long-term debt	2,022,293	1,824,958
Other charges	158,623	939,261
State, local, and miscellaneous taxes	2,761,116	2,916,713
Provision for Federal income taxes	19,315,315	20,072,015
TOTAL	$318,131,319	$353,795,289
INCOME FOR THE YEAR	$ 30,918,202	$ 32,030,712
CASH DIVIDENDS:		
Preferred ($4.50 a share in 1949 and 1948)	$ 899,787	$ 899,708
Common ($2.50 a share in 1949 and $2.00 a share in 1948)	9,767,996	7,783,051
TOTAL	$ 10,667,783	$ 8,682,759
INCOME RETAINED IN THE BUSINESS	$ 20,250,419	$ 23,347,953

"In accordance with the Corporation's practice, profits of foreign operations not remitted to the United States from certain foreign countries where exchange restrictions exist are excluded from consolidated net income. The dollar equivalent of such profits is included only when remitted. The net amount of unremitted profits of consolidated foreign operations so excluded from consolidated net income to date is reported in the balance sheet as 'Reserves—Unremitted foreign profits.'

"In the event that changes in foreign exchange rates result in a reduction in the value, as measured in dollars, of the net working capital of any foreign subsidiary or branch, the reduction becomes a charge against consolidated net income if it exceeds reserves previously provided. A revaluation of the net working capital of consolidated operations in foreign countries was made coincidental with the devaluation of foreign currencies in September 1949. The reduction in value, in terms of dollars, represented principally an adjustment of the dollar amount of local currency profits which had previously been excluded from consolidated income because of exchange restrictions.

"The reserve for unremitted foreign profits at December 31, 1949, was $64,439,383 compared with $63,809,307 at December 31, 1948. The reserve was increased during the year by $26,561,857 representing the unremitted profits for 1949 of foreign operations whose accounts are consolidated. However, the reserve was reduced during the year by $15,507,657 representing the remittance to the United States of profits previously reserved, and by $10,424,124 representing the adjustment resulting from currency devaluation, as explained in the preceding paragraph.

"Investments in foreign subsidiaries not consolidated are carried generally at cost adjusted to include profits since acquisition, other than unremitted profits in certain countries having exchange restrictions. The Corporation's investment in Vauxhall Motors Limited was reduced by $2,043,363 during the year, principally by a charge against consolidated income reflecting the devaluation of foreign currencies in September 1949. The Corporation's equity in the undivided surplus of foreign subsidiaries not consolidated which has been excluded from consolidated income and earned surplus because of exchange restrictions amounted to $15,770,950 at December 31, 1949, compared with $17,669,687 at December 31, 1948.

"A portion of the cash as reported above for consolidated foreign operations in certain countries where exchange restrictions exist is in excess of current operating needs. Such cash, which arose principally from profits unremitted because of exchange restrictions, amounted to $15,219,461 at December 31, 1949, and to $26,839,063 at December 31, 1948. It is the practice of the Corporation to exclude these amounts from the cash account in the consolidated balance sheet and to carry them in miscellaneous assets."

Socony-Vacuum Oil Company, Inc., commented in the president's letter on the devaluation of foreign currencies:

"It is difficult to determine the precise effect of the foreign currency devaluations that took place in the latter part of 1949, precipitated by the devaluation of the English pound on September 18. In some countries these devaluations already have been partly compensated by price increases. Complete financial information is not yet available, but based on the latest data our Company's equity in the net assets of its foreign operations is still well in excess of its corresponding investments and advances. Likewise, our Company's equity in the earnings of its foreign operations exceeds the amount included in its 1949 income. Foreign income is included in our Statement of Consolidated Income only to the extent actually received in dollars."

An insert to the report of United Merchants and Manufacturers Inc. stated:

"The devaluation of the Argentine Peso announced October 3rd, which had the effect of reducing the value of our net assets in that country by approximately $2,000,000, has not been reflected in this Report.

"Such extraordinary devaluations are usually adjusted through surplus account."

International Harvester Company disclosed:

"Losses arising from conversion of foreign currencies, due principally to devaluation of certain foreign currencies, in September, 1949, and aggregating approximately $7,257,000, have been deducted in determining the amounts of the Company's equity...in the subsidiaries' net assets at the close of their 1949 fiscal years and in their 1949 net income."

Loew's Incorporated stated in its notes to financial statements:

"Due to increased exchange restrictions in four foreign countries, no unrealized income has been included; such excluded income less loss on devaluation of net current assets therein has been deferred."

The auditors included the following paragraph in their report without any further reference to it in their opinion paragraph:

"The accounts of foreign subsidiaries were examined or tested by Independent Public Accountants in the respective foreign countries as of August 31, 1949, in accordance with program which we prepared. We have reviewed their reports relating to such examinations, have had no exceptions to take to the adequacy and sufficiency of the examinations and tests made by such other accounts, have accepted such work in the same manner as if it had been done by us and have accepted them as a proper basis for consolidating the accounts of foreign subsidiaries with the accounts of the domestic companies as of August 31, 1949. Current asset and current liability accounts of foreign subsidiaries and other current accounts in foreign moneys have been included (1) as to countries which devalued their currencies, at devalued rates established in September 1949, or at rates of sales of futures, except film inventories which are carried at cost and (2) as to other countries at prevailing exchange rates, at rates lower than nominally quoted or at rates of current remittances."

Reporting of earnings per share in the president's letter

In certain instances where appropriations of retained income or reversals thereof were shown in the income statement after "net income for the year," earnings per share were incorrectly stated. Current practice is illustrated below.

Appropriations for contingencies, plant replacement costs, and possible inventory losses, together with charges for material or extraordinary costs were the principal items tabulated. Six instances of extraordinary or non-recurring credits or restorations of surplus reserves were also noted.

The tabulation discloses a noticeable reduction in the number of appropriations or reversals shown as the last deduction or credit in the income statement. There are included five instances where the appropriation was made after net income and before the opening surplus balance in a combined income and retained income (earned surplus) statement, with references to such appropriations in the president's letters indicating that they were made from surplus.

1949	1948	1947	
511	474	452	No appropriations shown
			Appropriations shown:
4	19	45	Earnings per share based on balance after appropriation
3	14	10	Earnings per share quoted on both "net income" and balance remaining after appropriation
2	9	8	Earnings per share based on amount of net income
3	5	1	Earnings per share not quoted, but net income reported by the president
...	3	3	No earnings figure quoted by the president
2	1	6	Earnings per share not quoted, but amount after appropriation mentioned by the president
525	525	525	

Effect of Accounting Research Bulletin No. 35

Bulletin No. 35, "Presentation of Income and Earned Surplus," recommended that items excluded from the determination of net income under Bulletins Nos. 28, 31, 32, and 33 be displayed in the surplus statement rather than in the income statement after the amount designated as net income. It did not intend to preclude or discourage the use of the combined statement of income and earned surplus provided the figure of net income is followed immediately by the surplus balance at the beginning of the period. It did not preclude use of a separate statement of disposition of net income.

The 1949 reports showed a marked reduction in the number of appropriations deducted at the foot of the income statement although there was a considerable increase in the number of appropriations made through "retained income" (earned surplus).

Of the four previous bulletins which were referred to in Accounting Research Bulletin No. 35, Bulletin No. 33, "Depreciation and High Cost," dealt with increased charges for plant replacement, Bulletin No. 28 dealt with "general contingency" provisions, Bulletin No. 32 dealt with "extraordinary items which would impair the significance of net income," and Bulletin No. 31 dealt with "inventory reserves."

The following schedule contrasts the number of items shown as charges or credits after net income in 1949 and 1948 with the related charges or credits shown in the retained income (earned surplus) statement:

1949	1948	
		Items shown after "net income":
4	25	Future inventory price declines
4	14	Plant replacement
8	9	Contingencies
..	1	Research and development
..	2	Possible foreign losses
4	5	Extraordinary or prior year adjustments
1	..	Exchange adjustment
		Related charges or credits to surplus:
39	24	Future inventory price declines
15	12	Plant replacement
43	41	Contingencies

A majority of the companies considered to be violating Bulletin No. 35 presented combined income and surplus statements in which the charges or credits were shown deducted or added to the net income figure but prior to the opening earned surplus balance.

Buffalo Bolt Company showed an appropriation for plant replacement after net income in the income statement but carried net income forward to the surplus account and showed the appropriation again in that statement.

One company was noted which presented a separate statement of "Disposition of Net Income" wherein it showed appropriations deducted from net income for the year, and cash dividends paid during the year, carrying the balance to earned surplus (Pittsburgh Plate Glass Company). Two other companies presented similar treatments. Corn Products Refining Company presented a separate statement, "Transferred to Earned Surplus," in which an appropriation was deducted from net income and the balance transferred to earned surplus. Dividends declared were included in the surplus statement. Dwight Manufacturing Company, in its income statement, arrived at a "Profit for the year" from which appropriations and dividends were deducted, resulting in a "Balance added to earned surplus."

Material extraordinary items shown separately in the income statement

(Excluding charges, appropriations, and credits in connection with contingency, future inventory price decline, and plant replacement reserves, and items, in most cases, not in excess of 5% of net income.)

There are listed below the most frequently used types of material charges and credits and the number of times each was noted as appearing in the income statement prior to the determination of net income for the year.

1949

36 Profit or loss on disposal of assets (plant, real estate, securities, etc.) (23, 93, 109, 131, 182, 192, 221, 229, 335, 506)

19 Gain or loss on foreign exchange (22, 32, 72, 84, 136, 217, 343, 439, 479, 522)

13 Prior year adjustments (Taxes, details for some were not specified, etc.) (163, 164, 177, 181, 418)

12 Write down of inventories, patterns, development expense, idle plant, service and experimental expenses (39, 46, 97, 171, 500)

9 Transfer of excess reserves or provisions:
- 4 Prior year tax reserves (270, 430, 487, 497)
- 2 Allowances to reduce inventory prices to amounts equivalent to a LIFO basis (Inventory Valuation Reserves—Sherwin-Williams Co., Hercules Motors Corp.)
- 1 Modification costs on delivered commercial airplanes (Glenn L. Martin Co.)
- 1 Provisions no longer required for repairs and stand-by expenses applicable to plant sold by company (American Window Glass Co.)
- 1 Loss on a production (Radio-Keith-Orpheum Corp.)

7 Office and plant moving and rearrangement expenses (Jones & Laughlin Steel Corp., United Aircraft Corp.)

7 Provisions for loss on investments and advances to subsidiaries, or provisions to set up reserves against investments in foreign subsidiaries or foreign operations (126, 360, 442, 471)

6 Employees participation in profits—bonus and profit sharing plans (General Motors Corp., General Mills, Inc.)

6 Undistributed net profits of foreign subsidiaries (National Cash Register Co., Paramount Pictures Inc.)

6 Loss on inventory disposal and project abandonment (Dow Chemical Co., General Box Co.)

4 Strike expenses (Eastern Stainless Steel Corp., Youngstown Sheet and Tube Co.)

3 Transfers from reserves to offset special costs incurred during the year:
To offset past service pension costs and pensions paid to employees retired outside of plan. (Lambert Co.) Additional costs arising out of the war—to replace inventories depleted during the war. (U. S. Steel Corp.) Special credit—reserve returned to income account to absorb part of cost of standardization of products. (Walworth Co.)

3 Loss on operations and liquidation of divisions (Atlas Powder Co., Northrop Aircraft, Inc.)

2 Excess cost of inventory replacements (Rath Packing Co., Swift & Co.)

2 Provisions to reduce inventories to LIFO basis (Crane Co.)

2 Income from termination of contracts (Commerical Solvents Corp.)

2 Flood loss (Montgomery Ward & Co., Inc.)

2 Settlement of litigation (Twentieth Century-Fox Film Corp.)

2 Adjustment of prior years doubtful accounts and discounts (Ely & Walker Dry Goods Co.)

(Numbers in parentheses refer to companies listed in Appendix.)

Many other types of material charges or credits appeared infrequently in the income statements prior to the determination of net income:

"Probable future expenditures applicable to current operations." (Westinghouse Electric Corp.)

"Provision for loss on exploratory activities in foreign countries." (Sinclair Oil Corp.)

"Appropriation of net income for possible further loss on foreign investments." (American Tobacco Co.)

"Income from settlement of insurance claim." (Copperweld Steel Corp.)

"Special provisions against decline in exchange rates." (Lone Star Cement Corp.)

"Inactive mill property expenses, net including depreciation." (American Writing Paper Corp.)

"Estimated taxes recoverable on further replacement of inventories in 1950." (Archer-Daniels-Midland Co.)

"To give effect to normal stock method." (Endicott Johnson Corp.)

"Recoveries of amounts due from foreign subsidiaries or advances to affiliated companies charged off in prior years; and refunds (received or claimable) of prior years' costs and expenses." (Reynolds Metals Co.)

"Patent Amortization" (American Woolen Co.)

"Retirement Plan Credits" (Wright Aeronautical Corp.)

"Provision for estimated refund of profits to United States government under Vinson-Trammell Act on uncompleted contracts." (Grumman Aircraft Engineering Corp.)

"Adjustment of vacation accruals to tax basis (net of tax)." (National Supply Co.)

"Non-Operating Property expense." (Continental Motors Corp.)

"Write off of questionable assets by President's order." (Harvill Corp.)

Eight companies were noted which showed on their income statement credits for estimated refunds of prior years' federal income taxes arising from carry-back of operating losses and on their balance sheets a receivable for the same amount. The Cudahy Packing Co. included the credit in "costs and expenses," Brown & Sharpe Manufacturing Co. showed it as an income item, Crown Central Petroleum Corp. deducted from it the provisions for the current and prior years' federal income taxes and showed the net amount as the last credit on the income statement, while the remaining five companies used them as the last credit items. (27, 203, 320, 341, 429)

Camden Forge Company showed "accrued for contingencies" as the last deduction before determination of "net income transferred to earned surplus" on a combined "statement of profit and loss and earned surplus."

Earnings for the year 1949 were stated, in the president's letter, to be the amount transferred to earned surplus ($196,426.79). The earnings per share (on common stock after payment of dividends to preferred shareholders) was also based upon the net amount transferred to earned surplus after deducting the accrual for contingencies. For purposes of this study this accrual for contingencies has been considered an income deduction since no reserve for contingencies was shown on the balance sheet.

Where there is a question as to whether the special adjustments should be considered as income deductions or as earned surplus adjustments, they are here considered as income deductions.

In the statement of income of The Glenn L. Martin Company (see table below) the earnings per share of stock and total earnings for the year 1949 ($5,131,500) were stated or based upon the amount before deducting the "special adjustments," although the following quotation from the president's letter refers to the balance after deduction of the special adjustments as the "net income transferred to earned surplus":

"Net Worth—Net income transferred to earned surplus, in the amount of $2,834,397, was smaller than total earnings for 1949, primarily because the renegotiation refund for 1945, as determined last year, was $2.8 million larger than the provision which had been set aside in prior years for this purpose. Earned surplus has nevertheless been restored, after other adjustments, to above $6.1 million which, together with capital stock and capital surplus, brings the total net worth of the Company to more than $19.6 million, or above $17 per share of stock."

"Net Income For The Year Before Special Adjustments			$5,131,500
Special Adjustments:			
Charge—Excess of renegotiation refund applicable to the year 1945 over reserve provided therefor		$2,809,339	
Credits: Reversal of reserve for contingencies no longer required	$275,212		
Federal and State income tax applicable to prior years—net (Federal $194,884; State $42,140)	237,024	512,236	
Remainder—special adjustments—net			2,297,103
Balance Transferred to Earned Surplus			2,834,397"

(Glenn L. Martin Co.—statement of income)

section 4: retained income

"Retained income (earned surplus)" terminology

The trend toward using other terminology for "earned surplus" was given great impetus in October, 1949 by the issuance of Accounting Research Bulletin No. 39, "Discontinuance of the Use of the Term 'Surplus.'" In this bulletin, the subcommitte on terminology recommended among other things, that "The term *earned surplus* be replaced by terms which will indicate source, such as *retained income, retained earnings, accumulated earnings,* or *earnings retained for use in the business.*"

In their 1949 reports, seventy-six companies discontinued the use of the term "earned surplus," with fifty-four substituting a term using the word "retained" as a part of the title. (For names of several companies which substituted variations of "earnings retained in the business" or other titles using the word "retained" for "earned surplus" refer to the following numbers listed in Appendix: 3, 8, 19, 40, 56, 95, 106, 123, 143, 151, 174, 198, 209, 263, 281, 290, 327, 365, 399, 408, 416, 469, 481, 489.)

1949	1948	1947	
335	406	446	Earned surplus (deficit) (1, 36, 67, 161, 219, 224, 246, 347, 420)
19	24	23	Surplus or deficit (15, 50, 86, 127, 384, 403, 516)
1	1	1	Further surplus (11)
2	3	3	Operating surplus or surplus from operations (340, 426)
1	...	...	*Retained* profits (477)
12	...	...	Accumulated *retained* earnings or earnings *retained* (3, 197, 292, 351, 354, 365)
51	22	10	(Net or accumulated) earnings *retained* (for use) in the business (95, 128, 152, 216, 281, 288, 329, 353, 465, 489)
18	11	7	(Net, balance of, or accumulated) income *retained* (for use) in the business (81, 89, 258, 272, 337, 377, 483)
1	...	...	Earnings *retained* for requirements of the business (423)
10	5	3	Earnings *retained* and invested in the business (87, 194, 312, 392, 459)
7	4	1	Earnings *retained* and used (in use) in the business (269, 408, 421)
1	2	1	Income *retained* and invested in the business (349)
1	3	1	Profits *retained* in the business (278)
1	1	...	Profit *retained* and employed in the business (304)
2	2	1	Earnings *retained* and employed in the business (31, 355)
1	1	1	Profits *retained* in the business less amounts transferred to capital stock account (456)
1	1	1	Other capital and income *retained* in the business (283)
1	1	1	Earnings accumulated since inception, *retained* and invested for the conduct of the business (117)
...	...	1	Income accumulated and *retained* in the enterprise
4	3	1	Earnings *reinvested* (280, 447)
8	5	1	Earnings *reinvested* in the business (59, 240, 479)
2	2	2	Income *reinvested* in the business (434, 499)
1	...	...	Income *reinvested* or employed in the business (511)
1	1	1	Earnings *reinvested* and employed (461)
4	2	1	Earnings *reinvested* or retained in the business (289, 294)

3	3	2	Income *invested* in the business (98, 259)
1	1	1	Earnings *invested* in plant facilities and working capital (34)
2	2	...	Accumulated earnings *invested* in the business (107, 488)
3	1	1	Earnings *invested* (for use) in the business (213, 214, 400)
6	6	6	Accumulated earnings (297, 397, 437)
2	...	...	Earnings accumulated since a specific date (291, 438)
15	7	3	(Accumulated) earnings *employed* in the business (58, 121, 371, 441, 501)
2	1	1	(Net) income *employed* in the business (462, 520)
1	1	2	Profit *employed* in the business (118)
2	...	...	Unappropriated earnings *employed* in the business (206, 221)
2	2	1	Earnings *used* in the business (241, 436)
1	1	1	Undivided profits (167)
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Sixty-one companies included in the above tabulation (fifty-four using the term "earned surplus") indicated that their earnings had been accumulated since a specific date. (35, 67, 72, 129, 226, 229, 390, 452, 495)

Eleven companies used the term "earned surplus" but added an explanatory phrase. Some examples are:

"Earned surplus (net income retained for use in the business)" (General Motors Corp.)

"Earned surplus—representing earnings reinvested in the business, after deducting all dividends" (U. S. Gypsum Co.)

"Earned surplus (earnings retained in the business)" (Standard Oil Co. (Ky.))

"Earned Surplus—past earnings retained for use in the business" (Mohawk Carpet Mills, Inc.)

United Fruit Company, Stokely-Van Camp, Inc., and Geo. A. Hormel & Company showed that amounts had been transferred from retained income (earned surplus) to capital stock account by adding an explanatory phrase to the title.

Gulf Oil Corporation continued its use of "earnings employed in the business (earned surplus)," and Allied Stores Corp. again placed "earned surplus" in parentheses after its title "Earnings retained for use in the business since June 1, 1935."

R. H. Macy & Co. commented in a footnote:

"Earnings reinvested in the business of $23,940,993 are after deducting $11,621,786 of such earnings transferred to capital in connection with the declaration of stock dividends in prior years."

Marathon Corporation and Endicott Johnson Corporation commented in their presidents' letters upon the change in terminology of their retained income (earned surplus) accounts:

"For the first time we are omitting the term 'Surplus' from our financial statements. The commonly accepted meaning of 'Surplus' outside of accounting and financial circles is 'that which remains when use or need is satisfied; excess; more than sufficient.' As an accounting term 'Surplus' has an entirely different meaning and this difference leads to confusion in the minds of many people. We are pleased to see the accounting profession is recognizing the desirability of clarification." (Marathon Corp.)

"In accordance with the trend in accounting practice and on the advice of our accountants, the term 'earned surplus' in our statements has been changed to 'accumulated retained earnings.' " (Endicott Johnson Corp.)

Terminology for "surplus" other than "retained income (earned surplus)"

The trend to use new terminology to replace "surplus" as used in "capital surplus" and "paid-in surplus" continued in 1949 although it was not as pronounced as was the use of substitute titles for "earned surplus." There was a net decrease of thirty-nine in the number of companies using the titles "capital surplus," "paid-in surplus" or "capital surplus—paid-in."

The new terms most favored continued to be:

"Additional paid-in capital" (8, 106, 146, 259, 290, 300, 351, 431, 448)

"Capital in excess of par value" (139, 177, 209, 294)

It is evident that a large number of companies included in the study are endeavoring to replace the term "surplus" with terminology indicating the source from which the proprietary capital was derived. Because of the current interest in such terminology the following tabulation is furnished in detail, without combining title variations:

1949	1948	1947	1946	
146	145	141	129	None shown

226	255	274	301	Capital surplus (107, 109, 151, 158, 205, 224, 275, 306, 458)
57	65	71	82	Paid in surplus (35, 48, 63, 201, 231, 320, 375)
4	6	5	4	Capital surplus—paid in (183, 188, 219, 261)
19	11	2	...	Additional paid-in capital (90, 152, 259, 290, 300, 353, 448)
2	1	2	5	Capital in excess of stated amount (240, 324)
10	6	1	...	Capital in excess of par value (of stock issued) (95, 139, 204, 294, 459, 462)
3	...	...	...	Amount paid in for (or assigned to outstanding) shares in excess of par (or stated) value (capital) (59, 198, 325)
6	5	5	3	Surplus arising from revaluation of property (appraisal or appreciation surplus) (36, 60, 185)
1	1	1	2	Capital paid for common stock in excess of par value (214)
3	2	4	2	Combined with capital stock (57, 337, 434)
2	1	1	1	Capital paid-in, in addition to capital stock (267), in excess of par values of capital stock (465)
1	1	1	1	Initial and capital surplus (310)
3	3	3	1	(Capital) surplus arising from retirement of stock (15, 270, 430)
1	1	1	1	Initial surplus (12)
1	1	1	1	Surplus arising from acquisition of certain wholly-owned subsidiaries (195)
1	1	1	...	Other capital (and income retained in the business) (283)
1	1	2	...	Excess of net capital invested by stockholders over par value of outstanding capital stock (paid-in surplus) (42)
1	...	...	...	Credit arising from retirement of preferred stock (available for dividends on, or retirements of preferred stock) (483)
1	...	...	...	Premium paid for preferred and common stock in excess of par value (412)
1	...	...	...	Other (principally amount paid in in excess of par value) (501)
1	1	1	...	Surplus available except for dividends on common stock (352)
1	...	...	...	Capital resulting from a reduction of the amount assigned to common shares (249)
1	...	...	...	Sundry capital credits (418)
1	1	...	...	Excess of amounts contributed for common stock over par value (505)
1	...	...	...	Investment in excess of stated value of common stock (222)
1	...	...	...	Other capital contributed upon issuance of shares (400)
1	...	...	...	Other contributed capital (9)
1	...	...	...	Earnings segregated by stock dividends and gains on distribution of capital stocks acquired (281)
1	...	...	...	Excess of net proceeds received from sale of shares of capital stock formerly held in treasury over cost thereof (295)
3	...	...	...	Capital contributed (for common stock) in excess of stated value (of capital stock) (438)
2	2	1	...	Amount received in excess of par value of capital stock (246, 441)
1	1	1	...	Stockholders' investment in excess of par value of common stock (213)
2	2	1	...	Premium on sale of common shares (or capital stock) (36, 483)
1	1	1	...	Surplus arising from transfer of nickel properties in Finland (273)
1	1	...	...	Amount received (net) for capital stock in excess of par value (paid-in surplus (155)
1	1	...	...	Capital in excess of stated value of common stock (377)
1	1	1	...	Excess of assets of consolidated companies acquired over cost (461)
1	1	...	...	Amount paid in by stockholders in excess of par value (485)
1	1	...	...	Further amounts paid in by stockholders (435)

1	...	...	...	Capital contributed (designated as represented by common stock with par value) (449)
1	1	...	...	Additional amounts received for shares issued in excess of fixed amount and discounts on repurchase of preferred stock (13)
5	2	...	...	Additional capital (311, 408, 416, 507) from issued shares (paid-in capital) (299)
2	3	4	...	Paid-in and (other) capital surplus (67, 343)
4	2	2	...	Capital contributed (by stockholders) in excess of par value of securities (117, 174, 399, 472)
1	1	1	...	Other capital (excess of stated capital over net assets in 1939 plus subsequent additions) (89)
2	2	1	...	Amount paid the company for capital stock in excess of par value (30, 514)
2	2	2	...	Surplus—capital — arising from reduction of capital (45, 515)
1	1	1	...	Capital (paid-in) surplus (68)
4	2	2	...	Capital paid-in (by stockholders) in excess of capital stock (121, 212, 323, 488)
1	1	1	...	Capital (principally paid-in) in excess of amounts shown for capital stock above (524)
2	2	1	...	Surplus from conversion of preferred stock (53, 274)
1	1	1	...	Excess of amounts received over stated capital (278)
2	2	4	...	Amount in excess of par value (304, 461)
1	1	1	...	Surplus paid in by stockholders (in excess of par value of capital stocks, less financing expenses) (395)
1	1	1	...	Capital—donated and paid in (383)
1	...	...	...	Reduction in stated value of capital stock in prior year (capital surplus) (401)
...	...	3	...	Unclassified titles used in prior year
545	543	547	533	

(Numbers in parentheses refer to companies listed in Appendix.)

A few companies continued using the terms "capital surplus" and "paid-in surplus" but added a further explanation on the balance sheet. Several examples are:

"Capital Surplus created through retirement of Preferred Stock" (American Asphalt Roof Corp.)

"Capital Surplus (Arising from issuance of 25,000 Shares of Common Stock during 1949 at $30,375 Per Share)" (Doehlar-Jarvis Corp.)

"Paid-in Surplus (Excess over par value of Common Stock sold in 1949)" (Liggett & Myers Tobacco Co.)

"Capital surplus (additional paid-in capital)" (Standard Oil Co. (Kentucky))

Twentieth Century-Fox Film Corporation shows the following on its balance sheet:

"Paid-in surplus:
Unappropriated
Appropriated for preferred stock retirements"

Retained income (earned surplus) charges and credits

No charges or credits to retained income (earned surplus) other than for dividends and net income for the year were reported by 297 out of the 525 reports tabulated in 1949. This is slightly more than the 263 companies which showed no charges or credits in 1948 and represents approximately fifty-seven per cent of the companies tabulated.

Retained income (earned surplus) charges (excluding dividends)

The following tabulation of charges to "retained income (earned surplus)" for the year 1949 reveals a large decrease in the total number of items:

1949	1948	1947	1946	
391	358	340	...	None shown
27	40	60	65	Prior years' adjustments
36	42	60	62	Capital stock transactions
36	60	39	27	To reserves
16	17	31	32	Write-off of intangibles
...	...	3	8	Bond discount—write-off
1	3	4	7	Recapitalization expenses

3	9	9	6	Consolidation and merger adjustments
8	7	2	3	Unusual losses
34	41	40	17	Miscellaneous
552	577	588	227	

Prior year and miscellaneous adjustments

There was little change in the number of adjustments resulting from examinations of prior years' federal income tax returns. Several companies adjusted their prior years' provisions for depreciation and bad debts and one company adjusted its property, plant and equipment bases to agree with those determined for federal income tax purposes.

The devaluation of certain foreign currencies caused a large increase in exchange adjustments charged to retained income (earned surplus).

Reserve adjustments

There was a marked decrease in 1949 as compared with 1948 in charges for the purpose of increasing reserves. This reduction might indicate a return to more normal business conditions.

A listing of the charges included in each of the above classifications follows:

Prior years adjustments

17 Taxes (48, 49, 88, 112, 135, 322, 340, 373, 517)
1 Additional Massachusetts excise tax (Moxie Co.)
1 Dividends rescinded by foreign subsidiary (Jantzen Knitting Mills Inc.)
1 Adjustment of bad debt provisions and write-off of bad debts of prior years to agree with basis required in connection with redetermination thereof for federal income tax purposes (Cuneo Press, Inc.)
4 Not specified (Goldblatt Bros., Inc., Amalgamated Sugar Co., Regal Shoe Co., Beech Aircraft Corp.)
1 Excess of replacement cost over basic LIFO cost of inventories "involuntarily liquidated" in 1947 (less refundable federal tax) (Tide Water Associated Oil Co.)
1 Adjustments for prior years' depreciation and other items, resulting from examination of tax returns by Bureau of Internal Revenue (Burlington Mills Corp.)
1 Net adjustment of property, plant and equipment and reserves for depreciation and reserve for doubtful accounts, as of December 1, 1948, to bases agreed for federal income-tax purposes (Struthers Wells Corp.)

Capital stock transactions

11 Premium on stock retirement charged in total to earnings retained (24, 44, 205, 211, 374, 442, 518)
1 Expense of stock issued charged in total to earnings retained (Sharp & Dohme, Inc.)
1 Premium paid on redemption of preferred shares of the company in excess of paid-in surplus applicable thereto (Cuneo Press, Inc.)
9 Premium on purchase of treasury stock charged in total to earnings retained (includes excess of cost over stated value) (56, 160, 164, 448, 477)
1 Excess of stated value of common stock held in treasury over proceeds of the sale less the discount allowed to underwriters (Bethlehem Steel Corp.)
2 Cost of treasury stock purchased during the year (Time, Inc., Union Oil Co. of Calif.)
7 Amount transferred to capital stock to increase par or stated value (54, 124, 128, 170, 466, 488, 511)
1 Charges in connection with the issuance of preferred stock (net of proceeds received in excess of the par value thereof, $8,401) (Sutherland Paper Co.)
1 Premium on 5% preferred stock retired—excess of premiums paid on redemption over net premium received (Safeway Stores, Inc.)
1 Transfer to common stock sufficient to bring previous stated value up to new par value after issuance of two shares of $10 par value common for each share of no par common (Caterpillar Tractor Co.)
1 Transfer to common stock incident to reclassification of common stock from no par value to par value of $15 per share and issuance of $1^1/_{10}$ shares for each share then outstanding (Geo. A. Hormel & Co.)

To reserves

1 Appropriation for contingencies less amount applicable to minority interest (City Stores Co.)
1 Unrealized loss on investments (R. R. Mallory & Co., Inc.)
1 Income tax contingencies less reserve for contingencies previously accumulated (General American Transportation Corp.)
5 Contingencies (115, 319) at foot of income statement after determination of "net income" (164, 226, 391)
5 Future inventory losses (117, 170, 333, 469) and other contingencies (240)
1 Appropriation as sinking fund for preferred stock (United Artists Theatre Circuit, Inc.)
9 Replacement of fixed assets at higher than original costs and contingencies (11, 59, 108, 197, 239, 306, 469, 473, 525)
3 Appropriation to statutory reserves by South American subsidiaries (32, 315, 490)
2 Pensions (American Sugar Refining Co., McGraw-Hill Publishing Co., Inc.)
1 Research and development (A. O. Smith Corp.)
1 Creation of reserve for workmen's compensation contingencies (Eastern Malleable Iron Co.)
2 Provision for loss on disposal or liquidation of certain assets (Curtiss-Wright Corp., Pepsi-Cola Co.)

1 Unrealized foreign earnings of prior years transferred to reserve (Gillette Safety Razor Co.)
1 Additional provision for loss on advances to other producers (Pathé Industries, Inc.)
1 Appropriated to reserve for crop hazards and other contingencies (Consolidated Cigar Corp.)
1 Appropriated during year for abnormal construction and increased replacement costs (United Fruit Co.)

Write-off of intangibles
4 Difference between cost of investment and book value of investment at time of acquisition (52, 198, 417, 493)
1 Write-off of cost of intangible assets (goodwill, going concern value, etc.) acquired in the acquisition of the capital stock of Freyn Engineering Company (Koppers Company, Inc.)
1 Write-off of goodwill arising in connection with acquisition of the H. Belfield Company (Minneapolis-Honeywell Regulator Co.)
4 Write-off of goodwill purchased or acquired during the year (23, 78, 94, 211)
6 Write-off of intangibles (37, 55, 121, 230, 373, 433)

Recapitalization expenses
1 Recapitalization and refinancing expenses (Drackett Co.)

Consolidation and merger adjustments
1 Adjustments pertaining to exchange of stock related to merger consummated October 22, 1945 (Colorado Fuel and Iron Corp.)
1 Deficits at December 31, 1948, of subsidiaries not then consolidated (National Cylinder Gas Co.)
1 Adjustments arising from the purchase of minority interests in stock of subsidiary companies (United Merchants & Mfrs., Inc.)

Unusual losses
1 Loss on sale of subsidiary company applicable to earnings subsequent to specific date (U. S. Finishing Co.)
6 Loss on sale of assets (135, 266, 502) less estimated tax reduction or portion equal to tax reductions (6, 45, 209)
1 Loss on sale of capital stock of The Linn Manufacturing Corporation (American-La France-Foamite Corp.)

Miscellaneous
1 Depletion of Mines (Phelps Dodge Corp.)
1 Charges in connection with retirement plans (Standard Oil Co. of Calif.)
16 Exchange adjustments
1 Adjustment in value of investments—net (Westinghouse Electric Corp.)
3 Adjustment resulting from cash to accrual method of accounting for vacation pay (Billings & Spencer Co., Clark Equipment Co.) less estimated income taxes (Allegheny Ludlum Steel Corp.)
1 Call premiums, less discounts, and other costs on debentures retired during 1949, less estimated reduction in federal income taxes ($1,704,000) applicable thereto (Cities Service Co.)
1 Idle studio expenses (Pathé Industries, Inc.)
1 Write-down of story rights and scenarios (Pathé Industries, Inc.)
1 Segregation of earnings of European subsidiaries at December 30, 1939 not realized in U. S. dollars (United Fruit Co.)
1 Extraordinary expenses in connection with legal proceedings terminated during the year, net of recoveries (Lerner Stores Corp.)
1 Other charges (Creamery Package Mfg. Co.)
1 Interest and dividends paid on old gold certificate (Griess-Pfleger Tanning Co.)
1 Elimination of undistributed net earnings of unconsolidated subsidiaries, foreign branches and licensees previously included in earned surplus (Bristol-Myers Co.)
1 Adjustment of fixed asset valuations to cost less reserves for depreciation as computed by The American Appraisal Company (Vanadium-Alloys Steel Co.)
1 Investments (Liberty Products Corp.)
1 Wisconsin privilege dividend tax paid for stockholders (Nash-Kelvinator Corp.)
1 Vacation salaries of prior year less federal income taxes applicable thereto (United Piece Dye Works)

Retained income (earned surplus) credits (excluding net income for the year)

The 525 companies included in this year's study disclosed a reduction in the number of items credited to retained income (earned surplus).

Transfers from reserves

As in the three preceeding years, approximately half of the credits to retained income (earned surplus) consisted of transfers from various reserves. The elimination of contingency reserves continued to account for the majority of the credits.

In 1949 there was a noticeable increase in the number of transfers from reserves provided in prior years for future inventory price declines. (See pp. 74 for a discussion of decreases in reserves provided for future inventory price declines and contingencies.)

Prior year adjustments

The reduction in the items included in this classification was principally due to a reduction in credits arising from tax adjustments.

1949	1948	1947	1946	
377	355	372	...	None shown
101	96	98	92	From reserves
40	73	53	69	Prior year adjustments
3	16	17	18	Unusual gains
6	17	8	17	Consolidation and merger adjustments
7	5	7	5	Adjustment of investment in subsidiaries
7	5	4	4	Capital stock transactions
25	25	20	21	Miscellaneous
566	592	579	226	

The details of the items included in the above classifications in 1949 follow:

From reserves

37 Contingencies (including variations of this title) (1, 3, 7, 10, 23, 36, 40, 46, 60, 61, 74, 81, 82, 85, 135, 158, 161, 168, 175, 219, 256, 297, 334, 335, 349, 363, 376, 395, 396, 402, 405, 423, 450, 490, 517, 521) at foot of income statement after determination of "net earnings for the year" (436)

22 Future inventory price declines and other contingencies (including variations of this title) (28, 40, 67, 73, 93, 132, 137, 145, 154, 155, 157, 165, 229, 251, 264, 341, 358, 469, 500, 510) shown on combined statement of income and retained income (earned surplus) after "net income" but before opening surplus balance (180, 193)

1 Contingency reserve for doubtful accounts not presently required, transferred to earnings retained (Bayuk Cigars Inc.)

1 Future inventory losses (Lukens Steel Co.)

1 Adjustments of metal inventory reserves (American Metal Co., Ltd.)

1 Reserve of $2,750,000 for inventory price declines and other contingencies accumulated during prior years, not used, now transferred net of minority interest (Crown Zellerbach Corp.)

1 Future losses on inventories and commitments (Bristol-Myers Co.)

1 Price decline and other inventory contingencies (Borg-Warner Corp.)

1 Reserves previously established from earned surplus no longer required (Anderson, Clayton & Co.)

1 Restoration of portion of reserve for intra-plant inequities not required (Colorado Fuel and Iron Corp.)

1 Plant expansion (Gleaner Harvester Corp.)

1 Replacement of plant and equipment (Hamilton Watch Co.)

2 Service guaranty (168, 521)

1 Not named (R. J. Reynolds Tobacco Co.)

1 Self-insurance reserve—no longer required (International Shoe Co.)

1 Restoration of appropriations of prior years (shown in statement of appropriated accumulated retained earnings to include appropriations for employees' recreational and welfare facilities, for replacement costs of plant and equipment, for future payments under retirement plan and for self-insurance) (Endicott-Johnson Corp.)

1 Elimination of reserve against investments in foreign subsidiaries due to increase in underlying net assets during the year (Armstrong Cork Co.)

1 Cancellation of allowance (provided from earned surplus in prior years) for loss on investments in affiliated companies (Reynolds Metals Co.)

1 Investments and securities (Allied Chemical & Dye Corp.)

5 Marketable securities (6, 37, 254, 478, 482)

1 Percentage depletion (Alabama Fuel & Iron Co.)

3 Depreciation (51, 135, 373)

1 Adjustment of specific reserves for bottles and cases (net) (Jacob Ruppert)

2 Doubtful notes and accounts receivable (48, 187)

1 Fire loss replacement (Ralston Purina Co.)

1 Portion of reserve for post-war refunds no longer required (Safety Car Heating and Lighting Co., Inc.)

3 Reserve for replacement of facilities at current cost (or similar titles) (156, 306, 374)

1 Adjustment of accumulated depreciation on fixed assets for prior years based on a new life-term basis established by the Treasury Department (Less—Additional federal income taxes thereon) (Liberty Products Corp.)

1 Appropriations rescinded by action of the board of directors (Champion Paper and Fibre Co.) (Balance Sheet, dated March 31, 1949, showed the earned surplus appropriated:
For possible extraordinary losses from abandonment of property
For possible losses from revaluation of inventories
For increased cost of property replacement)

1 Inventory adjustments and obsolescence provided in prior years credited to earnings invested in the business (Timken Roller Bearing Co.)

1 Reversal of reserve provided in prior years for possible future extraordinary losses on accounts receivable and inventories (Ruberoid Co.)

1 Future decline in inventory commodity price (Otis Elevator Co.)

1 Inventory losses (Buckeye Steel Castings Co.)

1 Restoration to unappropriated earnings retained in the business of amount previously provided for investment in Rustom-Bucyrus, Ltd. (Bucyrus-Erie Co.)

Prior year adjustments

18 Taxes—prior years' provisions or reserves excessive (20, 33, 102, 129, 150, 152, 167, 197, 212, 251, 310, 312, 349, 373, 379, 403, 427, 518)

8 Refunds or claims for refund of prior years' taxes (37, 157, 183, 264, 446, 473) (722 claim—109, 414)

2 Adjustment of depreciation to tax basis (132, 341)

2 Adjustments (net) to property accounts resulting from Internal Revenue Agent's examination (P. R. Mallory & Co., Inc.) (less applicable federal income tax thereon) (Griess-Pfleger Tanning Co.)
1 Adjustment of prepaid taxes and insurance (prior year) and miscellaneous (Griess-Pfleger Tanning Co.)
1 Restoration of capital expenditures previously written off (Craddock-Terry Shoe Corp.)
1 Excess provision for doubtful accounts (Fairbanks Co.)
1 Adjustment of losses on sales of ore lands—prior years (Alabama Fuel & Iron Co.)
1 Net surplus credit arising from examination of income tax returns (Raybestos-Manhattan, Inc.)
1 Reduction in depreciation provision for prior years and adjustment of prior year estimated insurance claims (E. J. Brach & Sons)
4 Not specified (152, 303, 450, 503)

Unusual gains
1 Profit on sale of investment in a public utility subsidiary (excluding its undistributed surplus) (Cities Service Co.)
1 Profit on sale of fixed assets (Koppers Co., Inc.)
1 Profit on sale of investments (Koppers Co., Inc.)

Consolidation and merger adjustments
3 Surplus of subsidiary upon consolidation (55, 58, 409)
1 Adjustment of provision for minority interests in subsidiary company (Bay Petroleum Corp.)
1 Share of undistributed earnings of companies consolidated for the first time (Paramount Pictures Inc.)
1 Earned surplus of subsidiary merged less portion applicable to shares of subsidiaries' stock purchased prior to merger and other treasury shares, all of which were retired (McGraw Electric Co.)

Adjustment of investment in subsidiaries
1 Revaluation of investments in affiliates for differences between the equity in the net earnings or losses and the dividends paid (General Electric Co.)
1 Transfer of portion of net earnings of Canadian subsidiary for year 1946 (Raybestos-Manhattan, Inc.)
1 Additional valuation assigned to investment in a subsidiary (Pathé Industries, Inc.)
1 Adjustment of acquisition surplus of Canadian subsidiary (H. H. Robertson Co.)
1 Excess of book value over cost of shares of capital stock of subsidiary purchased (Allegheny Ludlum Steel Corp.)
2 Valuation assigned to investment in subsidiary formerly carried at no value (374, 417)

Capital stock transactions
2 Excess of par value over cost of cumulative preferred stock retired (158, 228)
1 Recovery of cost of shares of treasury stock sold (Time, Inc.)
1 Cost of treasury stock (restored to unissued status) charged off (Archer-Daniels-Midland Co.)
1 Cancellation of amounts capitalized in connection with 1948 stock dividend applicable to scrip certificates which expired (Liberty Products Corp.)
1 Excess of stated value over cost of preferred stock purchased (Electric Boat Co.)
1 Cost of 35,200 shares of capital stock reacquired prior to January 1, 1949, previously treated as a reduction of earned surplus, now shown on the balance sheet under the caption, "Treasury Stock" (McGraw-Hill Publishing Co., Inc.)

Miscellaneous
2 Portion of expenditures in prior years required to be capitalized for federal income-tax purposes less applicable federal income tax (147, 484)
4 Sundry items (123, 135, 243, 514)
1 Renegotiation rebates (Billings & Spencer Co.)
1 Realized investment appreciation transferred from capital surplus (Armour and Co.)
3 Transfer from appreciation surplus (36, 56, 60)
1 Reduction of obligation on purchase of subsidiary (Buffalo Bolt Co.)
1 Approximate federal income taxes at current rates applicable to provision for the year to give effect to normal base stock method of inventory (Endicott Johnson Corp.)
2 Discount on reacquired mortgage bonds (1, 476)
1 Increase in carrying amount of inventory of used trailers (trade-ins and repossessions) at January 1, 1949, from $1 each to appraised value, reduced for estimated disposal costs less federal income taxes thereon of $600,000 applicable to prior years (Fruehauf Trailer Co.)
1 Adjustment of purchase price of tanker under provisions of Merchant Ship Sales Act of 1946 (Barber Oil Corp.)
2 Increase in market value of marketable securities (116, 482)
1 Restricted earnings from pipeline operations (Standard Oil Co. (N. J.))
1 Increase in inventory valuation of refined products as the result of a change from fixed costs to the lower of cost or market, less provision for estimated additional federal and state taxes thereon (Mid-Continent Petroleum Corp.)
1 Restoration of appropriations for conversion of preferred stock (Argo Oil Corp.)
1 Cancellations of dividends but not paid on preferred stock which reverted to the company (Autocar Co.)
1 Unexpired subscriptions (McGraw-Hill Publishing Co., Inc.)
1 Recovery on investments previously charged off (Glidden Co.)

"Surplus" appropriations

In the annual reports of the 525 companies included in the 1949 study, fifty-eight instances were noted where companies showed reserves or appropriations of "surplus" in their net worth section of the balance sheet. A few examples of some of these various reserves or appropriations are listed below. (See Exhibit 13, p. 90.)

(1) "Appropriated for contingencies" (California Packing Co., City Stores Co., Master Electric Co., Wagner Electric Corp.)

(2) "Surplus reserved for contingencies" (City Products Corp.)

(3) "Reserve for contingencies" (Dictaphone Corp., Sharp & Dohme Inc.)

(4) "Appropriated as reserve for contingencies" (Air Reduction Co., Inc.)

(5) "Earned surplus—since January 1, 1938:
Appropriated as a reserve for general contingencies
Unappropriated" (Mohawk Rubber Co.)

(6) "Appropriated for:
Inventory adjustment
Insurance reserve" (General Cigar Co., Inc.

(7) "Income appropriated for possible adjustments of merchandise values" (S. S. Kresge Co.)

(8) "Earned surplus, including $700,000.00 appropriated in recognition of increased cost of replacement of machinery and equipment" (E. J. Brach & Sons)

(9) "Contingent Reserves (earned) and Undivided Profits to December 31, 1940" (Curtis Publishing Co.)

(10) "Earnings retained in business less amounts transferred to capital stock account:
Appropriated:
Self-insurance
Abnormal construction and increased replacement costs
Adjustments in materials and supplies
Earnings of European subsidiaries at December 30, 1939 not realized in U. S. dollars
Not specifically appropriated" (United Fruit Co.)

(11) "Appropriated for exploration and acquisition of oil reserves" (Panhandle Producing & Refining Co.)

(12) "Reserves
For Inventories
For Contingencies"
(Bigelow-Sanford Carpet Co., Inc.)

(13) "Surplus reserves:
For foreign contingencies
For inventory and other contingencies"
(Yale & Towne Mfg. Co.)

(14) "Surplus Reserve:
Possible Market Decline in Inventories"
(Allied Mills, Inc.)

(15) "Earnings invested in the business including income ($3,111,646.04) of constituent companies acquired in consolidation at June 16, 1937:
Reserved for compensation insurance
Reserved for post-war contingencies
For general purposes" (Gaylord Container Corp.)

In addition to "surplus" reserves or appropriations shown in net equity section, there were several cases where reserves relating to inventories, contingencies and plant replacements were presented above the net equity section as non-current items specifically designated as surplus reserves. A few of such treatments are listed below:

(1) "Appropriation for fluctuation in price of metals and for other contingencies" (International Silver Co.)

(2) "Surplus Reserves:
For Contingencies
For Possible Inventory Price Declines
For Losses on Unusual Property Disposals"
(Borden Co.)

(3) "Reserve for contingencies (appropriated earned surplus)" (Willys-Overland Motors, Inc.)

Materiality of charges and credits to "surplus"

The items included in this tabulation represent all charges and credits to retained income (earned surplus) other than dividends, entries relating to surplus reserves and charges and credits affecting capital. The percentages shown below indicate the relation of the net retained income (earned surplus) charges and credits to the average net income for the current and the preceding year.

1949	
365	None
74	Under 5%
26	5—10%
10	10—15%
5	15—20%
8	20—25%
37	Over 25%
525	

Capital surplus charges

The number of charges to capital surplus decreased in 1949, continuing the trend indicated in the tabulation for the previous three years. Less activity in the purchase and sale of stock accounted for the greater part of the decrease.

1949	1948	1947	1946	
17	27	46	51	Resulting from purchase and sale of stock
5	12	5	18	Transfers to capital stock
3	3	11	15	Write-off of intangibles
1	3	8	6	Transfers to earned surplus
2	1	3	3	Appropriations
7	5	6	5	Consolidation, merger and recapitalization entries
10	9	7	3	Miscellaneous
45	60	86	101	

The details of the above summary are listed below:

Resulting from purchase and sale of stock

Loss on sale of treasury shares of the corporation's capital stock (Eastern Stainless Steel Corp.)

Expenses in connection with offering of preferred stock to employees (American Cyanamid Co.)

Expenses in connection with the issuance of preferred stock (National Cylinder Gas Co.)

Excess of cost over par value of common stock purchased for treasury (Federated Department Stores, Inc.)

Common stock reacquired (American Writing Paper Corp.)

Common stock reacquired for treasury, less excess of market over par value of treasury shares issued to employees' profit-sharing plan (Burlington Mills Corp.)

Excess of market value over $12.50 per share on shares of common stock reacquired (Colgate-Palmolive-Peet Co.)

Excess of cost over the par value of preferred stock purchased (Macfadden Publications, Inc., United Artists Theatre Circuit, Inc.)

Net premium on shares of preferred capital stock purchased for retirement (Copperweld Steel Co.)

Excess of cost over stated value of preferred stock retired by sinking fund (Goldblatt Bros., Inc.)

Premium paid on shares of preferred stock purchased and retired (Johnson & Johnson)

Premium on shares of preferred stock purchased for retirement in each year under sinking fund provisions (Marathon Corp.)

Cost in excess of par value of treasury stock retired (Paramount Pictures Inc.)

Paid-in surplus applicable to preferred shares of the company redeemed (Cuneo Press, Inc.)

Premium on preferred stock retired less amount charged to retained income (Safeway Stores, Inc.)

Par value of treasury stock issued in exchange for old shares (Brockway Motor Co., Inc.)

Transfers to capital stock

Transfers to capital stock (54, 478, 488)

Amount transferred to common stock in connection with increase in par value of shares of Common Stock (Chrysler Corp.)

Par value of stock dividend shares credited to capital (Cuneo Press, Inc.)

Write-off of intangibles

Write-down of goodwill (Bucyrus-Erie Co.)

Appropriated for the reduction of Goodwill, Patents and Trademarks (American Safety Razor Corp.)

Write-off of goodwill, trademarks and patents of the company and its subsidiaries other than The Toni Company, less amount charged to earned surplus (Gillette Safety Razor Co.)

Transfers to earned surplus

Transfer of portion of amortization of appraisal appreciation applicable to capital surplus (American Republics Corp.)

Appropriations

Appropriation for preferred stock retirements (Twentieth Century-Fox Film Corp.)

Provision for retirement of preferred shares pursuant to articles of incorporation, less amounts restored to surplus (Interchemical Corp.)

Consolidation, merger and recapitalization entries

Transfer to earnings employed in the business due to consolidation of a subsidiary (Armour and Co.)

Adjustments in connection with merger:

- Earned surplus (deficit) of subsidiaries as of date of merger
- Excess of par value of new preferred stock-issuable over par value of preferred and common stocks of a subsidiary exchangeable therefor
- Less capital surplus of subsidiary as of date of merger (Foremost Dairies, Inc.)

Adjustment of acquisition surplus of Canadian subsidiary (H. H. Robertson Co.)

Adjustments resulting principally from acquisition of additional capital stock in majority-owned subsidiaries (Coca-Cola Co.)

Adjustments resulting from changes in ownership of various companies consolidated (Standard Oil Company (N. J.))

Net adjustment incident to liquidation of subsidiary company (Monsanto Chemical Co.)

Costs and expenses incidental to liquidation of subsidiary (Universal Match Corp.)

Miscellaneous

Adjustment of prior years' post-war refund of foreign excess profits taxes (Gillette Safety Razor Co.)

Capital adjustments (Republic Steel Corp.)

Loss on sale of subsidiary company (United States Finishing Co.)

Exchange of old gold certificate for cash and common stock (Griess-Pfleger Tanning Co.)

Transfer of realized investment appreciation (Armour and Co.)

Cancellation of note receivable held as part payment for common stock surrendered upon resignation of an executive (Associated Dry Goods Corp.)

Amortization of appreciation (Universal Match Corp.)

Appreciation (resulting from appraisal of land) applicable to property sold during 1949 (Autocar Co.)

Plant acquisition and other adjustments relating to a gas utility (including restoration to depreciation reserve) charged to surplus in accordance with orders issued by the Public Service Commission of the State of New York (Cities Service Co.)

Miscellaneous (Federated Department Stores, Inc.)

Capital surplus credits

The decrease in the number of capital surplus credits was very noticeable in 1949. This was due principally to a reduction from fifty-three to twenty-three in the number of instances where capital stock was issued at a premium.

1949	1948	1947	1946	
23	53	48	79	Premium on issuance of capital stock.
16	18	17	26	Conversion of capital stock into another issue of same company
5	3	4	13	Exchange of capital stock for that of other company
45	40	27	26	Treasury stock—purchase and retirement (and issuance in 1946)
10	8	13	...	Treasury stock—sale and distribution
11	5	12	20	Stock options and warrants
3	6	6	11	Restoration or realization of assets previously written off
6	7	7	9	Merger and consolidation adjustments
5	10	6	7	Transferred from reserves
4	5	8	6	Negative goodwill
16	20	8	5	Stock dividends
...	1	2	5	Change in equity in unconsolidated subsidiary
1	6	3	3	Transfers from earned surplus
6	18	18	8	Miscellaneous
151	200	179	218	

Details of the above summary are listed below:

Premium on issuance of capital stock

Excess of consideration received over par value of common stock issued under corporate simplification plan (Federated Department Stores, Inc.)

Excess of valuation assigned to stock issued in acquisition of a subsidiary over par value thereof (Ex-Cell-O Corp.)

Excess of book value of oil properties acquired over par value of common stock issued therefor (Bay Petroleum Corp.)

Value assigned to assets acquired in excess of the par value of common stock issued therefor (Piper Aircraft Corp.)

Excess of value of equipment acquired over par value of common stock issued therefor (Foremost Dairies, Inc.)

Excess of proceeds over par value on sale of capital stock of foreign subsidiary company (Burlington Mills Corp.)

Excess of proceeds over cost of stock sold during the year (H. H. Robertson Co.)

Excess of market value at dates of delivery over par value of common stock sold to employees (Dow Chemical Co.)

Excess of sales price over par value of common stock sold to holders of common stock (Dow Chemical Co.)

Credits resulting from transactions under employee stock plan (Libbey-Owens-Ford Glass Co.)

Amount received in excess of par value from sale of common stock to employees, less expenses (Westinghouse Electric Corp.)

Excess of issue price over par value for shares sold to underwriters, less expenses of company (Koppers Co., Inc.)

Excess of value assigned to common stock issued during year over stated value (J. I. Case Co.)

Excess of market value over par value of common stock sold to officers and employees (excess of market over selling price charged to expense as compensation) (Mid-Continent Airlines, Inc.)

Sales proceeds of shares in excess of par value per shares (American Box Board Co.)

Excess over par value of common stock sold (Liggett & Myers Tobacco Co.)

Excess of net consideration for shares of capital stock issued during the year over the assigned value thereof (Union Bag & Paper Corp.)

Excess of proceeds over par value of common stock issued under subscription agreements (General American Transportation Corp.)

Arising from issuance of common stock (Doehlar-Jarvis Corp.)

Excess of market value over par value of common stock issued for the net assets of a company (Minneapolis-Honeywell Regulator Co.)

Premium on common stock issued (Jantzen Knitting Mills Inc.)

Excess of market value of company stock issued to employees as compensation (Lear, Inc.)

Excess of consideration received over par value of common stock issued in the acquisition of a subsidiary company (May Department Stores)

Conversion of capital stock into another issue of same company

Excess of stated value of preference stock without par value over the par value of common stock into which it was converted (Monsanto Chemical Co.)

Excess of par value of preferred stock converted to common stock (Burlington Mills Corp.) over stated value of the common stock (Kimberly-Clark Corp.)

Surplus arising from conversion of preferred stock into common stock (140, 162, 220) less amount paid for fractional shares (352)

Excess of conversion price over par value of common stock issued on conversion of second preferred stock (Dow Chemical Co.)

Excess of stated value of preferred stock over par value of common stock into which converted (Avco Mfg. Corp.)

Preferred stock purchased and converted into common stock (American Hide and Leather Co.)

Surplus arising from issuance of common stock on conversion of convertible notes (Paramount Pictures Inc.)

Excess of par value of preferred stock over par value of common stock issued therefor through conversion (Foremost Dairies, Inc.) upon conversion thereof (Sampson United Corp.)

Excess of par value of shares of preferred stock converted over par value of shares of Common Stock issued upon conversion (American Cyanamid Co.)

Excess of par value of preferred stock, converted during the year, over paid-in value of common stock issued therefor (Atlas Powder Co.)

Excess of par value of Class "A" stock over par value of common stock issued during the year in conversion thereof (Miller Mfg. Co.)

Exchange of capital stock for that of other company

Stock issued in exchange for investment in a subsidiary company (Standard Oil Co. (N.J.))

Surplus arising in connection with the issuance of common stock in exchange for securities of predecessor corporation (Studebaker Corp.)

Excess of book value of shares of subsidiary companies acquired over par value of capital stock issued in exchange therefor (Bausch & Lomb Optical Co.)

Excess of par value of capital stock of subsidiary over par value of common stock issued in exchange therefor (McGraw Electric Co.)

Excess of issue price over par value for shares issued to acquire the capital stock of a subsidiary company (Koppers Co., Inc.)

Treasury stock—purchase and retirement

Credit arising through retirement of preferred stock (Twentieth Century-Fox Film Corp.)

Excess of par value over cost of preferred stock retired (69, 100, 462, 493)

Excess of par value over cost of preferred stock acquired during the year (Associated Dry Goods Corp.)

Discount on preferred shares purchased and retired pursuant to articles of incorporation (Interchemical Corp.)

Discount on repurchase of preferred stock during year (Allied Stores Corp.)

Redemption of preferred stock (Jacob Ruppert)

Surplus arising from purchase and cancellation of preferred stock (Crown Zellerbach Corp.)

Discount on preferred stock purchased (93) and retired (78, 115) for retirement (210)

Excess of par value over cost of (preference) stock acquired for treasury (109, 419)

Discount on purchase of preferred stock (Anchor Hocking Glass Corp.)

Excess of par value over cost of preferred shares purchased for retirement (Barker Bros. Corp.)

Excess of par value over cost of shares of preferred stock held in treasury which were retired (Alan Wood Steel Co.)

Excess of par value over cost of preferred stock retired (Revere Copper and Brass Inc.) through sinking funds (Colonial Stores Inc.)

Excess of par value over cost of common stock acquired per tender (Pennsylvania Coal and Coke Corp.)

Cost of par value over cost of treasury stock acquired (H. K. Porter Co., Inc.)

Excess of stated capital over cost of preferred stock retired or held for retirement (Brown Shoe Co., Inc.)

Excess of aggregate discounts over aggregate premiums paid for the acquisition of common stock reacquired and held in treasury (D. Emil Klein Co., Inc.)

Excess of par value of preferred stock retired over the purchase price thereof (Le Roi Co.)

Excess of carrying value over cost of preferred stock repurchased (May Department Stores)

Difference between par value and cost of preferred stock purchased and cancelled during the year (Dresser Industries, Inc.)

Excess of stated value of preferred stock purchased over cost thereof (Avco Mfg. Corp.) and retired (R. G. Le Tourneau, Inc.)

Excess of par value of preferred stock retired over cost thereof (Borg-Warner Corp.)

Discount on capital stock purchased (Crucible Steel Co.)

Increase through acquisition of common treasury stock net of shares sold (Alaska Pacific Salmon Co.)

Excess of par value over cost of preferred stock redeemed during year (Philip Morris & Co. Ltd., Inc.)

Acquisition, at a discount, of preferred shares for the sinking fund (National Supply Co.)

Excess of stated value over cost of preferred stock purchased (General Shoe Corp.) repurchased (Gimbel Brothers, Inc.)

Excess of stated value over cost of capital stock purchased for retirement during the year (Pullman Inc.)

Difference between par value of preferred stock redeemed or purchased for redemption and cost thereof (Thompson Products, Inc.)

Excess of par value of preferred stock acquired during year over cost thereof (212, 491)

Arising from the retirement of preferred stock (Stahl-Meyer, Inc.)

Credits from reversion to the company of preferred stock no longer required to be held for dividends on prior issues of common stock (Autocar Co.)

Excess of stated value over cost of preferred capital stock retired during the year (Spiegel, Inc.)

Discount on preferred stock acquired for sinking fund (Willys-Overland Motors, Inc.)

Treasury stock—sale and distribution

Net profit from sale of common stock held in the treasury (United Cigar-Whelan Stores Corp.)

Excess of market value over cost of reacquired common stock awarded as bonus, less U. S. capital gains tax (Hercules Powder Co.)

Excess of sales price over cost of treasury stock sold (Time, Inc.)

Excess of sales price over carrying value of treasury stock sold during year to key employees (Stewart-Warner Corp.)

Excess of quoted market over cost of treasury shares sold to officers and key executives (difference between market and selling price charged against income) (Eaton Mfg. Co.)

Issuing price over par value of common treasury stock issued (General Shoe Corp.)

Profit from sale of treasury stock (Mid-Continent Petroleum Corp.)

Difference between par value or principal amount and cost of stock and debentures acquired and disposed of net (Ward Baking Co.)

Excess of market quotations over cost of acquired capital stock distributed to employees, less provision for income tax (Johnson & Johnson)

Excess of realization over cost of treasury stock sold (Standard Oil Co. (Ohio))

Stock options and warrants

Excess of fair market value over option price at date common stock option was exercised by an officer—charged to general and administrative expenses (Clyde Porcelain Steel Corp.)

Excess of option price of common stock option exercised by an officer over par value of common stock (Clyde Porcelain Steel Corp.)

Premium received upon the exercise of employees' options to purchase capital stock (Lockheed Aircraft Corp.)

Excess of amount received upon exercise of common stock options over par value of the common stock (Republic Aviation Corp.)

Credits resulting from transactions under employee stock plan (Libbey-Owens-Ford Glass Co.)

Excess of market value over par value of common stock sold under company's stock option plan (Brown Shoe Co., Inc.)

Premium on shares of cumulative preferred stock issued under employees' stock purchase contracts (American Cyanamid Co.)

Excess of sales price over cost of shares of the corporation's stock purchased during the year (including excess of sales price over par value of fifty shares of treasury stock) with respect to capital stock sold to certain officers and employees under stock allotment agreements (National Steel Corp.)

Excess of proceeds over par value of common stock issued upon exercise of warrants (Ward Baking Co.)

Credit with respect to warrants exercised (Federated Department Stores, Inc.)

Excess of proceeds received from sale of common stock under option agreement over the par value thereof (Radio-Keith-Orpheum Corp.)

Restoration or realization of assets previously written off

Restoration of reserve for investment in Italian subsidiary (American Radiator & Standard Sanitary Corp.)

Realization from disposal of assets previously written down by charges to capital surplus, etc. (Curtiss-Wright Corp.)

Credits arising through disposal or utilization of properties previously written off against capital surplus (Borden Co.)

Merger and consolidation adjustments

Adjustments for minority shares acquired during the year (Stokely-Van Camp, Inc.)

Undistributed earnings of a partly owned company prior to acquisition of the remainder of its stock (Radio-Keith-Orpheum Corp.)

Adjustments to net assets (income tax accruals and refund claims and property and related reserves) of subsidiary companies at dates of acquisition (Dresser Industries, Inc.)

Capital surplus of subsidiary, less portion applicable to shares purchased prior to merger and other treasury shares, all of which were retired (McGraw Electric Co.)

Surplus arising from acquisition of additional interests in subsidiary company (Bay Petroleum Corp.)

Earned surplus attributable to additional investment made in subsidiary company not previously consolidated (Arden Farms Co.)

Transferred from reserves

Reserve for retirement of preferred shares at beginning of each year restored to surplus, the corporation's obligation in this respect having been met (Interchemical Corp.)

Transfer from general reserves of unused provisions for losses on disposal of obsolete machinery, equipment and inventories (A note explained that reserves had been created prior to date of corporate adjustments.) (United States Rubber Co.)

Excess reserve for contingencies restored to surplus (American Republics Corp.)

Transfer from reserve for self-insured risks (Lehigh Portland Cement Co.)

Excess of reserve for contingencies set up out of capital surplus in prior year over additional 1944 federal income tax paid during year (Park & Tilford, Inc.)

Negative goodwill

Excess of net assets at date of acquisition over cost of investment in subsidiary (Avon Allied Products, Inc.)

Excess of book amount over cost of investment in subsidiary (City Products Corp.)

Excess of book amount over cost of minority interests acquired (City Products Corp.)

Excess of acquired equity in net assets of partly-owned subsidiary consolidated over cost of investment therein (Remington Rand Inc.)

Stock dividends

Earned surplus capitalized with respect to stock dividend (Cuneo Press, Inc.)

Excess of (approximate) market value over par value of common stock issued as a stock dividend (182, 392)

Earned surplus capitalized by a wholly owned subsidiary company in connection with a stock dividend (Dow Chemical Co.)

Transfer from earned surplus in connection with issuance of common capital stock and the distribution thereof among the holders of common stock in proportion to the number of shares held by each (Falstaff Brewing Corp.)

Amount transferred from earned surplus in connection with capital adjustment—excess of charge to earned surplus over par value of common stock to be issued (Foremost Dairies, Inc.)

Increase in connection with stock dividend; equal to approximately $6 per share for shares issued as stock dividend (Granite City Steel Co.)

Transfer from earned surplus in connection with stock dividend (Standard Oil Co. of Calif.)

Dividends payable in stock (Standard Oil Co. (N.J.))

Excess of approximate market value over par value of stock dividends (Alan Wood Steel Co.)

Excess of assigned value over par value of common stock declared as stock dividends (Skelly Oil Co.)

Transfer from earned surplus resulting from stock dividend paid during year (Beech Aircraft Corp.)

Excess of amount transferred from earned surplus over par value of common stock issued as stock dividend (Food Machinery and Chemical Corp.)

Portion of common stock dividend in excess of stated value (par value) of shares issued (233, 462)

Excess of quoted market value on record date over par value of shares of common stock issued as a stock dividend (Johnson & Johnson)

Miscellaneous credits

Reclassification to earned surplus of cost of intangibles charged to capital surplus (to conform with currently preferred accounting practice) (Schenley Industries, Inc.)

Miscellaneous (Foremost Dairies, Inc.)

Credit arising from expired common stock scrip certificates (Booth Fisheries Corp.)

Emergency facilities acquired in prior years, which had been fully amortized and carried at no net value, reinstated at cost less estimated depreciation to date (Federal Machine and Welder Co.)

Contribution toward construction of new plant (Electric Auto-Lite Co.)

Credit on expiration of scrip certificates for common stock (American Colortype Co.)

Recoveries by subsidiary companies of taxes, under Section 722 of the Internal Revenue Code, prior to the dates of their acquisition as subsidiary companies (Burlington Mills Corp.)

Other presentations

The statement of Scovill Manufacturing Company titled "Analysis of Capital Invested" showed "Excess of par value over cost of 2,853 shares of 3.65% Cumulative Preferred Stock" as an addition to "additional capital" and the excess of "Expenses of issuance of 4.30% Cumulative Preferred Stock" over "amount in excess of par paid in by stockholders" as a deduction. The balance of $17,616,037 additional capital at December 31, 1949, carried the following footnote reference:

"The additional capital at December 31, 1949, was in part supplied by stockholders during the years 1937 and 1946 by the purchase of stock for $2,113,123 in excess of its par value, and partly from earnings retained for use in the business."

The above-mentioned addition to and deduction from the additional capital have not been included in either of the foregoing tabulations of retained income (earned surplus) or capital surplus.

E. I. du Pont de Nemours & Company did not separate its capital surplus from retained income (earned surplus) and presented an analysis of "surplus" which is shown in the notes to be "surplus (earned, paid-in, and arising from revaluation of assets)." Therefore, surplus charges and credits have been excluded from the above tabulations. In 1949 there were surplus credits for "adjustment resulting from revaluation of investment in General Motors Corporation" and for "excess of issue price over par value of common stock issued to employees under the bonus plan."

The annual report of Kimberly-Clark Corporation for the year ending December 31, 1949, disclosed a decrease of $793 in the "additional paid-in capital" which was not explained and therefore could not be included in the above tabulation of capital surplus charges. An increase in the account shown in a subsequent report for the four months ended April 30, 1950, however, has been included in the above capital surplus credits. The April 30, 1950, report was issued because of a change in the annual reporting period from the calendar year to a fiscal year ending April 30.

Lehigh Portland Cement Co. did not present a separate statement of "amount in excess of par value" but the increase in 1949 was explained by a parenthetic balance-sheet notation "transferred in 1949 to capital" which appeared after the caption "Reserve for self-insured risks." Several other companies used a similar method of disclosing changes in capital surplus.

Dividends—where charged

Eight companies deducted cash dividends from net income at the foot of a separate income statement. S. H. Kress & Co. and U. S. Steel Corp. did not present separate statements of retained income (earned surplus), but the latter company made a parenthetical balance sheet reference to its income statement regarding the year's addition to its "income reinvested in business." Johnson & Johnson carried the balance of net earnings for the year, after deduction of cash dividends, to the statement of "balance of earnings retained in the business" before deducting the dividend declared payable in common stock. The other five companies added the balance of net income to the opening balance in the statement of earnings retained.

Granite City Steel Co. presented a separate statement of disposition of net profit in which the dividends were deducted from the net income for the year. (See Exhibit 4, p. 23.)

Atlantic Refining Co. and Liggett & Myers Tobacco Co. deducted preferred stock dividends from net income to arrive at the balance of net income applicable to common stock but transferred the entire net income to the statement of earnings retained where both preferred and common stock dividends were deducted. Several other companies deducted all dividends from net income at the foot of the income statement but carried the entire net income forward to the statement of earnings retained where dividends were also deducted. (57, 423, 453)

Peden Iron & Steel Co. did not furnish either an income statement or a statement of earnings retained but a balance sheet note mentioned payment of a dividend.

The surplus account of Allied Chemical & Dye Corporation reported the dividends declared on common stocks but reduced that amount by "dividends on treasury stock, not included in income" before deducting it from surplus.

In addition to cash dividends, Standard Oil Co. (Indiana) also deducted from net income the extra dividends payable in capital stock of Standard Oil Co. (New Jersey). The charge for the stock distributed as a dividend represented the average carrying value of the stock with equalizing cash payments in lieu of fractional shares. The per share market value on the distribution date was shown parenthetically. Arden Farms Co. paid a dividend in stock of Diced Cream of America Co. and charge dearned surplus with the cost price of the stock. The market value of the stock distributed was not stated.

1949	1948	1947	
461	462	465	Retained income (earned surplus) (44, 50, 83, 116, 123, 162, 244, 270, 305, 346, 411, 417)
36	23	31	None shown
8	17	15	Charged at foot of separate income statement (10, 378, 403, 508, 514)
19	21	12	Deducted after net income but before earned surplus opening balance in combined income and surplus statement (18, 22, 42, 66, 117, 180, 186, 188, 434, 511)
1	2	...	Deducted in separate statement of disposition of net profit (240)
...	...	2	Divided between capital surplus and earned surplus
525	525	525	

(Numbers in parentheses refer to companies listed in Appendix.)

Stock dividends

In the 525 reports tabulated in 1949 only twenty dividends payable in the company's own stock were noted, compared with thirty-five in the previous year. Several companies deducted stock dividends from retained income (earned surplus) at assigned or par values but did not explain the basis for any values assigned (79, 117, 166, 201, 293, 361, 394, 445, 458). Alan Wood Steel Company, Johnson & Johnson, The Dow Chemical Co., and Glidden Co. deducted the stock dividends at market values. Granite City Steel Co. deducted the stock dividend from net income for the year in a separate statement of disposition of net profit.

In a note concerning its stock distribution Foremost Dairies, Inc., stated:

" . . . This capital adjustment was recorded in the Company's accounts for the year 1949 by a transfer of $556,205.35 from earned surplus account to common stock account ($38,768.60, representing the par value of 193,843 shares) and capital surplus account ($517,436.75). These transfers were computed in amounts which maintain in the common stock and capital surplus accounts, after the capital adjustment, the same amounts per share of common stock as existed immediately prior thereto."

Food Machinery and Chemical Corp., Ruberoid Co., Standard Oil Co. (New Jersey) and Sun Oil Co. also paid stock dividends but did not explain the basis for the amount deducted from retained income (earned surplus).

Retained income (earned surplus) restrictions

The number of companies reporting restrictions on retained income (earned surplus) increased only slightly in 1949. There were five instances noted (not included in the following tabulations) where the board of directors had placed restrictions upon the retained income (earned surplus) and seven other cases where it was indicated that there were restrictions but no explanation was furnished.

1949	1948	1947	1946	
279	292	322	...	None indicated
120	117	146	110	Loan agreements
77	72			Bond indentures
38	35	37	41	Preferred stock provisions
18	16	17	19	Purchase of treasury stock
18	18	...	...	Restrictions established by certificate of incorporation
9	9	...	...	Oil company earnings restricted by Elkins Act
5	5	...	...	Dividends in arrears on preferred stock

section 5: accountant's report

Recommended short-form report

In October 1948, the Committee on Auditing Procedure recommended the use of the following revised short-form of accountant's report or certificate:

"We have examined the balance-sheet of X Company as of December 31, 19—, and the related statement(s) of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In our opinion, the accompanying balance-sheet and statement(s) of income and surplus present fairly the financial position of X Company at December 31, 19—, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

The above form differs from the one previously recommended by the Institute in that it excludes any reference to the examination of the system of internal control or to the omission of a detailed audit of the transactions and corrects the inconsistent expression relating to auditing standards applicable in the circumstances.

An analysis of the forms of reports furnished by accountants for the 525 companies included in the 1949 study disclosed:

415	Recommended form adopted in full
58	Recommended form adopted with minor word changes (65, 97, 104, 149, 167, 200, 210, 226, 282, 382, 415, 455, 473, 494)
40	Single paragraph report used in 1949 by one large accounting firm (See discussion which follows)
10	Recommended form not adopted (7, 25, 111, 203, 260, 352, 381, 386, 389, 403)
1	Canadian form used (273)
1	No accountant's report (105)
525	

(Numbers in parentheses refer to companies listed in Appendix.)

Of the ten accountant's reports which did not follow the recommended form, all continued to mention the examination of the system of internal control and the detailed audit of the transaction and eight referred to auditing standards applicable in the circumstances.

Single paragraph form

In 1949 one of the large accounting firms used the following single paragraph form of report:

"In our opinion, the accompanying consolidated balance sheet and consolidated statement of profit and loss and unappropriated earned surplus present fairly the financial position of Allis-Chalmers Manufacturing Company and its subsidiaries at December 31, 1949, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances."

The above form, which contains the opinion in the opening sentence, was used in forty instances (14, 31, 44, 73, 89, 107, 113, 206, 217, 221, 355, 359, 421, 458, 477). In three reports the words "accordingly" and "such" were omitted (247, 269, 488), in two the word "including" was used in place of "accordingly" (118, 378); and in two other instances where other auditing procedures than those generally accepted had been used the word "such" was used but "accordingly" was omitted (20, 195).

Treatment of material uncertainties

The following quotation from Statements on Auditing Procedure No. 15 dealing with "material uncertainties" contains recommendations as to their treatment in the auditor's report.

"*Disclosure in auditor's report*

"The necessity of disclosure of, or emphasis on, the existing uncertainties, in the independent auditor's report presents a further problem. The auditor may feel in some instances that disclosure in the financial statements (of which the footnotes are an integral part) should be supplemented by mention thereof in his report. Exceptions in the report should be avoided so far as reasonably possible, particularly as to matters over which the client has no control or which the client cannot correct.

"With respect to material uncertainties, three types of situations, among others, may be contemplated:

"(1) The case in which the auditor believes that the financial statements, so far as possible, present fairly the position and the results of operations, but feels that the uncertainties are such that special attention should be drawn to them in his report, as well as in the statements themselves, but without taking an exception.

"(2) The case in which one or more uncertainties are such as to require an exception.

"(3) The case in which the cumulative effect of the uncertainties is so great that no opinion is possible, although the auditor may be able to make a statement as to the extent to which he approves the statements and the reasons for omitting the usual opinion on the statements as a whole.

"Each independent public accountant will, of course, prepare his report to meet the circumstances peculiar to the particular case and, accordingly, your committee does not propose any specific form."

We believe that the above quotation may prove helpful to the reader when examining the wording of the auditors' reports quoted in the following pages.

Exceptions taken to accounting treatments

The list of exceptions which follows is not confined to the 525 reports tabulated but also includes many noted in a survey of hundreds of additional statements.

In classifying variations in wording of the opinion paragraph, it was usually found that the words "except" or "exception" were used by accountants in referring to accounting treatments which they did not consider to be in accord with generally accepted accounting principles.

Only the phrasing which appears in the opinion paragraph is quoted below, although in some cases a brief reference to the nature of the exception is added parenthetically.

"In our opinion, subject to the exception indicated in the preceding paragraph . . ." (Net income is after "additional provision for estimated cost of wear and exhaustion of facilities computed on the basis of present replacement cost.") (American Asphalt Roof Corp.)

". . . on a basis consistent with that of the preceding year, except that the parent corporation's percentage of depletion procedure above described is not generally followed." (Based on percentage of income as computed for United States income-tax purposes.) (Cerro de Pasco Copper Corp.)

"In our opinion, the accompanying balance sheet presents fairly . . . and, except for the matter set forth in the preceding paragraph . . ." (Cost of goods sold and consolidated loss reduced by a transfer from a reserve which under generally accepted accounting principles would have been restored directly to earned surplus.) (United States Leather Co.)

". . . in conformity, except as noted in the preceding paragraph, with generally accepted accounting principles . . . " (Inventories at beginning and end of year priced at market prices less estimated marketing expenses and conversion costs, and at the end of the year inventories were approximately $160,000 in excess of cost.) (Michigan Sugar Co.)

"In our opinion . . . present fairly (except that Canadian currency has been included at the former official rate of $1.00 Canadian for $1.00 United States) the consolidated financial position . . . " (American Wringer Co. Inc.)

"In our opinion, subject to the exception in the preceding paragraph, the accompanying . . . " (Devaluation of Canadian currency is reflected in the accounts only to the extent of realized losses.) (Marshall Wells Co.)

"In our opinion, subject to the comment in the preceding paragraph . . . " (Reserve for inventory contingencies established in prior years is shown as a deduction from the gross amount of inventories on the balance sheet.) (Burlington Mills Corp.)

"In our opinion subject to the exception noted in the preceding paragraph . . . " (Portion of reserve for depreciation provided in 1947 equivalent to construction costs deemed excessive should be treated as a surplus reserve and included in the reserve section of the statement of financial condition.) (Hercules Powder Co.)

"In our opinion, with the exception stated in the preceding paragraph . . . " (Book value of gas rights based upon par value of stock issued to parent company therefor which was in excess of parent company's cost. Asset accounts not relieved of excess which may apply to rights expired or forfeited, and no provision has been made for depletion or amortization of gas rights.) (Houston Pipe Line Co.)

"In our opinion, with the exception that no provision has been made for interest accrued and unpaid on the notes payable to Houston Oil Company of Texas . . . " (Southwestern Settlement and Development Corp.)

"In my opinion, subject to the comment in the preceding paragraph . . . " ("Of the reserve for possible future inventory price decline adjustments established by appropriations of net income in prior years, $50,000 was restored during the year in the attached comparative statement of income; and the balance is shown under reserves in the balance sheet.") (Ludwig Baumann & Co.)

"In our opinion, the accompanying . . . in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except that no provision has been made in the accompanying exhibits on account of future payments of claims and damages, including cost of litigation incident thereto (see Notes 5 and 6 to Balance Sheet)." (Market Street Railway Co.)

"In our opinion, to conform with generally accepted accounting principles, the item 'Refund of prior years' federal income taxes, $77,798' should have been reported in the statement of consolidated income for the year ended December 31, 1949, rather than treated as a direct credit to consolidated earned surplus. Otherwise, in our opinion, the accompanying . . . " (International Salt Co.)

"With the exceptions referred to in the preceding two paragraphs . . . " (Company was restrained by court order from recording on its books the revision of capitalization approved by the stockholders and the Public Service Commission of the State of New York in 1944. The Public Service Commission has determined that it will not approve the said plan as so modified, unless the alleged estimated deficiency in depreciation reserves is credited to such reserves, rather than to "Unearned Surplus—Special" account as provided in the amended plan of consolidation and recapitalization.) (Long Island Lighting Co.)

" . . . and the results of their operations for the year then ended, in conformity with generally accepted accounting principles (except with respect to accruing undistributed profits of partly-owned companies) applied on a basis consistent with that of the preceding year." (United Artists Theatre Circuit, Inc.)

Opinions subject to uncertainties

In the listing which follows we have attempted to distinguish between exceptions by the auditor to accounting treatments (see preceding section) and qualifications expressing uncertainty as to the eventual outcome of unsettled matters. Under the above heading we have also included several qualifications which express uncertainty as to the valuation of particular assets or groups of assets.

It will be noted that nearly all of the qualifications mentioned below use the phrase "subject to . . ."

"In our opinion, subject to the comments contained in the preceding paragraph . . . " (Foreclosure proceedings by RFC against debtor) (Fruehauf Trailers)

"In our opinion, except for such additional provision, if any, for federal taxes on income as may be required upon final determination of a subsidiary's tax liability . . . " (Stokely Van Camp, Inc.)

"Except for the effect, if any, of the matter set forth in Note 2 of the notes to the financial statements, in our opinion . . . " (Litigation) (Electric Boat Co.)

"In our opinion, based upon our examination and on the accounts and information furnished to us and subject to the adjustments which may ultimately be required to be made in respect of recording the original cost of gas plant, as explained in note 1 . . . " (Cities Service Co.)

"In our opinion, with reservation as to the effect of the settlement of the suit referred to in the preceding paragraph . . . " (Granite City Steel Co.)

"In our opinion, subject to additional Federal income taxes for the year 1938 and to the possibility of additional Federal income taxes for the years 1939 to 1942 . . . " (Air Reduction Co.)

"In our opinion, subject to such adjustments, if any, as may be required as to the profit of contracts subject to the Renegotiation Act of 1948 . . . " (Grumman Aircraft Corp.)

"In our opinion, subject to such adjustments as may result from final determination of taxes on income . . . " (O'Sullivan Rubber Corp.)

"In our opinion, subject to the effect of final determination of Federal and State taxes on income . . . " (H. K. Porter Co. Inc.)

" . . . subject to final determination of income taxes for the years since January 1, 1947 . . . " (Eastern Malleable Iron Co.)

"In our opinion, subject to any refunds which may be required under the profit limitation provisions of the Vinson Act . . . " (W. L. Maxson Corp.)

"In our opinion, subject to the effect of the Government's anti-trust litigation mentioned in Note E . . . " (United Artists Theatre Circuit, Inc.)

"Except for the loss which may be sustained on the investment in and advances to International Meters, Inc. . . . " (American-La France-Foamite Corp.)

"Except for the reservation expressed in the preceding paragraph, in our opinion . . . " (Settlement of mail rates) (Pan American World Airways Inc.)

"In our opinion, subject to the ultimate disposition of the contingencies referred to in the above paragraph . . . " (Federal taxes and certain claims for reparation of freight charges instituted by the Government of the United States) (Chicago, Milwaukee, St. Paul and Pacific Railroad Co.)

"In our opinion, when read in conjunction with the explanations set forth in the preceding paragraphs . . . " (Depreciation, tax returns, profits and losses on properties) (Chicago & Western Indiana Railroad Co.)

"In our opinion, subject to the remarks contained in the preceding paragraph . . . " (Reference to discussion in Treasurer's report of receivables from and investments in plantation companies) (C. Brewer & Co., Ltd.)

"In our opinion, subject to the adjustments which may ultimately be required to be made in respect of recording the original cost of gas plant . . . " (Arkansas Natural Gas Corp.)

"In our opinion, subject to the comments contained in the preceding paragraph . . . " (Extent of effect of regulatory action on the original cost of utility plant accounts and depreciation not presently determinable) (American Water Works Co.)

"Subject to the adequacy of the reserve for possible additional federal taxes on income referred to in Note B to the financial statements, in our opinion . . . " (National Enameling and Stamping Co.)

"The extent to which the financial statements will finally be affected by consummation of the Plan referred to in the preceding paragraph, cannot be determined definitely at this date. With this qualification and also subject to the adequacy of the accumulated reserves for utility retirements (see Note 4) it is our opinion . . . " (Plan filed with SEC in connection with application for exemption from Public Utility Holding Company Act of 1935) (Eastern Gas & Fuel Associates)

"In our opinion, subject to the remarks in the preceding paragraph . . . " (Effect of compliance with Federal Power Commission rather than Montana Public Service Commission) (Montana Power Co.)

"In our opinion, subject to the uncertainties as to final determination of Federal taxes on income . . . " (Giorgio Fruit Corp.)

"In our opinion, subject to the final determination by the courts of the foregoing matters . . . " (Court decision required subsidiary to sell properties. Purchase price and liability for damages not yet determined in regard to parent company) (Permanente Cement Corp.)

"In our opinion, except for the effect of such adjustments as may be required upon final determination of the parent company's liability for federal taxes on income for years through 1949 and of the values to be assigned to certain non-operating properties . . . " (Tennessee Products & Chemical Corp.)

"In our opinion, except that the ultimate effect on the accounts of the matters referred to in the preceding paragraph cannot presently be determined . . . " (Certain matters are in litigation and in dispute before various courts and regulatory commissions) (Pennsylvania Water & Power Co.)

"Except to the extent, if any, to which the financial position of the companies may be affected by the result of the litigation, in our opinion . . . " (Complaint charges officers and directors with acts of malfeasance and nonfeasance, alleging damages of $3,000,000) (Hunt Foods Inc.)

"Subject to the possible effect of the litigation and matters mentioned in Note 1, to the balance sheets, in our opinion . . . " (Two actions under Sherman Act and possibility of additional Business and Occupation taxes) (Columbia Gas System Inc.)

"In our opinion, subject to the eventual realization of foreign investment and advances to subsidiaries operating in foreign countries which is not now determinable . . . " (Lanston Monotype Machine Co.)

"In our opinion, subject to the comment in the preceding paragraph . . . " (Possible recoveries under claims for just compensation from the United States Government) (American-Hawaiian Steamship Co.)

"Subject to the valuation of the investment in the Mexican subsidiary . . . " (Valuation includes unrealized appreciation and equity in undistributed earnings) (Lucky-Tiger-Combination Gold Mining Co.)

"In our opinion, except for the possible ultimate effect of the matter referred to above . . . " (The Public Service Commission has questioned the adequacy of the reserve for depreciation) (Consolidated Edison Co. of N.Y. Inc.)

"In our opinion, except as to the adequacy of the provisions for retirement of utility plant . . . " (Tampa Electric Co.)

"In our opinion, giving consideration to the explanation in the notes to the financial statements and subject to the adequacy of the provision for depreciation for the year and the accumulated reserves therefor . . . " (Cincinnati Street Railway Co.)

"In our opinion, with the explanation in the preceding paragraph, and subject to the realizable value of the indebtedness of Southwestern Settlement and Development Corporation (see balance sheet footnote) . . . as to which we are not in a position to express an opinion . . . " (Houston Oil Company of Texas)

"In our opinion, except that no provision has been made for the possible tax liability described above, which may be substantial . . . " (Tel Autograph Co.)

"In our opinion, except for such additional provision, if any, for federal taxes on income as may be required upon final determination of a subsidiary's tax liability . . . " (Stokely-Van Camp, Inc.)

"In our opinion, based upon such examination and subject to the correctness of the amount stated for the investments in joint ventures . . . " (Morrison-Knudson Co. Inc.)

"Based upon our examination and upon the management's valuations of assets referred to above, in our opinion . . . " (Assets totaling $7,152,388 are carried on the basis of management's valuations which the auditors were not in a position to substantiate) (Atlas Corp.)

We believe that the following paragraphs from the auditor's report presents an interesting array of comments on the financial statements of Pathé Industries, Inc.:

"We have examined the consolidated balance sheet of Pathé Industries, Inc., and subsidiaries as of December 31, 1949, and the related statement of income and expense and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In determining the net amounts at which advances to other producers are carried, the company has relied as heretofore on estimates of revenues from domestic and foreign sources and for the first time has given weight to estimates of substantial income anticipated from rerelease and other rights. Although the company has enjoyed steadily increasing foreign income in recent years, there is not sufficient evidence, except in the case of domestic income, to enable us to form an opinion regarding the ultimate realization of the company's estimates. If the ratio of foreign and miscellaneous residual revenues to domestic first run revenues which prevailed in 1949 remains unchanged, the reserve provided against advances to other producers will require to be increased by approximately $1,000,000.00.

"The liquidation of long-term notes receivable is dependent almost entirely on the volume of distribution to be achieved While substantial cash payments have been made in 1949, it would appear that the notes will not be fully paid for several years. Under these circumstances we believe it would have been preferable to have taken into income only the amounts realized.

"During the year the investment in Van Sweringen Corporation was further written up by $1,007,580.00 as described in Note 1 to the financial statements. While this is not in accordance with generally accepted accounting principles, we do not object to the amount of the revised valuation in view of the indication of substantial earnings applicable to Pathé's investment.

"Expenses and losses aggregating $1,067,512.86 have been charged directly to the deficit account. While these items are of an extraordinary nature, we believe that they should have been included in the statement of consolidated income and expense.

"As explained in Note 7 to the financial statements the maturity date of certain notes payable to banks aggregating $6,330,973.35 has been extended to January 15, 1951, and these notes have been classified as non-current in the accompanying balance sheet. At December 31, 1949, and at the date of this report certain 'events of default' existed, as defined in the loan agreements, which should they remain uncured after appropriate notice would result in all the notes becoming immediately due and payable. Although the banks have been advised as to the existence of 'events of default' to our knowledge no action has been taken to date by them with respect thereto.

"In our opinion, with the explanation contained in paragraph six with respect to notes payable to banks and subject to the qualifications in paragraphs two, three, four and five and to the omission of any provision for special legal fees (See Note 17), the accompanying consolidated balance sheet and statement of consolidated income and expense and deficit present fairly the financial position of Pathé Industries, Inc. and subsidiaries at December 31, 1949, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

Inconsistencies with prior year's treatments

Changes in accounting treatments during the year were generally mentioned at the end of the opinion paragraph in the auditor's report after the phrase "applied on a basis consistent with that of the preceding year." In a few instances it was noted that the opinion paragraph ended with the phrase "in conformity with generally accepted accounting principles," with a change in accounting treatment being described in a prior paragraph ending, "In other material respects, the principles of accounting maintained by the companies during the year were consistent with those of the preceding year." (See National Steel Corp.)

In some cases where a retroactive adjustment of 1948 statements was made, so that the 1949 statements were consistent therewith, a wording similar to the following was used:

"... in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year after restatement for comparative purposes as explained in appended note." (For variations see Willys-Overland Motors, Inc., Elastic Stop Nut Corp. and Lukens Steel Co.)

The auditors of Lawrence Portland Cement Co. expressed an opinion on the financial statements of 1948 as well as those of 1949. They commented on changes effected in 1948 as follows:

" . . . in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the following changes effected in 1948, of which we approve: (1) change in capitalization, (2) adjustment of buildings, machinery and equipment and related reserves to income tax basis, and (3) transfer to additional paid-in capital of the balance remaining in reserve for contingencies."

The auditors of North American Aviation, Inc., referred to changes in balance-sheet classification in the September 30, 1948, balance sheet furnished for comparative purposes, wherein progress payments and prepayments were reclassified to correspond with the new classification of these items adopted in the 1949 report.

Inconsistencies noted in auditors' reports are classified by subjects and described below:

Inventories

Four companies refined or extended the LIFO method of valuing inventories which had been previously adopted (Johns-Manville Corp., Phillips Petroleum Co., National Steel Corp. and Kimberly Clark Corp.). In addition, Phillips Petroleum Co. eliminated certain interdepartmental and intercompany profits not previously eliminated from inventories. Jewel Tea Co. adopted the LIFO method for the first time during the year. On the other hand, Clinton Foods, Inc., changed from the LIFO to the FIFO basis for bulk inventories.

The Eagle-Picher Co. adopted the base stock method of valuing inventories while the Endicott Johnson Corp. extended the use of that method. On the other hand, Mid Continent Petroleum Corporation valued refined products at the lower of cost or market rather than at fixed costs.

Fruehauf Trailer Co. priced used trailers at their appraised values less estimated disposal costs, instead of at $1 each.

A division of the Sperry Corp. changed its method of valuing contracts in progress from a percentage of sales price based on extent completed to the lower of cost or market basis. Sales are now recorded upon shipment instead of on a percentage of completion basis.

The A.P.W. Products Co. Inc. eliminated interest on plant investment from inventories.

Plymouth Oil Co. valued refinery products of the refinery at the lower of cost or market, rather than as a percentage of certain quoted prices.

RKO Radio Pictures, Inc., adopted a longer feature amortization table for writing off the cost of released pictures.

Depreciation

Four companies adopted an accelerated depreciation policy, three of them retroactively (Libbey-Owens-Ford Glass Co., Lukens Steel Co., Johnson & Johnson). First National Stores Inc. adopted an accelerated policy on certain new facilities acquired in the fiscal year ending in April, 1950.

Kimberly Clark Corporation included depreciation on assets of Canadian subsidiaries at amounts in excess of normal provisions. Gair Company Canada Limited, a subsidiary of Robert Gair Co., Inc., computed its provision for depreciation in accordance with the revised income tax regulations. Collins and Aikman of Canada, Ltd., changed from the straight-line to the diminishing balances method, as also did the National Lead Co.

Anderson Prichard Oil Co., Michigan Chemical Corp. and Remington Rand Inc. adjusted depreciation charges to reflect revised estimates of service life of certain equipment.

American Window Glass Co. set up estimated service life and rates for each individual asset rather than using overall group rates. Somewhat similarly, The Midvale Company applied depreciation rates to individual classes of assets rather than providing an over-all amount determined by the board of directors.

Loew's Inc., reduced certain depreciation rates to those fixed by the Internal Revenue Bureau. Bendix Home Appliances, Inc., revised its amortization rate on tools and dies to the Treasury Department basis.

American Crystal Sugar Co. did not provide any amount for extraordinary obsolescence such as had been provided in each of three preceding years.

Anheuser Busch, Inc., restated property and related depreciation accounts on the basis of cost, thereby eliminating appreciation surplus.

Consolidation policy

Six companies were noted which excluded some or all foreign subsidiaries from consolidated statements, having previously included them in consolidation (Armour & Co., Armco Steel Corp., Bristol-Myers Co., Minneapolis-Moline Co., Johnson & Johnson, and Warner Bros. Pictures Inc.). Armco Steel Corp. excluded all but Canadian subsidiaries; Bristol-Myers Co. excluded foreign subsidiaries, branches, and licencees in England, Australia, South Africa, and Latin America from consolidation. It had been the former policy of Warner Bros. Pictures Inc. to include foreign income and expenses in the consolidated statement of profit and loss but to deduct the equity in undistributed earnings of foreign subsidiaries in arriving at the net profit of the combined companies.

Remington Rand Inc., whose former policy was to consolidate only wholly-owned active subsidiaries, now consolidates majority-owned subsidiaries active in the United States. Subsidiaries in Belgium, Netherlands and Norway were reinstated in consolidation during the year.

Standard Oil Co. of California now includes wholly-owned foreign subsidiaries operating in foreign countries in consolidated statements, formerly having shown an investment therein on the balance sheet, although profits and losses thereon had previously been recognized in consolidated income statements.

Weyerhauser Timber Co. now consolidates all subsidiaries instead of only those wholly-owned.

Panhandle Producing and Refining Co. excluded from consolidation a subsidiary whose stock had little equity value.

The W. L. Maxson Corp. eliminated a wholly-owned subsidiary from consolidation in view of the disposal of the parent company's interest shortly after the balance sheet date and in view of the subsidiary's cumulative deficit exceeding its outstanding capital stock and surplus.

Reserves and expenses

In 1949 Gulf Oil Corporation established a reserve for amortization of non-producing leases and mineral fee properties against which cost of surrendered leases and mining fees are to be charged. Previous policy was to charge income with such costs in the year of surrender.

General Electric Co. included profit on sale of miscellaneous securities in net earnings rather than adding such profit to the general reserve, as had been the former policy.

American Steel Foundries Inc. discontinued the reserve method of providing for repairs, rebuilding, workmen's compensation and product guarantees, charging such costs directly to income.

Prospecting, research and development costs are now charged to income by Freeport Sulphur Co., no longer being charged to a reserve.

Capitalization vs. expense

A portion of the expense of AB brake application was capitalized by Union Tank Car Co. per Internal Revenue Department ruling. Previous policy had been to charge such expense to maintenance.

The Public Service Electric and Gas Co. adopted the practice of capitalizing interest and real estate taxes associated with construction of utility plant. Former policy had been to treat such items as expenses.

Barnsdall Oil Company now capitalizes leases instead of treating them as expenses. Abandoned leases are charged to expense.

Unclassified

Preproduction development costs formerly carried by the Howe Sound Company as "mining property buildings machinery and equipment" are now carried as a deferred charge to be amortized as such new mining properties come into production.

Profits on foreign sales by Gulf Oil Corp. are not recognized until converted to dollars or otherwise utilized. Former policy was to include such profits in income as sales were made.

Allegheny Ludlum Steel Corporation now accrues vacation costs when employees qualify rather than when they are paid for such vacations.

Universal Leaf Tobacco Co. (6/30/49) now charges the entire cost of premiums under the pension plan to current earnings. Previously the past service portion was charged to earned surplus.

The American Metal Co., Ltd., adopted a LIFO method for computing tax accruals on metals purchased for treatment.

Premiums on installment notes receivable purchased and adjustments of prior year taxes are charged or credited to income by the Beneficial Industrial Loan Co., formerly having been treated as surplus adjustments.

Both the North American Investment Co. and the Commonwealth Investment Company take dividends into income at the ex-dividend date rather than when actually received.

The Philadelphia Electric Co. accelerated its amortization of premium and expense on retired bonds in order to complete such amortization.

The Holly Sugar Corp. during the year changed its practice with respect to the accrual of additional beet payments.

The tax provisions shown in the income statement of The United Gas Improvement Company are made on a consolidated return basis rather than on a separate return basis as in the previous year.

Howe Sound Company now reflects foreign exchange adjustments in profit and loss rather than in earned surplus.

Johnson & Johnson eliminated estimated taxes on undistributed net income of subsidiaries.

Contractual obligations for equipment and construction are now recorded by Anheuser Busch, Inc., upon receipt and approval of invoices. Formerly such obligations were entered in the accounts at the time the contracts were signed.

Auditing procedures omitted

In all the instances mentioned below, the auditor's certificate noted the omission of certain auditing procedures. In some cases it was also stated that he had satisfied himself by some other means. No reference was made to the opinion paragraph of the reports from which excerpts are presented below unless such paragraph was qualified with regard to the omitted auditing procedures.

Inventories

Several cases were noted where it was deemed impractical to take a physical inventory. An example follows:

"... Because of the manner of storing bulk materials (stone and sand and gravel, etc.) in extensive and irregular piles, no one of which represented a relatively significant portion of the total, it was impracticable to take physical inventories of such items by weight or measurement, but we satisfied ourselves with respect to these materials by means of other auditing procedures, including inspection of substantial quantities at various locations." (Warner Co.) (See also McDonnell Aircraft Corp.)

The following examples, several of which also mention the absence of a confirmation of accounts receivable, describe situations where either the client did not take an inventory or the auditor was not present when the inventory was taken:

"We have examined the consolidated balance sheet of Geo. E. Keith Company and its subsidiary companies as of October 31, 1949, and the related consolidated statements of income and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except that the scope of our examination did not include verification of inventory quantities and values; such quantities and values are as stated by the companies.

"In our opinion . . . subject to the limitation of the scope of our examination . . ." (Geo. E. Keith Co.)

". . . except as stated in the following paragraph.

"The inventory at December 31, 1949, as shown in the accompanying balance sheet was determined from quantity records, without physical count, for approximately 90% of the total inventory and from a physical count at that date for the remainder. The quantity records for items having large dollar value had been adjusted for counts made at various dates during 1949. We have reviewed the basis of pricing, obsolescence and clerical accuracy of the inventory to the extent we considered necessary, but we were not present when a sufficient number of test-counts were made to adequately test inventory quantities. During our review nothing came to our attention which would materially affect the inventory quantities.

"In our opinion, subject to such adjustment as might result from a complete physical inventory . . ." (Pyle-National Co.)

"At the Kalamazoo unit whereat the greater portion of the inventory is located a physical inventory was taken as of May 31, 1949, and the books of account were adjusted to the inventory valuation then determined. At the New York subsidiaries physical inventories were taken as of December 31, 1949, and the books of account were adjusted to the inventory valuations then determined. Book figures at December 31, 1949, were accepted, after reasonable tests at both locations, in the preparation of our statements and have been certified by responsible officials, as noted in the balance sheet." (Checker Cab Mfg. Corp.)

"Inventories of coal, merchandise and supplies are stated in accordance with the corporation's records without detailed examination by us as to quantities, prices or conditions; confirmation of accounts and notes receivable was not obtained by direct correspondence with the debtors but we satisfied ourselves by other means as to these items." (Alabama Fuel and Iron Co.)

". . . Inventory quantities and value were accepted by us as submitted by the Company. We did not independently confirm Accounts Receivable but have satisfied ourselves by means of other auditing procedure." (Coronet Phosphate Co.)

". . . Finished machines inventories located at Company field offices throughout the United States were not established by physical examination, but we satisfied ourselves by other auditing tests of the substantial accuracy of these inventories." (Marchant Calculating Machine Co.)

". . . Except that we were not represented at the physical inventory counting, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the companies and such other auditing procedures as we considered necessary in the circumstances." (American Wringer Company, Inc.)

"The inventory of supplies included in the balance sheet as a deferred charge to operations was certified to us by responsible officers of the Company, but we have not applied the generally accepted auditing procedures of testing or otherwise verifying the prices or physical quantities of the inventory." (Park Utah Consolidated Mines Co.) (See also Blufield Supply Co.)

Accounts receivable

A considerable number of instances were noted (particularly in the aircraft manufacturing companies) where reference was made to the auditor's inability to obtain confirmation of accounts receivable from the U. S. Government. Here are several examples of wording used in such instances:

"It was not practical to confirm receivables from the U. S. Government, but we satisfied ourselves as to their substantial accuracy by other means." (A. C. F. Brill Motors Co.)

"Receivables from the United States Maritime Commission were not confirmed, but we have satisfied ourselves by means of other auditing procedures as to these balances." (United States Lines Co.)

"It is not the general practice of the United States Government departments and agencies to confirm accounts receivable or payable; in the absence of confirmation, we followed such other audit procedures as we deemed appropriate." (Wright Aeronautical Corp.)

(See also Curtiss-Wright Corp., Grumman Aircraft Engineering Corp., Lockheed Aircraft Corp., The Glenn L. Martin Co., Republic Aviation Corp., Willys-Overland Motors, Inc., Royal Typewriter Co., International Textbook Co., and American Woolen Co. Inc.)

Other instances were noted where it was deemed impractical to obtain confirmation from customers abroad: chain-stores, hotels, and customers of a foreign subsidiary. The following are examples:

"Our examination of the financial statements was made in accordance with generally accepted auditing standards except that owing to special conditions no confirmations were obtained from customers in certain foreign countries." (American Banknote Co.)

"It was impracticable to confirm by direct communication amounts receivable from the United States Government departments and agencies and certain foreign accounts as to which we have satisfied ourselves by other auditing procedures." (Archer-Daniels-Midland Co.)

"Certain chain-store companies, in reply to our requests for confirmation of accounts receivable, reported that they could not verify balances owing by them at any specific date. As to these balances, however, we satisfied ourselves by means of other auditing procedures." (Adams-Millis Corp.)

"Accounts receivable were not confirmed by direct communication with the debtors, except to a limited extent, as we deemed it neither practicable nor reasonable to do so. Such accounts represent mostly the current accounts of hotel guests; the amounts due from other debtors were verified by appropriate tests, including requests for direct confirmations. In connection with inventories, which are stated at cost, we made test checks of the quantities reported. We also reviewed the inventory records and made tests of prices and computations." (Knott Corp.)

"We did not confirm accounts receivable from sales representatives of Avon Products, Inc., and Avon Products of Canada, Limited, subsidiaries, by correspondence with the individual debtors of those companies. These accounts, aggregating approximately 98% of the total consolidated trade accounts receivable, consist of a large number of small balances, and it was not considered practicable or reasonable to verify balances by direct correspondence. However, we satisfied ourselves by other auditing procedures as to their substantial correctness." (Avon Allied Products, Inc.)

Other instances where it was indicated that accounts receivable were not confirmed without any effect on the opinion paragraph are the following:

". . . Customers' accounts receivable were not confirmed by correspondence. With this exception, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary." (Waco Aircraft Co.)

". . . Our examination of such statements was made in accordance with generally accepted auditing standards except that, in accordance with instructions, we did not obtain confirmation of accounts receivable of the parent company and certain subsidiaries direct from the debtors; however, with respect to these receivables, we have satisfied ourselves by means of other auditing procedures. The examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances." (Ely & Walker Dry Goods Co.)

In the report which follows, the opinion paragraph was qualified presumably with reference to the valuation of the investments:

"We have examined the balance sheet of The Byrndun Corporation (a New York corporation) as at December 31, 1949, and the income and surplus accounts for the year then ended, have reviewed the system of internal control and the accounting procedures of the company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable and included all procedures which we considered necessary in the circumstances. The investments of your Corporation in stocks of United States Hat Machinery Corporation and Hat Corporation of America were verified by physical count and inspection.

"Investments are stated herein at book value at December 31, 1949.

"Subject to the preceding paragraphs, in our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of The Byrndun Corporation as at December 31, 1949, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Byrndun Corp.)

Subsidiaries or branches audited by others

There were a large number of cases in which the auditor had not himself audited the accounts of subsidiaries. In about 60% of these cases the auditor inserted a phrase in the opinion paragraph of his report referring to this situation, in a manner similar to the following:

". . . As to the Company's English branch and the Canadian subsidiaries, we examined reports of other accountants, and the accounts of the branch and the subsidiaries have been included in the accompanying statements as shown by such reports. The total assets of the branch and the subsidiaries amount to approximately 28% of the consolidated total and their sales and net income aggregate approximately 37% and 41% respectively of the consolidated totals.

"In our opinion, which as to the English branch and the Canadian subsidiaries is based upon the reports of other accountants, the accompanying . . ." (H. H. Robertson Co.)

An example where the opinion was not qualified follows:

"We have examined, except as mentioned below, the consolidated balance sheet of Miller Manufacturing Co. and its subsidiary companies as of September 30, 1949, and the related statements of income and of accumulated net income retained for use in the business for the year then ended. Our examination of the financial statements of Miller Manufacturing Co., The Buckeye Forging Company, Economy Valve Company and Precision Manufacturing Company was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm receivables from the United States Government but we satisfied ourselves by other means as to these items. The financial statements of Monroe Steel Castings Company have not been examined by us and are included in the accompanying consolidated financial statements on the basis of a report thereon furnished by other independent public accountants. The subsidiary not examined by us had approximately 33% of the consolidated sales and 29% of the consolidated total assets." (Miller Mfg. Co.)

In some cases the reports of other accountants were accepted without any reservation. Examples are the following:

"The accounts of the foreign subsidiaries were examined by other independent accountants resident in the foreign countries, and copies of their respective reports thereon have been submitted directly to us. We have reviewed and accepted the reports of these accountants." (Black and Decker Mfg. Co.)

"I have further reviewed the report and work papers of . . . independent certified public accountants, who have certified to me in connection with the examination of the West-Coast Division at Berkeley, California, and it is my opinion that the examination was made in accordance with generally accepted auditing standards, applicable in the circumstances and without omission of any auditing procedures they deemed necessary." (Dobeckmun Co.)

In the following instance the reports of foreign accounts were qualified as to scope:

" . . . We have received reports of chartered accountants upon their examinations of financial statements of the company's foreign branches as of September 30, 1949, and of its wholly owned subsidiaries as of December 31, 1949. Opinions expressed in the reports of the chartered accountants are qualified as to scope of their examinations which omitted generally accepted auditing procedures of confirming accounts receivable and making physical tests of inventories. Our examination at the domestic offices of the company was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In our opinion, based upon such examination, foreign branch reports and reports of chartered accountants, the accompanying balance sheet and statements of income and surplus present fairly the consolidated financial position of MacAndrews & Forbes Company and its wholly owned subsidiaries at December 31, 1949, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (MacAndrews & Forbes Co.)

Variations in the wording of the modification of the opinion paragraph follow:

"In our opinion, accepting the report of other accountants with respect to the Canadian subsidiary . . . " (A. G. Spalding & Bros. Inc.)

In some cases both consolidated and unconsolidated subsidiaries were audited by other accountants:

" . . . Our examination, which included the accounts of the parent company, ten of the thirteen consolidated subsidiary companies and three of the four unconsolidated subsidiary companies, was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of these companies and such other auditing procedures as we considered necessary in the circumstances. The accounts of the three consolidated and one unconsolidated subsidiary companies not examined by us (representing approximately $2,060,000 of Warren Brothers Company's equity in the consolidated net assets) were examined by other independent accountants. The reports on their examinations were submitted to us for review.

"In our opinion, based upon our examination and review, the accompanying financial statements referred to above, with the notes thereto, present fairly . . . " (Warren Brothers Co.)

A rather extensive discussion of the reasons for accepting the reports of other independent accountants follows:

"Examinations of the financial statements of foreign consolidated subsidiary companies have been made by other independent public accountants, in most instances at the close of the calendar year. The latest available reports of such accountants and the latest available company reports have been submitted to us for review. We have accepted the reports of the auditors of the foreign subsidiaries in the same manner as if we had prepared them, relying not alone upon the reputation of such other accountants, but more particularly upon review, analysis, and investigation of such reports to satisfy ourselves that the financial statements of such foreign subsidiaries have been stated in conformity with the manner in which we would have prepared them.

"The consolidated financial statements for the same period of National Theatres Corporation and its voting-controlled domestic subsidiaries have been examined by . . . The net assets of such companies represent approximately 26% of the consolidated net assets at December 31, 1949.

"From the aforementioned financial statements there have been prepared the accompanying consolidated balance sheet and memorandum of foreign assets and liabilities of Twentieth Century-Fox Film Corporation and voting-controlled subsidiary companies at December 31, 1949, and the consolidated statements of earnings and surplus for the fiscal year (53 weeks) then ended.

"In our opinion, accepting the financial statements of National Theatres Corporation and its voting-controlled domestic subsidiaries, relying upon the report of the independent public accountants who examined such financial statements, the accompanying . . . " (Twentieth Century-Fox Film Corp.)

There follows an example of an instance where another accountant's report was used by the accountants as the basis for an opinion expressed on a specific item:

"We have examined the balance sheet of American Cigarette and Cigar Company as of December 31, 1949, and the related statement of income and earned surplus for the year then ended. Our examination of the prices paid for the cigarettes manufactured for the company under the agreement referred to in Note 3 accompanying the financial statements was limited to an inspection of the related invoices but other independent public accountants have reported to us that in their opinion, based upon a test examination, the prices at which the manufactured cigarettes were billed to the company were in accordance with the terms of the said agreement. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In our opinion, based upon our examination and the report of other independent public accountants referred to above, the accompanying . . . " (American Cigarette and Cigar Co.)

Auditing procedures followed

The following quotation from "Extensions of Auditing Procedure" discusses the disclosure by the auditor of auditing procedures followed:

"Assuming that normal procedures have been carried out, it is not considered necessary to describe the details of the examination in this form of report. Any such details as are given should be included in separate paragraphs of the report. For example, reference may be made to procedures which the accountant has adopted regarding the examination of inventories and receivables; also, it may be pertinent to mention the fact that certain portions of the auditor's work have been carried out at different times during the course of the year. This may be indicated by inserting the words 'at times' in the first paragraph of the short form of report immediately after the words 'by methods.' "

Inventories and accounts receivable

Procedures followed with respect to the audit of inventories and accounts receivable were those most often disclosed in the scope paragraph of auditors' reports. Here are a number of examples where no exception was taken in the opinion paragraph of the auditor's report:

"In line with generally accepted auditing standards, we requested confirmation of the accounts receivable by direct communication with the debtors and made a physical inspection and test check of the inventories at several of the plants." (Columbia Baking Co.)

"Our verification of the inventories included attendance of our representatives in departments constituting 95% of the total. A comprehensive test-check was made in these departments of items selected at random as reflected on detailed inventory sheets. Total quantities shown on the detailed sheets were traced to the final inventories. Merchandise out of the mill was verified by examination of correspondence. The mathematical accuracy of the inventories was extensively test-checked. Cost prices of many of the items were checked against the cost records. Market values of finished fabrics were test-checked against sales billed subsequent to the close of the year.

"In our opinion, based upon such examination. . ." (Botany Mills, Inc.)

"The inventory quantities at June 30, 1949, were based upon continuous book records verified from time to time by physical inventories taken by employees of the companies. We have reviewed the book records and the related inventory procedures and have satisfied ourselves that the methods of inventory taking were satisfactory and that they were carried out effectively. We also made by inspection substantial test checks of the inventory quantities. The basis of pricing and the clerical accuracy of the inventories were thoroughly tested by us and, in addition, the quantities and condition of the inventories were certified to us by responsible officials of the companies. We also communicated with a majority of the companies' customers having open balances at June 30, 1949, and received replies confirming about 90% of the total of receivables as of that date." (American Hide and Leather Co.)

"Physical inventories of crude oils, finished products and work in process other than those located in independent pipe line transportation systems were taken by E. W. Saybolt & Company and Chas. Martin & Company, independent petroleum inspectors, and the quantities thereof were certified directly to and accepted by us. Quantities in independent pipe line transportation systems were confirmed to us directly. We have tested the clerical accuracy of the inventory records and reviewed the basis of inventory valuation." (Crown Central Petroleum Corp.)

"The inventory of materials, supplies, work in process and finished parts and machines, valued by the company's officials at cost or standard cost, is based as to quantities upon the company's stock records, checked at intervals by the company during the year. With respect to finished machines and assemblies, the quantities were also checked in December 1949. We were present at the company's plant during that month and by observation and physical tests of inventory quantities, satisfied ourselves as to the reliability of the company's stock records. We also tested inventory prices and computations.

"In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus, with the explanation set forth in the notes thereon, present fairly. . ." (Jones & Lamson Machine Co.)

"Our examination included tests of accounts receivable by direct correspondence with debtors and tests by count of the inventories and a review of the adequacy of the company's check and control of book inventories and of the procedures followed in the taking of the physical inventories." (American Colortype Co. of N. J.)

"Inventories are based on physical inventories, taken at the respective plants at various times during the year, to which have been applied interim transactions from the inventory dates to the end of the year. As to such inventories, we have examined the records, reviewed the related procedures and tested the prices and computations and have received certificates from

Company officials as to quantity and condition. Our examination also included observation of the taking of the principal physical inventories and other test checks in respect to quantities." (Phelps Dodge Corp.)

(For other disclosures see reports of Automatic Voting Machine Co., Durez Plastics and Chemicals, Inc., Gotham Hosiery Co., Pacific Mills, Park & Tilford, Inc., Reynolds Tobacco Co., Verney Corp., and Waumkeag Steam Cotton Co.)

Detailed audit report

One example of an auditor's report wherein a summary is presented of the audit procedures involved in relation to a number of asset and liability accounts follows:

"We have examined the statement of financial position of The Bullard Company (a Connecticut corporation) as of December 31, 1949, and the related statements of income and earnings employed in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1948. Further comments on the scope of our examination with reference to the principal assets and liabilities of the Company at December 31, 1949, are submitted in the following four paragraphs.

"Cash in banks was reconciled with balances reported to us by the depositaries and cash on hand was counted. Certificates for United States Government securities were inspected. The accounts receivable were checked to the subsidiary records and were tested by direct communication with the debtors.

"The inventories at December 31, 1949, represent book inventories which had been adjusted, as of September 30, 1949, to conform to an aggregate amount determined by pricing at cost the quantities shown by the detailed inventory records as on hand at September 30, 1949, and after recording transactions for the period from September 30, 1949, to December 31, 1949, at cost. Costs used were generally standard costs which were not in excess of market values. Quantities shown by the detailed inventory records were test-checked by physical counts made by the Company's employees throughout the year. Our examination of the inventories at December 31, 1949, included a review of the inventory accounting methods employed by the Company, test checks of the transactions shown in the book accounts maintained for inventories and tests by physical count of quantities shown to be on hand by the detailed inventory records.

"Plant and equipment is stated at cost. Additions during the period were reviewed by us, and, in our opinion, represent proper capital charges. In so far as we could ascertain from our examination and as represented to us by the management, all retirements of property were removed at cost from the property accounts.

"Accounts payable were test-checked to detailed records and creditors were circularized on a test basis. Computations of accrued liabilities were checked and supporting data were reviewed. In so far as we could ascertain from our examination, all liabilities of the Company at December 31, 1949, are reflected in the accompanying statement of financial position, and the management has represented to us that all liabilities are so reflected. The number of shares of capital stock outstanding at December 31, 1949, was confirmed by correspondence with the registrar and transfer agent.

"In our opinion, the accompanying statement of financial position and statements of income and earnings employed in the business present fairly the financial position of The Bullard Company as of December 31, 1949, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Bullard Co.)

(See also reports of United Shoe Machinery Corp., Aero Supply Mfg. Co. Inc., Fruit of The Loom Corp., Clayton Silver Mines, C.I.T. Financial Corp., Peoples Drug Stores, Inc., and Quincy Market Cold Storage and Warehouse Co.)

Limited audit

The auditors of Aetna Insurance Co. did not express an opinion on the fairness of presentation of the financial statements but confined their opinion to the several specific items which they had audited:

"We have examined the books of the undernoted Companies in so far as they relate to bonds and stocks and cash on hand and in bank, as included in the respective accounts of these Companies at December 31, 1949:

Aetna Insurance Company
The World Fire and Marine Insurance Co.
The Century Indemnity Company
Piedmont Fire Insurance Company
Standard Insurance Company of New York

"We counted the cash on hand at the New York, Hartford, Chicago, San Francisco, Charlotte and Toronto offices and confirmed the bank balances maintained at these offices by certificates obtained from the depositaries. We inspected on January 9, 1950, the securities and documents in respect of the investments in bonds and stocks.

"We have pleasure in reporting that the bonds and stocks and the cash on hand and in bank were found to be in agreement with the accounts of the respective Companies at December 31, 1949." (Aetna Insurance Co.)

Pro-forma statements

In order to illustrate varying treatments of pro-forma statements in auditors' reports we are quoting below excerpts from five such reports:

"The accompanying pro forma consolidated balance sheet at December 31, 1949, and pro forma consolidated statement of income for the year ended that date have been prepared to show the effect of the merger of The Ohio Public Service Company into Ohio Edison Company on the basis indicated in Note 1 to the financial statements. The financial statements of The Ohio Public Service Company were not examined by us but we were furnished with a report of other independent public accountants thereon. Based on our examinations of the financial statements of Ohio Edison Company and its subsidiary, Pennsylvania Power Company, the report of other independent public accountants applicable to The Ohio Public Service Company, and our review of the pro forma entries made to give effect to the merger, in our opinion, the pro forma consolidated balance sheet at December 31, 1949, and pro forma statement of consolidated income for the year ended that date have been prepared to reflect fairly the consolidated financial position of the companies and the consolidated results of operations had the merger been effective on the basis indicated as of January 1, 1949. Such financial statements cannot be considered as representative of the consolidated financial position of the companies or the consolidated results of their operations until the merger is completed." (Ohio Edison Co.)

"In our opinion, the accompanying pro-forma consolidated balance sheet and pro-forma statement of consolidated income, with the footnotes, present fairly, in conformity with generally accepted accounting principles, the financial position of the companies at December 31, 1949, and the results of their operations for the year then ended on the basis of the transactions and adjustment summarized in Notes A and C to the pro-forma consolidated financial statements having been consummated as of January 1, 1949, instead of in 1950." (Equitable Gas Co.)

"Supplementing our examination of the aforementioned financial statements, we have reviewed the pro forma balance sheet of the Consolidated Corporation at December 31, 1949, and the related pro forma statement of income for the year then ended, and nothing came to our attention which would indicate that these statements had not been properly prepared on the assumption that the amended plan of consolidation and recapitalization, as modified, had been consummated at December 31, 1949. However, we are not in a position to furnish an opinion regarding these pro forma statements since the proposed plan has not been finally adjudicated in the courts." (Long Island Lighting Co.)

"In our opinion, the pro forma income statements for the year 1949, appearing on pages 18 and 19, which were reviewed by us, have been prepared properly on the bases indicated in the notes to the statements. These statements have been adjusted to show what the effect would have been on net income if certain transactions, mentioned on page 20, had been consummated at December 31, 1948. Such transactions were consummated during 1949, except for the liquidation of North American Light & Power Company." (North American Co.)

"In our opinion, the accompanying consolidated balance sheet of the constituent companies of Niagara Mohawk Power Corporation and subsidiary companies presents fairly the financial position of the companies at December 31, 1949, after giving effect to the 'Consolidation Plan' consummated January 5, 1950 (see page 20) and the consolidated statements of income and surplus present fairly the results of operations of the companies for the year then ended, after giving effect to such Plan, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of the financial statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances." (Niagara Mohawk Power Corp.)

Additional disclosures

"It should be borne in mind that the financial statements, with all supplemental descriptive and explanatory data, including footnotes, are regarded as representations of the client. It is upon all these representations that the independent certified public accountant renders his opinion. If he considers explanations essential or desirable, and they have not been made in the financial statements, it will be necessary for him to make such explanations in a separate paragraph of his report."

The following excerpts from auditors' certificates contain the type of informative disclosure which is generally found in footnotes to the financial statements and is dealt with in the preceding paragraph from "Extensions of Auditing Procedures":

"The companies operate at various locations under long-term leases, the major portion of which expire successively to 1959. Rentals paid during the year amounted to approximately $1,400,000." (General Shoe Corp.)

"In connection with this opinion it is noted that, due to the cycle method of billing, there is a substantial amount of unbilled revenue at the close of each year which, in effect, acts as a reserve against uncollectible consumers' accounts." (Haverhill Gas Light Co.)

"Profit before federal taxes on income of $619,348.71 and net profit of $454,348.71 were originally reported for the year 1948 after a charge of $106,174.12 for the reduction in federal taxes on income attributable to the total cost of moving machinery, equipment and inventories of C. J. Tagliabue Corporation (N.J.). The balance of $159,261.20 of such costs was charged against earned surplus. We believe the costs of moving, less the related tax reduction attributable thereto, were properly a charge against earned surplus, but, to meet requirements of the Securities and Exchange Commission, said balance was retroactively charged in 1949 against income for the year 1948." (Weston Electrical Instrument Corp.)

"In accordance with the company's practice established in 1939, the appropriation representing the increase of $361,518 between the amounts of overhead included in the inventories at the end and beginning of the year has been deducted from income for the year." (Wagner Electric Corp.)

"The majority of the inventories are valued at standard material, labor and indirect manufacturing costs. These standard values are revised periodically by changes in standard material prices and costing rates. During 1949, revisions in standard values were completed at those locations where such revisions were in process at December 31, 1948. As of December 31, 1949, the standard values in effect are based generally on material prices paid and current labor and other costs." (Westinghouse Electric Corp.)

"Depletion on the extraction of ore and coal is provided on the percentage basis allowed for Federal income tax purposes. The percentage depletion on ore and coal mined is reflected in the consolidated statement of operations and has been carried direct to consolidated surplus. Provision for timber depletion is on a unit basis. Depreciation on plant and equipment has been taken at rates considered adequate to retire these assets within the period of their useful life, which rates in the case of Homestake Mining Company were revised to conform with the rates used for income tax purposes.

"The consolidated balance sheet reflects properties, plant and equipment at amounts representing 1913 values with subsequent additions at cost, less unit depletion on ore bodies, coal deposits and timber, and after adequate depreciation on plant and equipment. The report of the General Manager for the year ended December 31, 1949, which is a part of the report of the Company for the same year, shows a reserve of 21,024,000 tons of developed ore which includes 461,000 tons of broken ore in shrinkage stopes. The present value of the ore, coal and timber is not reflected in the balance sheet item of properties, plant and equipment, either gross or net after depletion, inasmuch as the books of the Company are kept on the basis above stated and as the assets are not subject to interim appraisals." (Homestake Mining Co.)

"The mining properties are stated at book value without provision for depletion with the exception of properties acquired from the Ontario Silver Mining Company which have been fully depleted. Likewise, no deduction for depletion appears on the profit and loss statement attached hereto.

"The inventory of supplies included in the balance sheet as a deferred charge to operations was certified to us by responsible officers of the Company, but we have not applied the generally accepted auditing procedures of testing or otherwise verifying the prices or physical quantities of the inventory.

"In our opinion, the accompanying balance sheet and related condensed statement of profit and loss and analysis of deficit present fairly the position of the Park Utah Consolidated Mines Company at December 31, 1949, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as follows:

"No provision is made for depletion of the mine property which has been sustained in an unascertainable amount. If the amount of it were ascertainable, generally accepted accounting principles would require that depletion sustained to December 31, 1949, be provided for in the balance sheet and that depletion sustained in 1949 be provided for in the statement of operations." (Park Utah Consolidated Mines Co.)

"As long as the notes payable to Metropolitan Life Insurance Company are outstanding, the amounts which may be applied in payment of dividends (other than dividends payable in the corporation's capital stock) and in purchase or retirement of capital stock are limited to the amount of undistributed earnings after January 31, 1945, plus $1,000,000." (Best & Co. Inc.)

"The practice of showing depletion as a separate deduction in the Surplus Account rather than as a deduction in the Income Account and, accordingly, of showing in the Income Account net income before depletion, has been followed by the Company for many years. While it is recognized that charges made for the amortization of cost of fixed assets are generally shown as deductions in income accounts, the difficulty of determining the extent of ore reserves and of allocating the depletion charges between cost and appreciation, the variance in the amount of the charge during the different periods depending upon the particular properties operated, and other uncertainties and variables, have caused the Company to follow consistently the practice above mentioned with respect to depletion." (Phelps Dodge Corp.)

"The minority interest in McGraw-Hill International Corporation at December 31, 1949, consisted of 3,700 shares of $3.00 Cumulative Preferred Stock without par value. This stock is redeemable at $75.00 per share and accumulated dividends.

"On December 31, 1948, McGraw-Hill Book Company, Inc., a wholly owned subsidiary of McGraw-Hill Publishing Company, Inc., purchased all the stock of The Gregg Publishing Company, which in turn owns all the stock of two British companies, The Gregg Publishing Company, Ltd., and The Gregg Schools, Ltd. The amount to be paid for these foreign subsidiaries has not been determined, being dependent on appraisals of specific assets which have not been completed. No provision has been made in the consolidated balance sheet for the undetermined liability for purchase of the Gregg foreign subsidiaries, and no assets, liabilities or operations of the Gregg foreign subsidiaries have been included in the consolidated statements. The assets of these companies, and the corresponding liability of McGraw-Hill Book Company for the purchase price, amount to less than 2% of the consolidated total assets.

"No attempt is made in the balance sheet to reflect actual present value of Fixed Assets, Publication Titles, Copyrights, Subscription Lists and Goodwill." (McGraw-Hill Publishing Co., Inc.)

"Refined sugar on hand or in process at September 30, 1949, has been valued at the lower of cost or market. Raw sugar on hand, sold or shipped subsequent to September 30, 1949, has been valued at prices existing at date of sale or shipment and the remainder, still on hand, at estimated realizable prices. Molasses, both blackstrap and refinery, still unsold have been valued at estimated market. A provision has been made for estimated expenses of shipping sugar to port.

"The cost of cane purchased from colonos has been based on an estimated promedio price of $4.40 per 100 pounds of sugar for the 1949 crop, the final official price not having yet been published." (Cuban-American Sugar Co.)

"Effective January 1, 1947, the company with our approval changed its policy regarding depreciation so that, without change in estimated useful lives of the assets and resulting average rates of depreciation, it is recognizing variations in the annual rate of activity. The average annual rate of activity during the ten-year period ended December 31, 1940, has been used as a base and in comparison therewith the activity in the year 1949 results in depreciation of $421,416 in addition to that calculated on the basis used in 1946 and prior years." (Bigelow-Sanford Carpet Co., Inc.)

"More than eighty (80%) per cent of the trade receivables are not yet due for payment, and less than five (5%) per cent are more than thirty days past due; the provision for doubtful accounts approximates seventy-five (75%) per cent of the past due items.

"The pension trust contains no restrictive covenants; the funds and securities so designated are therefore available for general corporate purposes at the pleasure of the board of directors." (Craddock-Terry Shoe Corp.)

Wording variations

Accepting the recommended short form of auditor's report as standard phrasing, the following additions and variations were deemed interesting or unusual:

". . . in conformity with generally accepted accounting principles." (No consistency phrase) (O'Sullivan Rubber Corp., Higgins, Inc.)

"We further advise that we are independent auditors and accountants." (Atlantic City Sewerage Co.—after opinion paragraph)

"These audits are complete and cover among other items . . ." (Yuba Consolidated Gold Fields)

". . . in conformity with principles of accounting prescribed by the Interstate Commerce Commission for Class I motor carriers . . ." (Associated Transport Inc.)

"We have examined the balance sheet of . . . as of December 31, 1949, the consolidated and consolidating balance sheets of the company . . ." (Peoples Gas Light and Coke Co.)

". . . and were prepared in conformity with generally accepted accounting principles consistently applied during the period under review." (Florida Power Corp.)

"As independent auditors elected at the annual meeting of stockholders of United States Steel Corp. held on May 2, 1948 . . ." (U. S. Steel Corp.)

". . . applied on a basis consistent in all material respects with that of the preceding year." (Bethlehem Steel Corp.)

"Our audit has revealed no irregularities in the accounts for the period reviewed. We found the books and records were well maintained and we wish to acknowledge our appreciation of the cooperation of your entire staff." (Union Stock Yards Co. of Omaha)

"Including the period under review, we have made regular examinations of the records of American Gas and Electric Co. from December 31, 1911, to December 31, 1949, and of those of its subsidiaries from December 31, 1931, to December 31, 1949." (American Gas and Electric Co.)

"In our opinion, the accompanying statements . . . present fairly . . . for the year then ended, after charging accumulated earnings at September 20, 1949, with the effect of the decline in conversion value of Canadian currency at that date . . ." (Safeway Stores, Inc.)

"In accordance with instructions we have prepared the accompanying summary of assets and liabilities as at December 31, 1949, on the basis stated." (Statement based on market quotations—Capital Administration Co. Ltd.)

"Accounting principles consistently maintained." (Durez Plastics & Chemicals Inc.)

". . . for the fifty-two weeks then ended." (Jewel Tea Co. Inc.)

"We have audited the books of . . . and based upon the information disclosed by such audit have prepared the foregoing balance sheet . . ." (D. Emil Klein Co. Inc.)

"The balance sheet and related statement of income which we have examined are the statements of the General Office only, although the organization comprises several hundred Joint Boards and Local Unions in addition to the General office. It is the opinion of the legal department of the General Office that the Joint Boards and Local Unions are essentially autonomous in matters of finance although the General Office, under certain circumstances, reserves the right to the assets of the Joint Boards and Local Unions." (Amalgamated Clothing Workers of America)

"We have audited the books and accounts of . . . and have prepared from the books the foregoing . . ." ("56" Petroleum Corp.)

"In our opinion, based upon the examination and upon the reports of other . . . and without consideration of present market value of assets or provision for loss in the future realization of assets . . ." (Tishman Realty & Construction Co.)

"The examinations of the companies included in the consolidated group were completed between January 12 and February 10, 1950." (Central & South West Corp.)

"The net profit carried to surplus after providing for all expenses including depreciation and federal income taxes for the year ended December 31, 1949, amounted to $65,632.12." (Fitz Simons & Connell Dredge & Dock Co.)

"In our opinion, the accompanying . . . and the comments contained in our detailed audit report under date of March 1, 1950, present fairly . . ." (Argo Oil Corp.)

"We have examined the books and accounts of . . . Company and in our opinion, the accompanying Balance Sheet presents fairly the position of . . . for the year ended December 31, 1949." (North Pondre Irrigation Co.)

appendix

list of 525 corporations on which tabulations were based

1. A. P. W. Products Co., Inc.
2. Adam Hat Stores, Inc.
3. Adams-Millis Corp.
4. Addressograph-Multigraph Corp.
5. Ainsworth Mfg. Corp.
6. Air Reduction Co., Inc.
7. Alabama Fuel & Iron Co.
8. Alan Wood Steel Co.
9. Alaska Pacific Salmon Co.
10. Allegheny Ludlum Steel Corp.
11. Allied Chemical & Dye Corp.
12. Allied Mills, Inc.
13. Allied Stores Corp.
14. Allis-Chalmers Mfg. Co.
15. Alpha Portland Cement Co.
16. Amalgamated Sugar Co.
17. American Agricultural Chemical Co.
18. American Asphalt Roof Corp.
19. American Bakeries Co.
20. American Bank Note Co.
21. American Box Board Co.
22. American Can Co.
23. American Car & Foundry Co.
24. American Chain & Cable Co., Inc.
25. American Colortype Co.
26. American Cyanamid Co.
27. American Hardware Corp.
28. American Hide & Leather Co.
29. American-La France-Foamite Corp.
30. American Locomotive Co.
31. American Maize-Products Co.
32. American Metal Co., Ltd.
33. American Metal Products Co.
34. American Optical Co.
35. American Radiator & S.S. Corp.
36. American Republics Corp.
37. American Safety Razor Corp.
38. American Shipbuilding Co.
39. American Smelting & Refining Co.
40. American Stores Co.
41. American Sugar Refining Co.
42. American Tobacco Co.
43. American Transformer Co.
44. American Viscose Corp.
45. American Window Glass Co.
46. American Woolen Co.
47. American Wringer Co., Inc.
48. American Writing Paper Corp.
49. Ampco Metal, Inc.
50. Anaconda Copper Mining Co.
51. Anchor Hocking Glass Corp.
52. Anderson, Clayton & Co. (Inc.)
53. Anderson-Prichard Oil Corp.
54. Archer-Daniels-Midland Co.
55. Arden Farms Co.
56. Argo Oil Corp.
57. Armco Steel Corp.
58. Armour & Co.
59. Armstrong Cork Co.
60. Art Metal Construction Co.
61. Artloom Carpet Co., Inc.
62. Arundel Corp.
63. Associated Dry Goods Corp.
64. Atlantic Co.
65. Atlantic Refining Co.
66. Atlas Powder Co.
67. Autocar Co.
68. Avco Manufacturing Corp.
69. Avon Allied Products, Inc.
70. Babcock & Wilcox Co.
71. Baldwin Locomotive Works
72. Barber Oil Corp.
73. Barker Bros. Corp.
74. Bath Iron Works Corp.
75. Bausch & Lomb Optical Co.
76. Bay Petroleum Corp.
77. Bayuk Cigars, Inc.
78. Beatrice Foods Co.
79. Beech Aircraft Corp.
80. Beech-Nut Packing Co.
81. Belding Heminway Co., Inc.
82. Bell Aircraft Corp.
83. Bendix Aviation Corp.
84. Bendix Home Appliances, Inc.
85. Best Foods, Inc.
86. Bethlehem Steel Corp.
87. Bigelow-Sanford Carpet Co., Inc.
88. Billings & Spencer Co.
89. Blaw-Knox Co.
90. Boeing Airplane Co.
91. Bohn Aluminum & Brass Corp.
92. Bond Stores, Inc.
93. Booth Fisheries Corp.
94. Borden Co.
95. Borg-Warner Corp.
96. Brach (E. J.) & Sons
97. Bridgeport Brass Co.
98. Briggs Mfg. Co.
99. Briggs & Stratton Corp.
100. Bristol-Myers Co.
101. Brockway Motor Co., Inc.
102. Brown & Sharpe Mfg. Co.
103. Brown Shoe Co., Inc.
104. Brunswick-Balke-Collender Co.
105. Buckeye Steel Castings Co.
106. Bucyrus-Erie Co.
107. Budd Co.
108. Buffalo Bolt Co.
109. Burlington Mills Corp.
110. Butler Bros.
111. Byrndun Corp.
112. Byron Jackson Co.
113. California Packing Corp.
114. Camden Forge Co.
115. Campbell (A. S.) Co., Inc.
116. Cannon Mills Co.
117. Case (J. I.) Co.
118. Caterpillar Tractor Co.
119. Celanese Corp. of America
120. Central Soya Co., Inc.
121. Century Electric Co.
122. Cessna Aircraft Co.
123. Champion Paper & Fibre Co.
124. Chicago Pneumatic Tool Co.
125. Chicago Railway Equipment Co.
126. Chicago & Southern Air Lines, Inc.
127. Chile Copper Co.
128. Chrysler Corp.
129. Cities Service Co.
130. City Products Corp.
131. City Stores Co.
132. Clark Equipment Co.
133. Clearing Machine Corp.
134. Cleveland Builders Supply Co.
135. Clyde Porcelain Steel Corp.
136. Coca-Cola Co.

137. Colgate-Palmolive-Peet Co.
138. Collins & Aikman Corp.
139. Colonial Stores Inc.
140. Colorado Fuel & Iron Corp.
141. Colorado Milling & Elevator Co.
142. Columbia River Packers Assoc., Inc.
143. Columbian Carbon Co.
144. Commercial Solvents Corp.
145. Congoleum-Nairn, Inc.
146. Consolidated Cigar Corp.
147. Consolidated Paper Co.
148. Consolidated Vultee Aircraft Corp.
149. Container Corp. of America
150. Continental Baking Co.
151. Continental Can Co., Inc.
152. Continental Motors Corp.
153. Continental Oil Co.
154. Continental Steel Corp.
155. Copperweld Steel Co.
156. Corn Products Refining Co.
157. Craddock-Terry Shoe Corp.
158. Crane Co.
159. Creamery Package Mfg. Co.
160. Crown Central Petroleum Corp.
161. Crown Cork & Seal Co., Inc.
162. Crown Zellerbach Corp.
163. Crucible Steel Co. of America
164. Cuban-American Sugar Co.
165. Cudahy Packing Co.
166. Cuneo Press, Inc.
167. Curtis Publishing Co.
168. Curtiss-Wright Corp.
169. Cutler-Hammer, Inc.
170. Deere & Co.
171. Derby Oil Co.
172. Devoe & Reynolds Co., Inc.
173. Diamond Match Co.
174. Diamond T. Motor Car Co.
175. Diana Stores Corp.
176. Dictaphone Corp.
177. Di-Noc Co.
178. District Theatres Corp.
179. Dixie Cup Co.
180. Doehler-Jarvis Corp.
181. Douglas Aircraft Co., Inc.
182. Dow Chemical Co.
183. Drackett Co.
184. Dresser Industries, Inc.
185. du Pont (E. I.) de Nemours & Co.
186. Dwight Mfg. Co.
187. Eastern Malleable Iron Co.
188. Eastern Stainless Steel Corp.
189. Eaton Mfg. Co.
190. Elastic Stop Nut Corp. of America
191. Electric Auto-Lite Co.
192. Electric Boat Co.
193. Electric Storage Battery Co.
194. Elgin National Watch Co.
195. Ely & Walker Dry Goods Co.
196. Emerson Radio & Phonograph Corp.
197. Endicott Johnson Corp.
198. Ex-Cell-O Corp.
199. Fairbanks Co.
200. Fairbanks, Morse & Co.
201. Falstaff Brewing Corp.
202. Farquhar (A. B.) Co.
203. Federal Machine & Welder Co.
204. Federated Department Stores, Inc.
205. Firestone Tire & Rubber Co.
206. First National Stores, Inc.
207. Fishman (M. H.) Co., Inc.
208. Florsheim Shoe Co.
209. Follansbee Steel Corp.
210. Food Machinery and Chemical Corp.
211. Foremost Dairies, Inc.
212. Fruehauf Trailer Co.
213. Garlock Packing Co.
214. Gaylord Container Corp.
215. General American Transportation Corp.
216. General Aniline & Film Corp.
217. General Baking Co.
218. General Bottlers, Inc.
219. General Box Co.
220. General Cable Corp.
221. General Cigar Co., Inc.
222. General Electric Co.
223. General Mills, Inc.
224. General Motors Corp.
225. General Railway Signal Co.
226. General Refractories Co.
227. General Shoe Corp.
228. General Tire & Rubber Co.
229. Giddings & Lewis Machine Tool Co.
230. Gillette Safety Razor Co.
231. Gimbel Bros., Inc.
232. Gleaner Harvester Corp.
233. Glidden Co.
234. Globe Steel Tubes Co.
235. Godchaux Sugars, Inc.
236. Goldblatt Bros., Inc.
237. Good Humor Corp.
238. Goodrich (B. F.) Co.
239. Goodyear Tire & Rubber Co.
240. Granite City Steel Co.
241. Grant (W. T.) Co.
242. Great Western Sugar Co.
243. Griess-Pfleger Tanning Co.
244. Gruen Watch Co.
245. Grumman Aircraft Engineering Corp.
246. Gulf Oil Corp.
247. Hall (W. F.) Printing Co.
248. Haloid Co.
249. Hamilton Watch Co.
250. Harbison-Walker Refractories Co.
251. Harnischfeger Corp.
252. Harshaw Chemical Co.
253. Harvill Corp.
254. Haskelite Mfg. Corp.
255. Hayes Mfg. Corp.
256. Hazel-Atlas Glass Co.
257. Hearst Consolidated Publications, Inc.
258. Hercules Motors Corp.
259. Hercules Powder Co.
260. Higgins, Inc.
261. Hooker Electrochemical Co.
262. Hormel (Geo. A.) & Co.
263. Houdaille-Hershey Corp.
264. Howell Electric Motors Co.
265. Hudson Motor Car Co.
266. Hygrade Food Products Corp.
267. Industrial Brownhoist Corp.
268. Ingersoll-Rand Co.
269. Inland Steel Co.
270. Interchemical Corp.
271. International Business Machines Corp.
272. International Harvester Co.
273. International Nickel Co. of Canada, Ltd.
274. International Paper Co.
275. International Shoe Co.
276. International Silver Co.
277. Interstate Bakeries Corp.
278. Iron Fireman Mfg. Co.
279. Jantzen Knitting Mills Inc.
280. Johns-Manville Corp.
281. Johnson & Johnson
282. Jones & Lamson Machine Co.
283. Jones & Laughlin Steel Corp.
284. Joslyn Mfg. & Supply Co.
285. Kahn's (E.) Sons Co.
286. Keith (Geo. E.) Co.
287. Kennecott Copper Corp.
288. Keystone Steel & Wire Co.
289. Kidde (Walter) & Co., Inc.
290. Kimberly-Clark Corp.
291. Kingan & Co.
292. Kinney (G. R.) Co., Inc.
293. Klein (D. Emil) Co., Inc.
294. Koppers Co., Inc.
295. Kresge (S. S.) Co.
296. Kress (S. H.) & Co.
297. Kroger Co.
298. Kuner-Empson Co.
299. Lambert Co.
300. Lawrence Portland Cement Co.
301. Lear, Inc.
302. Le Roi Co.
303. Le Tourneau, (R. G.) Inc.
304. Lehigh Portland Cement Co.
305. Lerner Stores Corp.
306. Libbey-Owens-Ford Glass Co.
307. Libby, McNeill & Libby
308. Liberty Products Corp.
309. Liggett & Myers Tobacco Co.
310. Lily-Tulip Cup Corp.
311. Lima-Hamilton Corp.
312. Link-Belt Co.
313. Lockheed Aircraft Corp.
314. Loew's Inc.
315. Lone Star Cement Corp.
316. Lorillard (P.) Co.
317. Lukens Steel Co.
318. Luscombe Airplane Corp.
319. Macfadden Publications, Inc.
320. Mack Trucks, Inc.
321. Macy (R. H.) & Co., Inc.
322. Mallory (P. R.) & Co., Inc.
323. Marathon Corp.
324. Marmon-Herrington Co., Inc.
325. Marshall Field & Co.
326. Martin (Glenn L.) Co.
327. Master Electric Co.
328. Maxson (W. L.) Corp.
329. May Department Stores Co.
330. Mayer (Oscar) & Co., Inc.
331. McCall Corp.
332. McGraw Electric Co.

333. McGraw-Hill Publishing Co., Inc.
334. McKesson & Robbins, Inc.
335. Mead Corp.
336. Medusa Portland Cement Co.
337. Melville Shoe Corp.
338. Metal & Thermit Corp.
339. Mid-Continent Airlines Inc.
340. Mid-Continent Petroleum Corp.
341. Miller & Hart, Inc.
342. Miller Mfg. Co.
343. Minneapolis-Honeywell Regulator Co.
344. Mohawk Carpet Mills, Inc.
345. Mohawk Rubber Co.
346. Monsanto Chemical Co.
347. Montgomery Ward & Co., Inc.
348. Moore Drop Forging Co.
349. Morrel (John) & Co.
350. Motor Products Corp.
351. Motor Wheel Corp.
352. Moxie Co.
353. Nash-Kelvinator Corp.
354. National Biscuit Co.
355. National Cash Register Co.
356. National Co., Inc.
357. National Cylinder Gas Co.
358. National Dairy Products Corp.
359. National Distillers Products Corp.
360. National Lead Co.
361. National Paper & Type Co.
362. National Steel Corp.
363. National Supply Co.
364. New Britain Machine Co.
365. Newberry (J. J.) Co.
366. Newport News Shipbuilding & Dry Dock Co.
367. Niles-Bement-Pond Co.
368. North American Aviation, Inc.
369. Northrop Aircraft, Inc.
370. Ohio Match Co.
371. Ohio Oil Co.
372. Oliver Corp.
373. O'Sullivan Rubber Corp.
374. Otis Elevator Co.
375. Owens-Illinois Glass Co.
376. Pacific Mills
377. Packard Motor Car Co.
378. Pan American Petroleum & Transport Co.
379. Panhandle Producing & Refining Co.
380. Paramount Pictures Inc.
381. Park & Tilford, Inc.
382. Parker Pen Co.
383. Parkersburg Rig & Reel Co.
384. Pathé Industries, Inc.
385. Patterson-Sargent Co.
386. Peden Iron & Steel Co.
387. Penney (J. C.) Co.
388. Pennsylvania Coal & Coke Corp.
389. Peoples Drug Stores, Inc.
390. Pepsi-Cola Co
391. Permutit Co.
392. Pet Milk Co.
393. Phelps Dodge Corp.
394. Philadelphia Dairy Products Co., Inc.
395. Philip Morris & Co., Ltd. Inc.
396. Phillips Petroleum Co.
397. Pillsbury Mills, Inc.
398. Piper Aircraft Corp.
399. Pittsburgh Plate Glass Co.
400. Pittsburgh Screw & Bolt Corp.
401. Pittsburgh Steel Co.
402. Pittston Co.
403. Polaroid Corp.
404. Porter (H. K.) Co., Inc.
405. Pratt & Lambert, Inc.
406. Pullman Inc.
407. Pure Oil Co.
408. Purity Bakeries Corp.
409. PurOlator Products, Inc.
410. Quaker Oats Co.
411. Radio-Keith-Orpheum Corp.
412. Ralston Purina Co.
413. Rath Packing Co.
414. Raybestos-Manhattan, Inc.
415. Rayonier Inc.
416. Regal Shoe Co.
417. Remington Rand Inc.
418. Republic Aviation Corp.
419. Republic Steel Corp.
420. Revere Copper & Brass Inc.
421. Rexall Drug, Inc.
422. Reynolds Metals Co.
423. Reynolds (R. J.) Tobacco Co.
424. Rice-Stix Inc.
425. Richfield Oil Corp.
426. Roberts & Mander Corp.
427. Robertson (H. H.) Co.
428. Ruberoid Co.
429. Ruppert (Jacob)
430. Safety Car Heating & Lighting Co., Inc.
431. Safeway Stores, Inc.
432. Samson United Corp.
433. Schenley Industries Inc.
434. Scott Paper Co.
435. Scovill Mfg. Co.
436. Scranton Lace Co.
437. Sears, Roebuck & Co.
438. Sharon Steel Corp.
439. Sharp & Dohme, Inc.
440. Shattuck (Frank G.) Co.
441. Shell Oil Co.
442. Sherwin-Williams Co.
443. Simmons Co.
444. Sinclair Oil Corp.
445. Skelly Oil Co.
446. Smith (A. O.) Corp.
447. Socony-Vacuum Oil Co., Inc.
448. Southern Advance Bag & Paper Co., Inc.
449. Spalding (A. G.) & Bros., Inc.
450. Spencer Kellogg & Sons, Inc.
451. Sperry Corp.
452. Spiegel, Inc.
453. Sprague Electric Co.
454. Square D Co.
455. Stahl-Meyer, Inc.
456. Staley (A. E.) Mfg. Co.
457. Standard Brands Inc.
458. Standard Oil Co. of Calif.
459. Standard Oil Co. (Ind.)
460. Standard Oil Co. (Kentucky)
461. Standard Oil Co. (N. J.)
462. Standard Oil Co. (Ohio)
463. Standard Stoker Co., Inc.
464. Stewart-Warner Corp.
465. Stokely-Van Camp, Inc.
466. Struthers Wells Corp.
467. Studebaker Corp.
468. Sun Oil Co.
469. Sunshine Biscuits, Inc.
470. Super-Cold Corp.
471. Superior Oil Co.
472. Sutherland Paper Co.
473. Swift & Co.
474. Texas Co.
475. Texas Gulf Sulphur Co.
476. Thompson Products, Inc.
477. Tide Water Associated Oil Co.
478. Time, Inc.
479. Timken Roller Bearing Co.
480. Twentieth Century-Fox Film Corp.
481. Union Bag & Paper Corp.
482. Union Carbide & Carbon Corp.
483. Union Oil Co. of Calif.
484. Union Tank Car Co.
485. United Aircraft Corp.
486. United Artists Theatre Circuit, Inc.
487. United Cigar-Whelan Stores Corp.
488. United Drill & Tool Corp.
489. United Fruit Co.
490. United Merchants & Mfrs., Inc.
491. United Piece Dye Works
492. United Shoe Machinery Corp.
493. U. S. Finishing Co.
494. U. S. Gypsum Co.
495. U. S. Industrial Chemicals, Inc.
496. U. S. Potash Co.
497. U. S. Rubber Co.
498. U. S. Smelting Refining & Mining Co.
499. U. S. Steel Corp.
500. United Stove Co.
501. Universal-Cyclops Steel Corp.
502. Universal Leaf Tobacco Co., Inc.
503. Universal Match Corp.
504. Vanadium-Alloys Steel Co.
505. Wagner Electric Corp.
506. Walgreen Co.
507. Walworth Co.
508. Ward Baking Co.
509. Warner Bros. Pictures, Inc.
510. Wesson Oil & Snowdrift Co., Inc.
511. West Virginia Pulp & Paper Co.
512. Western Auto Supply Co.
513. Westinghouse Air Brake Co.
514. Westinghouse Electric Corp.
515. Weston Electrical Instrument Corp.
516. Wheeling Steel Corp.
517. Willys-Overland Motors, Inc.
518. Wilson & Co., Inc.
519. Woolworth (F. W.) Co.
520. Worthington Pump & Machinery Corp.
521. Wright Aeronautical Corp.
522. Wrigley (Wm.) Jr. Co.
523. Yale & Towne Mfg. Co.
524. York Corp.
525. Youngstown Sheet & Tube Co.