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American Institute of Accountants

Perry Mason

ACCOUNTING SURVEY
of
525
CORPORATE REPORTS

(Fiscal Years Ending July 1946 to June 1947)

AMERICAN INSTITUTE OF ACCOUNTANTS
13 EAST 41ST STREET
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INTRODUCTION

In 1946 the Council of the American Institute of Accountants authorized a long-term program for the analysis of corporate annual reports. The data presented herein represents the results of a survey of 525 corporate reports made by the staff of the Research Department. A majority of the companies whose reports were included in the study had fiscal years ending December 31, 1946, and all of the reports used were for fiscal years ending sometime within the period from July 1946 to June 1947, inclusive.

440 of the companies had filed registration statements with the Securities and Exchange Commission under the Securities Exchange Act of 1934 or the Securities Act of 1933, whereas 85 of the companies had not filed such statements.

In the group that had filed registration statements an attempt was made to select the larger companies in 21 manufacturing groupings, together with companies engaged in the retail and wholesale trades, in non-ferrous mining and in oil producing. The use of the above groupings insured a representative cross-section of industrial companies.

For analysis purposes, each report was divided into the five major sections shown below, and the results of the analysis are summarized accordingly:

I. General
II. Balance Sheet
III. Income Statement
IV. Surplus Statement
V. Accountant's Report

The table of contents following this introduction indicates the topics studied under each of the above headings and the page at which information with respect thereto may be found.

During the course of the study, interesting or unusual treatments found in the president's letter, the footnotes, or the accountants' reports were noted and are shown in conjunction with the topics to which they relate. References to or excerpts from the reports of individual corporations or accountants are not to be considered as representing either approval or disapproval thereof.

Carman G. Blough
Director of Research

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SECTION I - GENERAL

NARRATIVE SECTION OF ANNUAL REPORT - TO WHOM ADDRESSED

90% of the reports examined addressed the president's letter to the stockholders only.

465	Stockholders only (sometimes called shareholders)
21	Stockholders and employees
15	Not addressed specifically to any group
5	Stockholders, employees, customers (or public in general)
16	No narrative section in report
3	Unclassified (see below)
525	

Unusual addressees were:

"Stockholders and friends"
"Those interested"
"The Security Holders of ___________"

NARRATIVE SECTION - SIGNED BY

90% of the reports contained narrative sections signed by the president of the corporation. This group included those instances where the chairman of the board of directors also signed the report as well as those instances in which the president was also the chairman of the board.

368	President of the corporation
82	Both president and chairman (two persons)
37	Chairman of the board of directors
14	President and chairman (one person)
24	Either no narrative section or report signed by treasurer, vice-president, or corporate officer other than president or chairman
525	

CERTIFIED STATEMENTS PRESENTED

Separate surplus statements were presented in 70% of the reports examined. 25% favored a combined income and surplus statement.

371	Separate balance sheet, income statement, and surplus statement
129	Balance sheet, combined income and surplus statement
18	Balance sheet and income statement only - no surplus statement
5	Balance sheet only (all non-registered companies)
1	No certified statements presented
1	Balance sheet and surplus statement - no income statement
525	

Five companies presented supplementary statements of domestic subsidiary companies. These subsidiaries were usually engaged in financing installment sales or some activity unrelated to that of the parent company (e.g. Nash Kelvinator Corp., Fairbanks Morse and Co.). In some instances these statements were separately certified.

Six companies presented statements showing either net assets or income of foreign subsidiaries, often classifying these subsidiaries by geographical location (e.g. United Fruit Company, Colgate Palmolive Peet Company, Gillette Safety Razor Company.) In some instances such statements were certified.

Two accountants specifically made the opinion in their certificate applicable to statements of reserves (e.g. American Sugar Refining Company, Cudahy Packing Company).

United Shoe Machinery Corporation presented a balance sheet and surplus account; "net income after taxes" being shown in the surplus account with no supporting certified income statement.

Marmon-Herrington Company, Inc. presented a "Statement of Earnings Reinvested in the Business" which was equivalent to the conventional "Surplus Statement." However, the auditors' opinion made no reference to this statement.

Two accountants' reports accompanied the consolidated statements presented by the Miller Manufacturing Company. These reports made reference only to financial statements of the specified companies audited, and neither firm of accountants involved assumed any direct responsibility for the consolidated statements presented in the annual report. The following note headed "Consolidated Financial Statements" precedes the two accountants' reports:

> "The accompanying consolidated financial statements represent a consolidation of the statements of Miller Manufacturing Co., Precision Manufacturing Company, Monroe Steel Castings Company, and Economy Valve Company. The financial statements of the first two companies were examined by Price, Waterhouse & Co., and those of Monroe Steel Castings Company were examined by Ernst and Ernst. The opinions of those firms of independent public accountants on the respective financial statements examined by them are presented below."

CERTIFIED STATEMENTS - COMPARATIVE FORM USED

57% of all reports examined did not present comparative certified statements of any kind. Registered corporations used comparative certified statements more frequently than the non-registered group. 73% of the non-registered companies did not present any comparative certified statements.

297	No comparative statements
86	Balance Sheet, income statement, and surplus statement
62	Balance sheet and income statement only
43	Balance sheet, combined income and surplus statement
18	Income statement and surplus statement only
14	Income statement only
5	Balance sheet only
525	

UNCERTIFIED STATEMENTS PRESENTED

Simplified or condensed statements usually appeared in the narrative section prior to the certified statements. Condensed income statements employing a simplified layman's language were frequently used with the object of clarifying accounting concepts and terminology. These statements usually indicated the portions of the sales dollar distributed to employees, stockholders, and the government respectively, and the amount retained in the enterprise. In many instances pie charts and graphs were used to illustrate the respective portions.

Statements of funds and working capital statements, when presented, usually appeared in the president's letter.

102	Simplified or condensed financial statements in addition to the certified statements
53	Comparative statements - more than two years (48 of these were registered companies)
24	Working capital statements
17	Statement of funds
7	Statement of reserve changes

CONSOLIDATED STATEMENTS

79% of the companies indicated that they had investments in subsidiary companies. Of this group, 91% presented consolidated statements.

Of the 378 companies which presented consolidated statements, 158 companies excluded some subsidiaries from consolidation.

Companies which only consolidated wholly-owned subsidiaries usually indicated this fact in the heading of the statements presented. Where consolidation policy was based on less than 100% ownership, there seldom was presented a clear statement of the policy followed.

The following data, covering only those instances where the information was provided, gives the apparent reasons for non-consolidation of subsidiaries.

78 Excluded from consolidation on the basis of foreign operations
64 Excluded from consolidation on the grounds of incomplete or insufficient ownership
18 Excluded from consolidation because operations were functionally different from those of parent company

FOREIGN SUBSIDIARIES - CONSOLIDATION POLICY

Where foreign subsidiaries were excluded from consolidation, it was often not clearly stated in the report whether the exclusion was due to the subsidiaries' foreign location or to the fact that such subsidiaries were incompletely or insufficiently owned. Only in such rare instances as the report of Standard Oil Company of California was information provided as to names, geographical locations of foreign subsidiaries and the percentages of ownership therein, together with a complete footnote statement as to the consolidation policy adopted.

Giving due consideration to the lack of complete information in many reports, the following data may give some indication as to the geographical location of "included" or "excluded" foreign subsidiaries:

343 No foreign subsidiaries indicated
53 Foreign subsidiaries indicated but none included in consolidation - location thereof not disclosed
16 Foreign subsidiaries included in consolidation - location thereof not disclosed
66 Some Canadian subsidiaries included in consolidation
22 Some Canadian subsidiaries excluded from consolidation
18 Some western hemisphere subsidiaries (other than Canada) included in consolidation
8 Some western hemisphere subsidiaries (other than Canada) excluded from consolidation
15 Some foreign subsidiaries, other than western hemisphere, included in consolidation
42 Some foreign subsidiaries, other than western hemisphere, excluded from consolidation
583 /Some reports contained more than one type of foreign subsidiary/

The American Locomotive Company sold three-sevenths of its interest in a Canadian subsidiary during 1946. The auditor's certificate stated that generally accepted accounting principles had been applied "on a basis consistent with that of the preceding year except for the changes in accounting practice with respect to the exclusion of a majority-owned subsidiary company from the consolidation . . . ."

The Wm. Wrigley Jr. Company indicated a change in the consolidation policy with respect to foreign subsidiaries:

> ". . . . except that the accounts of foreign subsidiaries were not consolidated in the preceding year, but are included in the consolidated statements for the year 1946." (accountant's certificate)

Socony-Vacuum Oil Company, Inc. indicated a similar policy change:

> ". . . . applied on a basis consistent with that of the preceding year except for the inclusion in consolidation of subsidiaries in South America, Canada and Mexico (see Note 1) . . . ." (accountant's certificate)
>
> "1: Principles of Consolidation:
>
> "The company, beginning January 1, 1946, has included in consolidation all subsidiaries whose assets are located in the Western Hemisphere (United States, South America, Canada and Mexico.) This differs from the policy followed during the war years, when only those subsidiaries whose assets were located in the United States were included in consolidation. The consolidated balance sheet for 1946 includes the following assets and liabilities of subsidiaries whose assets are located in South America, Canada and Mexico: . . . .
>
> "As a result of the above mentioned change in basis of consolidation gross income for 1946 was increased approximately $12,000,000 and consolidated net income was increased approximately $900,000." (footnote)

The difficulty in obtaining adequate information on certain foreign subsidiaries of the American Tobacco Company prevented the auditors from forming an opinion with regard to investments therein:

> "Lack of essential data attributable to disturbed foreign conditions precludes our forming an opinion with respect to the investments of the American Tobacco Company in the American Tobacco Company of the Orient, Inc. (a wholly owned domestic subsidiary which operates a Turkish leaf buying organization in the Near East) and in the wholly owned French subsidiary. Otherwise, in our opinion, the accompanying balance sheets and related statements of income and surplus present fairly the consolidated position of the American Tobacco Company and the subsidiaries included therein at December 31, 1946 and 1945 and the consolidated results of their operations for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis." (accountant's certificate)

Variations in the extent to which foreign earnings were recognized in the income account are illustrated in the three excerpts which follow:

Armstrong Cork Company:

". . . . The above amounts are based on financial statements of such subsidiaries for the year 1946 (audited, except for those of the French company which are as reported by that subsidiary) adjusted with respect to the reserve provided by the company for revaluation of their capital assets. The company has taken into income dividends of $65,112 declared by foreign subsidiaries during the year; the difference between the amount of such dividends and the net operating results of the foreign subsidiaries for the year is reflected in earned surplus of the company, through the adjustment of the reserve against its investment in foreign subsidiaries at December 31, 1946." (footnote)

International Paper Company:

"During 1946 arrangements were made with Canadian authorities resulting in transfers of funds from Canada to the United States and therefore the net profits of the foreign subsidiaries for 1946 are included in the consolidated statement of profit and loss; for the years 1942 through 1945 the net profits of the foreign subsidiaries were transferred to reserves and were not included in consolidated net profits. Except for this change, which we approve, the accounting principles followed by the companies in 1946 were applied on a basis consistent with that of the preceding year.

"In our opinion . . . ." (accountant's certificate)

John Morrell & Co.:

"The accounts of the English subsidiaries have not been consolidated with those of John Morrell & Co. (Maine) but are submitted in a separate statement attached hereto. These accounts were not examined by us but we have had produced to us the balance sheets and statements of income examined by the chartered accountants who are the companies' official auditors in England. The investment in these subsidiaries is stated on the consolidated balance sheet at the equity of John Morrell & Co. in their net assets, as shown in the attached statement. In accordance with the practice adopted in 1939, the net income for the year under review and for the preceding three years, aggregating $296,681.05, has been set aside as a reserve pending the transfer thereof by way of dividend." (accountant's certificate)

FINANCIAL STATEMENTS SIGNED BY CORPORATE OFFICERS

All of the 1946 annual reports wherein the controller or treasurer signed the financial statements were those of registered companies.

501	Not signed by any officer
17	Signed by controller [in 4 instances as vice president and controller]
6	Signed by treasurer
1	Approved on behalf of the board of directors [Canadian corporation]
525	

POST BALANCE SHEET DISCLOSURES

Most of the post balance sheet disclosures listed below were found in the president's letter.

23	Declaration or payment of dividends
14	Portal to portal suits
11	Refinancing operations and capital stock transactions
6	Major property acquisitions or sales
6	Renegotiation settlements - war contract payments
6	Union negotiations - strikes
6	Legal suits filed
5	Death, resignation or appointment of officers or directors
4	Acquisition of subsidiaries
3	Dividends received from foreign subsidiaries
3	Options exercised or granted
3	Sales or earnings statistics
3	Motion pictures completed
2	Price changes
2	Amendments to certificate of incorporation
2	Portal to Portal Act, May 14, 1947
2	Funds borrowed
2	Agreement to purchase assets of other company
2	Action of board of directors
2	Percentage ownership of subsidiaries
31	Miscellaneous
138	

EMPLOYEE BENEFITS

The statistics given below relate to the number of reports in which specific types of employee benefits were referred to in 1946 reports:

154	Pension plans
94	Group insurance plans
33	Profit sharing plans
29	Bonuses
7	Employee stock purchase plans
8	Employee incentive plans

Information concerning the above plans was most often found in the president's letter.

SECTION II - BALANCE SHEET

TITLE OF BALANCE SHEET

Over 96% of the annual reports examined used the traditional statement title "Balance Sheet". Less than 4% attempted to substitute a more descriptive title.

"Statement of Financial Position" and "Statement of Financial Condition" were the most commonly used substitutes.

497	"Balance Sheet"
8	"Condensed Balance Sheet"
1	"Pro Forma Balance Sheet"
8	"Statement of Financial Position"
6	"Statement of Financial Condition"
1	"Statement of Assets and Liabilities"
1	"Investment"
1	"Financial Position"
1	"Statement of Assets, Liabilities and Net Worth"
1	No title heading for balance sheet
525	

DEBIT AND CREDIT CAPTIONS OF BALANCE SHEET

Only two variations from the debit caption "Assets" were found, but there were many alternatives for the credit caption.

"Liabilities" was the designation used in 70% of the reports studied.

376	"Assets" - "Liabilities"
52	"Assets" - "Liabilities, Capital Stock and Surplus"
52	"Assets" - "Liabilities and Capital"
24	No title used
6	"Assets" - "Liabilities, Capital and Surplus"
8	"Assets" - "Liabilities and Net Worth"
1	"Assets and Other Debits" - "Liabilities, Capital Stock and Surplus"
3	"Assets" - "Liabilities and Reserves" - "Capital Stock and Surplus"
1	"Assets" - "Liabilities, Reserves and Capital"
1	"Assets" - "Liabilities and Stockholders Interest"
1	"Net assets in which capital was invested" - "Sources from which capital was obtained"
525	

TRADE ACCOUNTS AND NOTES RECEIVABLE - HOW SHOWN IN CURRENT ASSETS SECTION

Trade Notes Receivable appeared in the current assets section of 40% of the reports studied.

Majority practice was to combine trade accounts and notes in one amount.

Non-registered companies showed fewer notes than registered companies but tended more to show them as separate items.

272	Trade accounts shown but no trade notes
151	Trade accounts and notes combined in one amount
60	Trade accounts and notes shown separately
35	Receivables not identified as either trade notes or accounts
2	No trade notes or accounts shown
5	Miscellaneous
525	

RESERVE FOR DOUBTFUL NOTES AND ACCOUNTS RECEIVABLE - HOW SHOWN

Majority practice in 1946 was to show reserves for doubtful notes and accounts either as a separate deduction from the related receivable, or parenthetically, on the balance sheet.

29% of the reports examined either failed to indicate any reserve or to state the amount when indicated. The proportion of companies which did not indicate a reserve or state the amount thereof was greater for non-registered (34%) than for registered companies (20%).

Airplane manufacturers, shipbuilding concerns, and other companies which had the U. S. Government as their principal or only debtor seldom showed such a reserve.

Four out of seven shoe manufacturers did not state the amount of their reserve for receivables.

265	Amount shown deducted from trade receivables or stated parenthetically
115	Amount shown deducted from total of trade and other receivables
77	No reserve shown or indicated
74	Asset stated net of reserve, amount of reserve not shown
531	(Some reports contained more than one receivable item)

Several companies included a reserve for discounts among the deductions from accounts receivable, as per the example below:

Adolph Gobel, Inc. - "Accounts Receivable - Trade . . . .
Less - Reserve for Discounts, Allowances
and Uncollectible Accounts . . . ."

MARKETABLE SECURITIES - BASIS OF VALUATION

21% of the companies showing marketable securities did not state any basis of valuation.

A large proportion of marketable securities shown in 1946 balance sheets consisted of U. S. Government obligations, which were often shown at "cost and accrued interest," "cost less amortization," or with redemption value stated, but with no mention of current market values.

155	No marketable securities shown
143	At cost, market not stated /141 of these were clearly stated to be government securities/
89	At cost, market value stated - above cost
16	At cost, market value stated - below cost
77	No basis of valuation stated
14	At lower of cost or market (market quoted in some instances)
18	At cost which approximates market
3	At market, cost not stated
5	At cost less reserve, market value stated
6	At face value
20	Miscellaneous
546	(Some reports contained more than one item)

INVENTORIES - CLASSIFICATION AND PRESENTATION

47% of the 525 companies examined showed no breakdown of the inventory item. The percentage for non-registered companies was slightly higher than for registered companies.

The most usual classification consisted of raw materials, goods in process, and finished goods, such classification appearing in the balance sheet. However, many combinations of these three items were found.

The above-mentioned standard classification did not apply to many types of industry. Companies whose product involved only a brief manufacturing operation took inventory at a time when no goods in process existed (e.g. food processors). Retail stores had no goods in process. Contracting companies, in some instances, showed no finished goods although they showed goods in process, their practice apparently being to transfer title prior to or upon completion of contract. Some mining companies showed no raw materials.

Corporations with a diversity of activities or products presented a classification of inventories by types of product, sometimes using a schedule to present inventory detail.

245	Totals only - no breakdown
108	Separate showing of raw materials, goods in process and finished goods
43	Raw materials separate - goods in process and finished goods combined
14	Raw materials and goods in process combined - finished goods separate
107	Breakdown by products or by classes appropriate to type of industry or business
14	No finished goods - contract work
6	Miscellaneous
537	(Some reports showed more than one item)

INVENTORIES - BASIS OF PRICING

63% of all inventory valuations were at "the lower of cost or market." 16% used "cost."

Many companies used various bases for different sections of their inventories. Attention is invited to the schedule which shows the many variations in expressing valuation concepts. Such expressions as "at cost but not in excess of market" which indicated consideration being given to "market" were grouped under the heading "at the lower of cost or market."

Twenty-nine instances were noted in which reserves were deducted from inventories on the asset side of the balance sheet, fifty-nine instances in which a reserve for possible future price decline was shown on the liability side among the reserves.

Cost was used exclusively by the tobacco product manufacturing companies whose reports were examined.

Some portions of the inventories of meat packing and grain processing concerns were priced exclusively at market.

Motion picture producers often stated inventories of completed productions at cost less amortization.

Sales contract price was the basis used by four non-ferrous mining companies.

437 At the lower of cost or market (see variations included in schedule)
112 At cost
48 At lower than cost, market not mentioned
18 At less than the lower of cost or market
23 At market
15 At less than market (cost not mentioned)
15 Not indicated (6 registered, 9 non-registered)
3 No inventories
7 Contract Price
9 Miscellaneous
687 (Some reports contained more than one item)

As an indication of the variety of expressions (not necessarily applying to total inventories) used in connection with statements of inventory valuation methods found in 1946 reports, a breakdown of the preceding summary follows:

At the lower of cost or market

355 Wording above used
11 At cost but not in excess of market
31 At cost which is not in excess of market
1 At cost or estimated cost, less than market
17 At cost which is below market (oil and non-ferrous)
10 At cost which is less than market
3 At cost which approximates market
1 Generally at cost (not more than market where available)
1 Not in excess of cost or market
1 Inventory at 6/30/46 at lower of cost or market, plus costing of sales for next six months
1 At lower of estimated cost or realizable value
1 At lower of cost or realizable amounts less costs applicable to advanced billings
1 At cost, total costs estimated to be less than selling market
1 At lower of cost or fair value
2 Base stock method

At cost

109 Wording above used
1 Substantially at cost
1 At cost or cost standards
1 Base stock method - adjusted to reflect "current cost"

At lower than cost, market not mentioned

6 At cost less reserve
35 At cost or less - or - At or below cost (oil and non-ferrous metals)
5 At cost less amortization (motion pictures)
1 At less than cost
1 At or below average cost

Less than the lower of cost or market

6 At or below the lower of cost or market - not in excess of the lower of cost or market
1 At cost or less, not in excess of market
1 At the lower of latest cost or current market, less reserve
8 At cost or less, which is not in excess of market
1 At less than cost or market
1 At cost adjusted to exclude abnormalities, such cost below market

At market

19 Wording above used (meat and grain)
1 Market price of ingredients plus manufacturing cost
2 At posted market prices plus transportation cost
1 At selling prices

At less than market (cost not mentioned)

5 At market or less (meat and grain)
1 Less than existing selling prices, after deducting selling expenses
1 At less than market
1 At lower than selling prices, after deducting selling expense
1 At average price prevailing at time of production or at market price at end of year, whichever is lower
3 Lower in the aggregate than market (oil)
2 At fixed price which is below market quotation (non-ferrous metals)
1 At less than realizable value

Contract price

5 Sales contract price (non-ferrous metals - sugar)
1 Percentage of sales price based on extent completed
1 Contract work at cost plus or minus estimated profits or losses

Miscellaneous

2 Estimated useful value
1 Lower of book value prior year, cost or market
1 Estimated manufacturing cost plus excise tax and prepaid freight to market storage point
1 Percentage of current list selling price
1 At depreciated values
1 At basic prices, below cost or market, established in prior years
1 At cost or cost standards revised from time to time to reflect required adjustments to current cost or market
1 Variety of bases peculiar to the oil industry

INVENTORIES - METHOD OF DETERMINING COST

54% of the companies examined did not indicate the method used in determining cost. (42% of the registered companies and 73% of the non-registered.)

In those cases where the method in use was indicated, FIFO and average cost each represented about 30% thereof, while LIFO was mentioned in 23% of such cases.

284	Not indicated
102	First-in first-out
100	Average cost
75	Last-in first-out
23	Standard cost
6	Base stock
1	Highest cost charged out first (HIFO)
12	Retail method
3	No inventories
8	Miscellaneous
614	(Some reports used more than one method)

INVENTORIES - METHOD OF DETERMINING MARKET

Only 20% of the reports examined told how market values were determined.

Meat packers used "selling price less allowance for selling" in determining market. Oil companies referred to "current posted market."

421	Method not indicated or market not used
63	Cost to replace or reproduce at inventory date
10	Market price less allowance for estimated selling expenses
12	"Quoted Prices" - "Current Market" - "Current Costs" - "Current Posted Market"
6	Lower of reproduction cost, or selling price less: Allowance for selling (3) Allowance for selling and administrative (1) Allowance for selling and profit margin (2)
4	Realizable values
3	Lower of reproduction cost or selling market
2	Market price less allowance for selling and average profit margin
1	Average net selling price exclusive of selling and administrative expenses
2	"Quoted price or replacement market"
3	No inventories
7	Retail method
1	Latest purchase cost
3	Miscellaneous
538	(Some reports used more than one method)

Some companies set up reserves to cover the estimated excess of future replacement cost over the basic LIFO inventory value of such replacements:

Libby, McNeill & Libby

"..... in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in connection with the reserve for replacement of 'last-in, first-out' inventories explained in the notes applying to financial statements, which change has our approval." (accountant's certificate)

"The inventories of certain products, aggregating $10,560,694 at March 1, 1947, are valued at cost under the 'last-in, first-out' ('LIFO') method provided in the Internal Revenue Code and which was first applied by the company, effective January 1, 1941. Such inventories are below current market as well as current costs. The remainder of the inventories are valued at cost or market, whichever is lower.

"The company's federal income tax returns are filed on a calendar year basis. Due to the seasonal nature of the company's business, inventories at the end of the calendar year are always substantially higher than at the end of February. Accordingly, in so far as inventory quantities under 'LIFO' which are liquidated in the first two months of the calendar year are replaced at costs in excess of the basic 'LIFO' costs during the succeeding ten months to December 31, a profit has been taken at the end of February which is reversed in determining profits for the calendar year. During the current fiscal year the company gave recognition to this situation by providing a reserve to cover the excess of the estimated cost of inventory replacements from March 1, 1947, to December 31, 1947, over the basic 'LIFO' costs, after reduction of applicable income taxes. Of the total reserve of $3,937,733 provided, $2,702,409 applies to prior years, being so indicated in the statement of consolidated profit and loss and earned surplus, and $1,235,324 applies to the current fiscal year." (footnote)

/See also Swift & Company/

International Shoe Company, upon the decontrol of prices, replaced quickly at high prices their basic LIFO inventories, thus securing a favorable carryback adjustment of excess profits taxes.

Other companies referred in various ways to the replacement of basic LIFO stocks:

Rath Packing Company:

"The company has elected to apply the provisions of Section 22(d) (6) of the Internal Revenue Code, relative to the replacement of inventories valued on the last-in first-out method, to the fiscal years ended October 31, 1942, October 28, 1944, and November 3, 1945, and intends to make such election for the fiscal year ended November 2, 1946. The amount by which income taxes may be restated because of such election is not determinable until a later year in which the replacement of inventories is effected." (footnote)

John Morrell & Co.:

"In our opinion, subject to the adequacy of the reserve for replacement of basic 'last-in, first-out' inventory stocks as explained in the President's report, ..." (accountant's certificate)

"The reserve for replacement of LIFO stocks has not been adjusted to cover losses that would be sustained if the replacement were made at the prices in effect at November 3, 1946. It is expected by the management that replacement will be made on a substantially lower price level, but if it were made at the prices ruling at November 3, 1946 an additional reserve would have been required of approximately $330,000." (President's report)

Belding Hemingway Company charged out the highest cost purchases of raw materials first and then charged out the successively lower priced raw material purchased or in stock. This practice, sometimes called the HIFO method, retained low cost materials in inventory, reducing profits in rising markets, and diminishing the possibility of loss in falling markets. The method was described as follows:

"Merchandise inventories are stated at or below the lower of cost or market. Cost has been determined as follows:

"Finished threads and finished piece goods are valued at their average cost predicated upon a monthly charge for raw silk and greige goods at the highest costs included in the book inventories of such materials. The inventories of raw silk and silk in process for thread operations and greige goods are priced on the basis of the costs remaining in the book inventories after charging finished goods as previously stated.

"Hosiery inventory values are predicated on a monthly charge to cost of sales for the highest cost of hosiery included in the book inventory at the end of each month, the inventory being priced at the costs remaining in the book inventory after the above charges to cost of sales or market whichever is lower." (footnote)

Gaylord Container Corporation indicated that the inventory of purchased rolling stock was priced at "the lowest purchase cost for respective grades." This would seem to indicate a policy of charging out high cost material first.

Hazel Atlas Glass Company stated in a footnote that "finished stock in warehouses and on consignment is priced at estimated cost, ascertained by deducting certain percentages from the lowest selling prices in group classifications, and by cost computations."

Consolidated Vultee Aircraft Corporation indicated a policy of recognizing estimated losses on contract work by reducing the work in process valuation thereof:

"The company follows the policy of reducing work in process on any project when charges thereto indicate a total cost in excess of realizable value. On the basis of the number of airplanes on order to date for a commercial airplane a substantial loss would be incurred on this project; however, the company expects to receive additional orders which, dependent upon volume, would reduce or eliminate the presently projected loss. Expenditures of $6,035,616 (after deduction of development and experimental expense of $2,140,938) applicable to this model are included in work in process at November 30, 1946." (footnote)

Bethlehem Steel Corporation did not make an adjustment for possible decrease in inventory value in 1946 in accordance with the method which was used in 1945. The auditors made the following comment:

"As explained in the statement of policy with respect to inventory valuation which appears on page 20, the reserve for possible decreases in inventory value has not been adjusted during the year 1946, since, in the opinion of the officers of the corporation (with which opinion we concur), the balance in the reserve at December 31, 1945, is adequate to provide for any possible losses that may occur in respect of inventory value. If the method that was used at December 31, 1945, in determining the amount of the reserve required at that date had been followed at December 31, 1946, it would have been necessary to increase the reserve by $5,700,000 and correspondingly to reduce the net income for the year 1946 . . . .

" . . . . applied on a basis consistent in all material respects with that of the previous year, except as noted in the preceding paragraph."

Harbison-Walker Refractories Company changed their basis of inventory valuation to the lower of cost or market and made a charge, equal to the resulting increase in income, as a provision for future inventory price declines.

". . . . in conformity with generally accepted accounting principles which, except for the changes in policy regarding inventory valuation (see Note 3) which has our approval, were applied on a basis consistent with that of the preceding year." (accountant's certificate)

"As of January 1, 1946, the company adopted the policy of valuing inventories on the basis of cost or market, whichever is lower. In prior years certain inventories had been stated at unit values which were below cost or market. In connection with this change in policy the inventories at December 31, 1945 were adjusted to the new basis and were charged to cost of sales on such new basis in the accompanying statement of consolidated profit and loss. The accompanying statement of consolidated earned surplus reflects a credit of $629,511 resulting from the adjustment of these December 31, 1945 inventories.

> "This change in policy would have had the effect of increasing the reported net income for the year 1946 by approximately $300,000, as compared with the net income which would have been reported had no change in policy been made. An amount equal to such increase has been charged against income of the year 1946 as a provision for future inventory price decline (included with reserve for general contingencies), with the result that the change in policy of inventory valuation and the provision to the reserve when considered together had no effect on the net income reported." (footnote)

The president's letter accompanying the National Biscuit Company's financial statements indicated that the inventory reserve, formerly deducted from the asset account was shown in 1946 among the liabilities.

The accountant's certificate of Pathe Industries, Inc. indicated a change in a subsidiary's method of pricing work in process and finished goods:

> "In addition, the inventory pricing of work in process and finished goods of a subsidiary was revised to include manufacturing expenses charged directly to operations in former years. While these revised accounting procedures are in accordance with accepted practice and have our approval, they have resulted in an increase of approximately $215,000 in the net income of the year under review.
>
> " . . . . applied on a basis consistent with that of the previous year, except as stated in the preceding paragraph."

Stewart-Warner Corporation discussed the tax effect of charging a provision for possible future inventory price decline to cost of sales, as follows:

> "The provision of $1,558,000 for possible future inventory price declines charged to cost of sales has been reduced by $608,000, the applicable Federal income tax effect, which has been considered in arriving at the provision for Federal income taxes for the year; the difference of $950,000 represents the net reserve provision. This amount together with $95,000 carried forward from previous years comprises the reserve of $1,045,000 deducted from inventories on the balance sheet at December 31, 1946." (footnote)

The following excerpts deal with the exclusion of depreciation and overhead expenses from inventories:

Celanese Corporation of America:

"Inventories in the balance sheet and entering into the cost of goods sold are computed at average unit costs, and do not include any charge for depreciation of fixed assets. All intercompany profits have been eliminated from the inventories." (footnote)

Adams-Millis Corporation:

"It has been the consistent policy not to include overhead expenses in computing costs for inventory purposes. If an allowance for manufacturing overhead expenses had been included in the amounts for inventories at the beginning and end of the year, the effect on net profit would not have been material." (footnote)

The auditor's report found with the statements of the National Company, Inc. refers to a footnote as follows:

"We reviewed the methods of valuation of inventories at December 31, 1946, as covered in our note on the balance sheet of the company, which valuations we believe to be conservatively stated."

The note referred to reads as follows:

"The inventory applicable to the special government contract was not physically taken. It represents the accumulation of actual costs of material and labor expended on the contract plus an allocation of manufacturing overhead expenses. With respect to the remaining inventories, raw materials and purchased parts were taken from perpetual records, adjusted by periodic checks, priced at average cost; work in process was physically counted and priced at cost except that, consistent with the past policy of the company, overhead charges are not included; obsolete or unusable materials have been eliminated from the inventories."

Corn Products Refining Company presents in a footnote a description of a base or normal stock method of inventory valuation:

"The general practice of the companies has been to use the base stock or normal stock method in determining the inventory value of corn, finished and in process goods. 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 inventories, in excess of the established normal stock, have been priced at current cost. The reserve for reduction of normal inventories to fixed prices includes provision to cover replacements at current cost for encroachment on normal stocks of finished and in process goods. Cost of goods sold is computed on the basis of inventories at beginning and end of year computed on the above basis. Materials and supplies are priced at the lower of cost or market. Intercompany profits in inventories of the consolidated companies have been eliminated in the accompanying statements."

/See also National Lead Company report for discussion of "normal stock"/

Federated Department Stores, Inc. presented a schedule showing the effect on net income of the use of the LIFO method of inventory valuations, and a discussion of the use of such method for tax purposes:

"As explained in the report for the year ended January 31, 1942, the last-in first-out (LIFO) method of inventory valuations, by the use of an index of retail price changes, was adopted in the preparation of the report for that year. This method has been continued for subsequent periods. The effect upon the net profit has been as follows: . . . .

/Schedule which followed shows the effect for six years ended February 1, 1947, for 52 weeks ended February 1, 1947 and February 2, 1946, and 26 weeks ended February 1, 1947 and February 2, 1946/

"To date, field agents of the Bureau of Internal Revenue have examined the income and excess profits tax returns of the subsidiaries for one or more years since the LIFO method has been in use and the agents have disallowed the use of that method. Federated Department Stores, Inc. is of the opinion that the disallowance of the use of the LIFO method is not in accordance with the provisions of the Internal Revenue Code. On January 14, 1947, in the Tax Court of the United States, in a test case brought by another taxpayer, it was decided that department stores may use the LIFO method. The Treasury Department, however, has not yet acquiesced in the decision and the time for its appeal has not expired. Prior to the above mentioned decision the subsidiaries had made payments of tax of $2,099,730 and interest of $183,666, a total of $2,283,396, pending final settlement of this controversy, which total sum, with interest thereon, will be refunded if the company and its subsidiaries are successful in their contention. The amounts paid are carried as an asset in the accompanying balance sheet because the increase in inventories, if the use of the LIFO method were ultimately disallowed, would be greater than such amounts. If the use of this method is not ultimately approved, the taxable income would be increased by approximately the aforementioned total reduction of merchandise inventories of $5,596,983 and the federal taxes on income would be increased in the amount of $1,144,673 ($3,244 403 less the tax payments made of $2,099,730).

"The LIFO basis is not used by Foley Brothers Dry Goods Company, acquired August 1, 1945; the inventories of that company are determined by the retail inventory method as formerly used by the other

Federated subsidiaries. Likewise, the LIFO basis is not used by several minor non-retailing subsidiaries." (footnote)

Some non-ferrous mining companies showed (on the liability side of the balance sheet) reserves for "market fluctuations in basic metal inventories" (e.g. Bridgeport Brass Co. and U. S. Smelting, Refining and Mining Co.). The American Smelting and Refining Company explained a similar reserve as follows:

"An important part of the business of the company is that of buying non-ferrous metals in various forms which constitute the raw material used in its metallurgical operations. In doing so, it follows a custom which has grown up historically in the business. The seller wants to be paid approximately when he delivers his product. To comply with this desire, the metal value of the product sold is computed at the prices current at the time and the seller paid the amount after deducting the agreed contract allowance to cover the cost of smelting, refining, marketing and the profit of the company. Since the time consumed in the various processes often requires several months, the company always has tied up in flow through its various metallurgical operations, large quantities of gold, silver copper, lead and zinc, bought and paid for, but not available for sale in commercial form.

"Any change in price of any metal during the period between purchase and final sale is for the account of this company, and prices change frequently. To protect, so far as possible, its current income from being affected by such changes in prices, the company customarily makes sales of metals in amount and time corresponding with its purchases. In order to do so, appropriate amounts of metals have been accumulated in order to enable the company to sell, for current delivery in commercial form, quantities approximately equal to current purchases of like metals in raw material. It is also necessary to carry a certain amount of metals in process for toll business.

"The quantities of metals usually so necessarily tied up have been computed and designated as 'normal stocks,' and may be likened to a reservoir, from which the company plans to sell currently so far as possible at the outlet (finished product end) the amount of metal bought at the inlet (raw material end).

"Variations in the price of such normal stocks should have no more effect on current income from year to year than variations in the price of the land upon which a plant is situated. Therefore, a Metal Stock Reserve has heretofore been created to prevent--within limits based upon past experience--the current income from being affected by a fall in market quotations of normal stocks. This is accomplished by debiting to this Reserve declines in the market value of normal stocks below their book value at the end of any accounting period.

"In the secondary (used) metal division of the company's business, a similar general principle prevails, although differing somewhat in details. The Metal Stock Reserve shown on the balance sheet includes an amount applicable to secondary (used) metals." (president's letter)

A change from LIFO to FIFO was described by the auditors of Pan American Petroleum & Transport Company as follows:

"In determining net income for the year ended December 31, 1946 the last-in, first-out inventory method was applied to inventories of crude oil and petroleum products instead of the first-in, first-out and average cost methods used heretofore. As a result of this change in method, which we approve, the inventories at December 31, 1946 were priced at approximately $3,872,000 less than they would have been on the basis formerly used and net profit for the year after Federal income taxes was consequently decreased by approximately $2,266,000. Otherwise, the principles of accounting maintained by the companies during the current year were consistent with those of the preceding year.

"In our opinion, the accompanying financial statements present fairly . . . . in conformity with generally accepted accounting principles."

CASH SURRENDER VALUE OF LIFE INSURANCE - HOW SHOWN

Cash surrender value of life insurance was shown on the balance sheets of 20% of the reports examined. 19% of the reports containing this item included it in current assets, while 81% showed the item below current assets.

Where non-current assets were classified under headings, cash surrender value was included under such titles as "Other Assets" or "Investments." A more common treatment was to show the item separately, not under any heading.

Three companies showed the face value of insurance policies parenthetically next to the cash surrender value on the balance sheet.

In two cases life insurance policies were assigned as security.

424	No such items shown
19	Shown in current assets
82	Shown below current assets
525	

Colorado Milling & Elevator Co. (5/31/47 report) showed the item in the following manner:

> "Other Assets:
> Life Insurance Policies (equity value $94,311) . . . $168,803."

D. Emil Klein Co., Inc. showed cash surrender value of life insurance policies under "Deferred Assets."

Polaroid Corporation stated in a footnote that $500,000 term insurance was in force on the life of the president of that company.

CURRENT ASSETS AND CURRENT LIABILITIES

Almost all industrial companies showed current items at the top of the balance sheet. A few companies (e.g. International Paper Co., U. S. Smelting & Refining Co., Cities Service Company) showed variations from the customary presentation.

The three companies listed below were the only ones which did not show current assets and current liabilities grouped with a subtotal therefor on their balance sheets:

Brewster Aeronautical Corporation (in process of liquidation)
Byrndum Corporation (holding company)
United Shoe Machinery Corporation

The bank loan obtained by the Gruen Watch Company contains an unusual provision:

> "In the event of the retirement, voluntary or otherwise, of Benjamin S. Katz from the position of an executive of the company, other than by death, the notes payable, bank, become immediately due and payable on demand." (footnote)

The question of determining the current portion of notes payable was discussed in the report of Howell Electric Motors Company:

> "Under date of October 24, 1946, the company entered into a $200,000 term loan agreement which provides among other things that (1) subsequent to December 31, 1946, the company will not pay dividends in an amount greater than the amount by which its net earnings after Federal income taxes and all other charges for the year exceed $50,000 except that between December 31, 1946, and December 31, 1950, it may in addition pay dividends not to exceed $30,000 in the aggregate and (2) the company will maintain net current assets of not less than $350,000. The amount borrowed under this agreement at December 31, 1946, was $100,000. Under the agreement $18,750 will be payable on the note in 1947. However, the company has included under current liabilities an amount of $50,000

which is the amount includable in current liabilities for the purposes of determining net current assets under the agreement." (footnote)

"It will be noted that notes payable to Bank in the amount of $50,000 is carried as a current liability. While it is stated under Note 2 of the notes to Financial Statements there will be only $18,750 due under the loan agreement during 1947, this figure is based upon the amount of such indebtedness as at December 31, 1946, and does not take into account subsequent advances to be made by the Bank."
(president's letter)

Worthington Pump and Machinery Corporation refers to the determination of current assets as follows:

"In accordance with recognized trade practice, accounts and notes receivable and inventories include some items not realizable within one year." (footnote)

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES - HOW SHOWN

55% of the registered and 35% of the non-registered companies showed investments in or advances to non-consolidated subsidiaries.

A majority of companies with an interest in such subsidiaries had investments without advances, but where both were involved, the tendency was to combine the two items in one amount.

Most reports failed to state the percentage of parent company ownership in the stock of unconsolidated subsidiaries.

255	No investments or advances shown
152	Investments only - no advances shown
81	Investments and advances combined
25	Investments and advances shown separately
9	Investments and advances combined with other items
2	Advances only - no investments shown
8	Miscellaneous
532	(Some reports contained more than one item)

INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES, AFFILIATES, AND ASSOCIATES - BASIS OF VALUATION

No basis of valuation was indicated in 23% of the cases where investments were shown.

Cost was used in 54% of the valuations in which a basis was stated, 25% used valuations below cost, and 14% used valuations related to the net equity in the subsidiary.

255	No such investment shown
127	At cost
71	No basis of valuation indicated
32	At net equity or net equity less reserve
24	At cost or less - at or below cost
18	At cost less reserve, amount of reserve shown
6	At cost less reserve, amount of reserve not shown
12	At nominal value
17	Miscellaneous
562	(Some reports contained more than one item)

The General Electric Company gave a clear description of how investments in affiliated companies were valued:

> "The Financial Statements reflect only the accounts of the parent General Electric Company so that net income for the year as shown in the Statement of Orders Received, Income and Earned Surplus does not include undistributed earnings of affiliated companies, and the assets and liabilities shown in the Balance Sheet do not reflect the detailed asset and liability accounts of the affiliated companies. However, dividends received from affiliated companies are included in the parent company's net income and the value of the parent company's investment in each affiliate is adjusted each year end so as to represent General Electric's advances to, and equity in the net worth of, the affiliate computed on the same basis of accounting as that employed by the parent company. In the year-end revaluation adjustment, changes in net worth of the affiliates which are attributable to differences between earnings from operations and dividends paid are credited or charged to the parent company's Earned Surplus account as 'Revaluation of investments in affiliates for differences between net income or losses and dividends paid'; changes in net worth resulting from the realization of profits or losses on securities sold or otherwise disposed of by affiliates are credited or charged to the parent company's General Reserve, or, if the security involved is General Electric stock, to Capital Surplus; and changes in net worth attributable to unrealized appreciation or depreciation of securities owned by the affiliated companies are credited or charged to Reserve for Investments. For this purpose, the determination of undistributed earnings from operations includes provision for elimination of inter-company profits included in the inventories of the respective companies and for the estimated amount of income taxes which will be payable in the event of subsequent distribution of retained earnings." (footnote)

DEPRECIABLE PROPERTY AND RESERVES FOR DEPRECIATION - HOW CLASSIFIED

63% of the companies examined showed no breakdown of depreciable property. A breakdown was considered to be a separate showing of two or more major types of depreciable property.

Thirteen companies did not indicate the amount of their reserve for depreciation. In only four instances was the reserve for depreciation shown on the liability side of the balance sheet (3 large chemical companies and a small aircraft corporation).

305	Property (sometimes including land) and related reserve each shown in total only
108	Breakdown of depreciable property shown, reserve shown in total only
59	Breakdown of depreciable property shown, reserves deducted separately from each class
10	Property (sometimes including land) shown in single amount, amount of reserve not shown
10	Depreciable property classified by types of plant, operations, or functions, reserve shown in total
6	Property shown by classes net of respective reserves - depreciation reserve shown in total only
3	Property shown by classes, no reserve shown
501	(24 oil companies not included - see below)

In the case of oil companies, depreciable property was generally combined with land and/or leases and shown as a lump sum in the balance sheet. A composite reserve covering depreciation and depletion (and sometimes amortization, replacements, and intangible development costs as well) was usually deducted from the lump sum property amount. Frequently in such cases, however, a footnote showed a functional breakdown of company properties with specific reserves deducted from the various property categories.

PROPERTY - BASIS OF VALUATION

Cost was the primary basis of valuation used. Where properties were stated at appraised values, such values had usually been determined prior to World War II, and sometimes prior to World War I.

No basis of property valuation was indicated in 11% of the registered companies and in 20% of the non-registered companies.

353 At cost
25 At less than cost
15 Book value
2 In excess of cost
77 Based on appraisals
12 Revalued - no appraisals indicated
68 No basis indicated (50 registered - 18 non-registered)
2 Nominal
13 Acquisition values, subsequent additions at cost
5 Par of securities issued therefor
4 Miscellaneous
576 (Some reports contained more than one basis of valuation)

The following schedule indicates variations in terminology used in describing bases of fixed asset valuation and constitutes a breakdown of specific classes in the preceding summary.

Cost

326 At cost
3 As determined for tax purposes
10 Substantially at cost
2 At approximate cost
6 bstantially at cost to predecessor companies
1 On the basis of cost, based on investment in securities of subsidiary
2 Estimated cost
1 Including excess of subsidiary cost over book value
2 At cost to acquired companies

Less than cost

10 At cost or less
1 At cost less reduction in book value
3 At or below cost
1 At cost less amortization
5 Principally at cost, but in part at lower valuations established by companies
1 At cost, including acquisitions for capital stock, less reductions in 1938-39
1 At cost less writedown by board of directors
1 At cost after charging off all expenditures for alterations and financing
1 At cost less writedown of net appraisal
1 At cost less writedown

Book value

7 Book value
3 Book value of companies merged
1 As stated on the books after applying special reserves from surplus
1 At amount shown on predecessor books
1 Book value of companies acquired, less writedowns
1 Book value at time of acquisition of subsidiary company
1 Book figures of certain properties and equipment reduced as of 1/1/32

In excess of cost

1 At cost except for increased valuations prior to organization of present parent company
1 In excess of cost per appraisal

Based on appraisals

71 Based on appraisal, subsequent additions at cost
2 Appraisal or engineers' estimates
1 Inventories and valuations of independent engineers on basis of 3/1/13 values
2 Estimated appraisal values plus additions at cost
1 Based on appraised sound values in 1927 or prior discounted approximately 20% plus subsequent additions at cost and less special writeoffs and reserves

Revalued - No appraisals indicated

1 Estimated sound values or amounts assigned thereto at date of purchase
1 At values adjusted to ____; additions at cost
2 Revalued at prior date
1 Values fixed in connection with reorganization of predecessor
1 Going concern values as determined by the companies at date of organization and later adjusted
3 As adjusted by stockholders
2 At value fixed by directors
1 As revalued by the management as of ______, subsequent additions at cost

Miscellaneous

1 Estimated useful value
1 ". . . . such property accounts as have been adjusted to the basis of the Kennecott stock issued or cash paid to acquire the securities of the companies which now own or heretofore owned such properties."
2 March 1, 1913 U. S. Treasury Department valuations

Two companies pointed out in their 1946 reports that the fixed asset valuations shown did not reflect current replacement or realizable values:

General Mills, Inc.

"Land, buildings and equipment are stated generally at gross valuations placed by the company on the properties acquired (representing in most cases actual or estimated cost to the vendor) together with the cost of subsequent additions, less retirements and amounts written off. Reserves for depreciation include accrued depreciation at date of acquisition in an amount equal to the excess of the gross valuation over the cost to the company. Thus, the depreciated amount shown in the balance sheet for land, buildings and equipment represents the portion of the cost not yet allocated as a charge against operations, and does not purport to be either a realizable or replacement value." (footnote)

McGraw-Hill Publishing Company, Inc.

"No attempt is made in the Balance Sheet to reflect actual value of Fixed Assets, Publications Titles, Book Plates, Copyrights, Subscription Lists, and Goodwill." (accountant's certificate)

The accountant's certificate for the report of American Sugar Refining Company is qualified with regard to the fixed assets:

"The company is engaged in a study of the fixed assets and related reserves with a view to possible reclassification or restatement. Until such study has been completed, the effect on the property, reserve and surplus accounts cannot be determined.

"Except for the effect on the accounts as a result of the study referred to in the preceding paragraph, in our opinion . . . ."

The valuation of certain Quaker Oats Company assets is based in part on the par value of the stock issued therefor:

"Property, plant and equipment and trade-marks, trade rights and goodwill 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 goodwill was determined by the management as of the dates of the acquisitions." (footnote)

Excerpts from two 1946 reports quoted below indicated different methods of handling fully depreciated assets:

Interstate Bakeries Corporation

"The company has followed the procedure of writing off units of property to the depreciation reserve as they become fully depreciated, per books, even though the facilities may have some remaining useful life. The original cost of such facilities written off before their complete physical exhaustion aggregates approximately $2,253,000 at December 28, 1946. . . . ." (footnote)

Lily-Tulip Cup Corporation

"In prior years, the practice has been to write off fully depreciated assets against the reserves although such assets were in use. Such previous write-offs have been restored to the books to the extent that such assets are no longer fully depreciated on the basis of the revised rates. There have also been restored assets which under the revised rates are fully depreciated but are still in use as the Corporation has adopted the policy of writing off fully depreciated assets only when no longer in actual use." (footnote)

The acquisition by a parent company of the properties of various subsidiaries when such properties were valued at other than original cost, or at values which had been adjusted in prior years, often rendered stated valuations in consolidated statements complex and uninformative. For example:

"The gross carrying amounts of properties are stated as appraised prior to 1930, plus subsequent additions, including acquisitions for capital stock, the amounts of such acquisitions being recorded as reflected on the books of the companies from which the properties were acquired, which in some instances were established on the basis of appraisals . . . . The amounts of depreciable properties on which annual depreciation is computed, as allowed by the Bureau of Internal Revenue, are less than the carrying amounts on the books of the Company on account of the above mentioned adjustments to appraisals." (footnote)

LAND - HOW SHOWN

Land was shown separately in 58% of the balance sheets which showed such an item. However, in about 38% of the instances where it was shown separately it was included in the total from which the reserve for depreciation was deducted.

In some instances, land improvements and/or water rights were included with land and shown separately from depreciable assets.

205	Combined with depreciable property
279	Shown as a separate item
41	No land shown
525	

MISCELLANEOUS PROPERTY CLASSIFICATIONS

The reports studied revealed a tremendous variety of descriptive titles used in connection with property accounts. These titles varied with the types of property peculiar to the various industries.

53 instances were noted in which construction in progress

was shown on the balance sheet, usually listed with the fixed assets.

Property not used in operations was stated separately in 27 reports. In most instances it comprised real estate, and was often shown under "Investments" or "Other Assets".

Five companies mentioned property which was fully depreciated, usually stating whether such assets were idle or still in use.

Fifty-seven companies showed leaseholds and improvements thereon, usually in the fixed asset section. While leaseholds represent assets of an intangible nature, it was not customary to include them with such items as goodwill, patents, etc., under the heading of intangibles. As a general procedure, oil companies in their financial statements merged leaseholds with wells and depreciable assets such as plant and equipment.

International Paper Company showed the item "Funds segregated for future capital expenditures" under the heading "Capital Assets".

EMERGENCY FACILITIES FULLY AMORTIZED FOR TAX PURPOSES - HOW SHOWN

409	None shown or mentioned
73	Item included with other fixed assets, cost or amount of reserve shown separately
14	Item shown separately at cost on the balance sheet
12	Item eliminated from asset and reserve accounts
17	Item included with other fixed assets, cost not shown
525	

410	None shown, or if mentioned treatment not indicated
98	Completely amortized on company's books
6	Normal depreciation used in 1946 (two companies also used normal rates in 1945; four used accelerated rates in 1945)
2	Reinstated at cost, less normal depreciation and amount equivalent to income tax (at 38%) resulting from future non-deductibility of depreciation for tax purposes (Dow Chemical Co., Revere Copper & Brass Inc.)
2	Reinstated at cost less normal depreciation (Industrial Brownhoist Corp., American Optical Co.)
1	Adjusted to reflect estimated fair value (Koppers Co.)
1	Restated to fair value for use in peacetime production (Walter Kidde & Co.)
2	Being amortized over 60 months period (Willys Overland Motors Inc., Wheeling Steel Co.)
1	Not fully amortized - policy not fully explained
2	Portion fully amortized through 9/30/45; unamortized balance at 9/30/45 subject to normal depreciation over useful life (Union Oil Co., Standard Oil Co. of New Jersey)
525	

Two aircraft companies indicate in footnotes to their statements the net book value of fully amortized emergency facilities if normal depreciation rates had been used. (Cessna Aircraft Co., Beech Aircraft Co.)

P. R. Mallory & Company, Inc. states in a footnote "substantially all of such facilities are being utilized and normal depreciation thereon for the year amounting to $78,129, is not reflected in operating costs."

Companies which had completely amortized emergency facilities at the date of their 1946 report usually gave no information with respect to such facilities. The two reports quoted below give some explanation of the treatment accorded to such facilities.

Johnson & Johnson

". . . . The cost of assets still in use that have been fully amortized as war emergency facilities, $1,950,000, is being retained in the asset and related reserve accounts over the period of the normal useful lives of the assets or prior disposal thereof." (footnote)

Borg-Warner Corporation

"Substantially all of the companies' emergency facilities covered by 'Certificates of Necessity,' the cost of which was fully amortized as of September 31, 1945, and which therefore are not carried in the accounts at any value, have been utilized or converted to use under postwar conditions." (footnote)

DEBT DISCOUNT AND EXPENSE -HOW SHOWN

Only in rare instances was an explanation given as to the amortization policy followed with respect to bond discount and expense.

473	Either no funded debt or no debt discount and expense shown
41	Shown separately without explanation of basis of amortization in balance sheet or footnote
6	Shown combined with other deferred charges - no explanation of amortization basis
2	Shown separately - with explanation of basis of amortization (see below)
2	"Premium and Expense" shown as an asset
1	"Premium and Expense" shown as a liability
525	

Examples A and B are two instances in which reference was made to the method of amortizing debt discount and expense. Write-offs of unamortized bond discount and expense upon refunding or conversion were found in both income accounts and earned surplus. Such items were sometimes grouped with premiums paid on redemption of bond issues.

Example A - Clyde Porcelain Steel Corporation (Balance sheet)

"Deferred Charges
Unamortized bond discount and expenses
(Charged off pro rata against bonds retired) 15,136.03"

Example B - Celanese Corporation of America

"Deferred Debt Discount, Premium and Expense:
It is the corporation's policy to amortize these expenses over the lives of the related issues, and when an issue is redeemed, to continue amortization over the life the issue would have had if continued until maturity." (footnote)

The auditor's report in connection with Central Soya Company, Inc. mentioned a change in amortization policy as follows:

". . . . in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except that for the year ended September 30, 1946 bond discount and expense of \$120,007.93, applicable to future years, was charged off against current income."

PREPAID EXPENSES AND DEFERRED CHARGES - HOW SHOWN

Such items were usually shown below the current assets section.

In only six instances were prepaid items shown in the current assets section. Three of these instances showed no prepaid or deferred items other than in the current section, but the other three, in addition, showed deferred items in the non-current section. There was no explanation or information given as to any recognized distinction between the terms "prepaid" and "deferred."

Attempts to make this group of items more understandable resulted in the use of combinations of the following words:

(Deferred) Charges (Applicable) to future (operations)
(Allocable) (periods)

The word "unexpired" was often used in connection with insurance.

157	Non-current section - headed "Deferred", with individual item(s) described as "Prepaid."
114	Non-current section - title included words "Prepaid" and "Deferred."
133	Non-current section - described as "Deferred."
79	Non-current section - described as "Prepaid."
23	Miscellaneous titles appearing in the non-current section.
3	Current assets section only - described as "Prepaid."
3	Prepaid and Deferred items split between current and non-current.
13	No such items separately shown.
525	

INTANGIBLES - TYPES SHOWN

38% of the companies examined showed no intangibles. 325 companies showed 617 intangible items, of which those appearing most often were patents, goodwill, and trademarks.

The designation "patents" was found on the balance sheets of 14 out of 17 chemical companies, 9 out of 10 electrical machinery manufacturers, and 10 out of 14 producers of automotive parts.

Both trademarks and goodwill were shown by 7 of 8 tobacco product manufacturers.

Goodwill was mentioned by at least one company in all industrial groups examined, with the exception of the large airplane manufacturers.

Leaseholds were not ordinarily shown under the heading of intangibles, but were usually shown in the fixed asset section, sometimes combined with improvements thereto. (See "Miscellaneous Property Classifications")

200	No intangibles shown
205	Patents
162	Goodwill
119	Trademarks, tradenames, and brands
23	Licenses
14	Patterns - drawings - dies - lasts - jigs (often shown with the fixed assets)
13	Water rights
9	Copyrights
8	"Intangibles"
7	Franchises
57	Miscellaneous
817	

In addition to the above, eighteen of the 24 oil company reports studied made reference to or showed "Intangible Development Costs." Thirteen of the 18 give specific indication of a policy of capitalizing and amortizing such costs.

INTANGIBLES - HOW SHOWN

Fifty-six percent of the intangibles shown were stated at a nominal valuation (usually $1).

200	No intangibles shown
196	Shown separately or as a separate group - at nominal valuation
112	Shown separately or as a separate group - at an amount in excess of nominal valuation. (44 did not indicate the use of a reserve)
36	Included with fixed assets (Value shown in 8 instances)
4	Unclassified
548	(Some reports contained more than one item)

INTANGIBLES - HOW AMORTIZED

Only in rare instances was the amortization policy stated, although in reports which were presented in comparative form, the net change in the asset was evident, this often being the only indication of amortization policy.

396 No intangibles shown or intangibles shown at nominal valuation
with no indication of previous amortization policy.
69 Not stated - either not being amortized or charge buried in the
Income Statement
40 Charge in the Income Statement shown separately
20 Charged to Surplus (16 to Earned Surplus, 4 to Capital Surplus)
19 Not being amortized
544 (Some reports contained more than one item)

INTANGIBLES - VALUATION BASIS

In 53% of the reports where intangibles were shown at a value in excess of a nominal amount, there was no indication of the basis of valuation used.

396 No intangibles shown or intangibles shown at nominal valuation
77 Basis not stated
59 Based on Cost (including cost less amortization, cost or less,
and cost since specific date)
[illegible] Appraised values
1 "Book" value
540 (Some reports contained more than one item)

The balance sheet of the B. F. Goodrich Company showed intangibles deducted from no par common stock as follows:

> "Common stock (without par value)
> Authorized 4,147,154 shares. Issued 1,314,296 shares at $102,378,308, less 5,976 shares in treasury at cost, $300,110, and intangible capital assets, namely goodwill, patents and trademarks carried in the books at $57,798,001. . ."

Elastic Stop Nut Corporation of America showed as a Deferred Charge an item which in many instances is included with patents among the intangibles. (A separate classification for "Intangible Assets" was also shown):

> "Deferred Charges
> Patent Applications, taxes and sundry expenses. . .$43,709.22"

Paramount Pictures Inc. included rights to plays among the inventory items:

> "Inventory:
> Rights to plays, at cost or less . . . .$1,000,759"

O'Sullivan Rubber Corporation pledged intangibles to secure First Mortgage Bond:

"Note A. . . . Plant property, exclusive of motor vehicles, located at Winchester, Virginia, is mortgaged, and intangible assets are pledged, to secure First Mortgage Bonds."

Upon dissolution of a subsidiary Niles-Bement-Pond Company of New Jersey charged the income account with the unamortized cost of the subsidiary's patent rights:

"Note 6 . . . . Chandler-Evans Corporation, formerly wholly owned subsidiary of the Company, was dissolved and liquidated on December 31, 1946, the Company succeeding to its business and its assets and liabilities at their net book values. The operations are to be continued as a division of the Company. As at that date, the unamortized cost of patents and patent rights of the subsidiary amounting to $44,565.36 was charged to profit and loss in accordance with the company's practice with respect to patent costs."

Continental Baking Co. had an informal agreement with the SEC regarding write off of goodwill:

"In connection with the registration statement covering the issuance of the company's 3% Sinking Fund Debentures in 1945, filed with the Securities and Exchange Commission, the company agreed informally with the staff of the Commission that upon completion of the sale of the aforesaid debentures: (1) consolidated goodwill would be reduced by $631,404.52; (2) $599,140.92 would be charged to paid-in surplus, thus eliminating that account; (3) $32,263.60 would be charged to earned surplus; and (4) the remaining consolidated goodwill, in the amount of $6,200,000 would be written off over a period of 31 years by a charge to profit and loss of $200,000 per year beginning with the fiscal year 1945."

Polaroid Corporation changed its amortization policy with respect to patents as the result of a Treasury Department audit:

"Prior to the current year, it was the policy of the management to amortize patent costs over the period extending from the time the related products were marketed to the patent expiration date. As a result of an audit by the Internal Revenue Department the Valuation Section of such Department allowed amortization from date of issue of each patent to its respective expiration date. This change was agreed to by the management. In order to conform the company's accounts with this change, reserves for amortization of patents to December 31, 1945 were increased by $5,111.36. Amortization of patents for 1946 has been provided on this revised basis."

Lima Locomotive Works, Inc. changed its policy with respect to writing off the cost of drawings patterns, dies, etc:

"The company has changed its policy with respect to writing off the cost of drawings, patterns, dies, etc., for standard types of shovels and cranes to provide that, beginning with the year 1947, such expenditures will be charged to operations in full as incurred, rather than over a period of five years. The special charge of $429,772.20 to the Income Account for the year 1946, represents the write-off of the unamortized cost of drawings, patterns, dies, etc., at December 31, 1946, which had accumulated under the company's former policy." (footnote)

In the case of the 24 Oil Companies included in the study, special notice was taken of the accounting treatment of so-called "Intangible Development or Drilling expenditures." Thirteen of these companies followed a policy for financial statement purposes of capitalizing such expenditures and systematically amortizing the same. In the six instances where reference to the basis of amortization was made, five were on a "unit of production" basis and one indicated the application of an 8% per annum rate to these capitalized costs. Whereas in 8 of the 24 cases there was no specific indication of company policy with respect to the treatment of intangible development expenditures, there were three cases where it was stated that such expenditures were charged off in the year in which incurred. An example of a succinct but complete statement of policy with respect to this question was found in the following footnote appearing in the report of The Texas Company:

> "Note 1: Since January 1, 1934, the Company has followed the policy of (1) capitalizing intangible development costs applicable to producing wells completed after that date; (2) amortizing such costs at the rate of 8% per annum, except as to wells located in Illinois, Indiana, and Kentucky, which are fully amortized as incurred; (3) charging to operating costs, upon abandonment of wells, the balance of intangible development costs applicable thereto and previously capitalized; and (4) charging to operating costs the intangible development costs applicable to dry holes."

CASH OR MARKETABLE SECURITIES SEGREGATED - PURPOSE OF

While many reports included such titles as "Special Deposits", "Deposits in Escrow", and "Sundry Deposits" among the non-current assets, those more fully described fell into the following groupings:

(1) Funds held by the reporting corporation which were set aside to meet specific obligations such as plant expenditures, insurance claims, pension and other retirement liabilities, dividend, sinking fund,

and interest payments, and "contingencies."

(2) Deposits made with other parties. These items included deposits required by state and federal agencies, insurance companies, trustees, banks, lessors, and parties to various types of contracts.

(3) Cash or securities not readily available for use, such as those restricted by foreign exchange regulations.

(4) Funds held for other parties, such as employee deposits and funds held under U. S. Government contracts.

LONG TERM DEBT - TREATMENT OF CURRENT PORTION

277	No bonds or notes outstanding
144	Current portion of long term debt shown under current liabilities
74	No amount shown under current liabilities or no amount stated to be current
21	Bond sinking fund installments shown under current liabilities
8	Current portion mentioned but not shown under current liabilities
7	Miscellaneous
531	(Some reports contained more than one item)

The following examples illustrate various methods of indicating the current portion of long term debt:

Shell Union Oil Corporation - footnote 12/31/46

"Original Issue	125,000,000
Less-Purchased in Anticipation of sinking fund requirements due April 1, 1947	1,000,000
Per Balance Sheet	124,000,000

MacFadden Publications Inc., Balance Sheet 12/31/46

"6% Sinking Fund Debentures (Subordinated) Due July 1, 1968 (exclusive of debentures called for redemption January 1, 1947, for which cash of $142,259, including 1% premium, has been paid to Trustee. . . ."

Walworth Company - 12/31/46 Balance Sheet

"Walworth Company convertible 3-1/4% debentures, dated as of May 1, 1946, due 1976 (original issue $6,500,000 less debentures in treasury) (Note C) $6,337,000

Note C - "At December 31, 1946, the Company held in its treasury $163,000 principal amount of convertible 3-1/4% Debentures. These debentures together with $7,857 in cash or debentures at cost will satisfy the sinking fund requirement based on consolidated net earnings in the year 1946 and payable on or before June 1, 1947."

REACQUIRED BONDS - HOW SHOWN

Only 10 out of 525 reports made any mention of reacquired bonds, the usual practice being to show the net amount outstanding.

Excluding one company which showed such an item as an asset (see example A) the usual practice where the item was shown was to mention parenthetically after the description of Bonds Payable any items excluded in arriving at the net amount outstanding.

Example A - Atlantic Company - Balance Sheet 12/31/46

"Investments and Other Assets	
Investments in Company's own securities, $216,650 principal amount of 5% debentures - at cost	$43,398.15"

A more detailed presentation showed retired bonds and those held in the treasury as a deduction from authorized and originally issued bonds, extending the resulting figure as outstanding bonds (see example B)

Example B - Hygrade Food Products Corporation - Balance Sheet 11/2/46

"Funded Debt			
First and Refunding Mortgage Convertible 6% Bonds due January 1, 1949			
Authorized $6,000,000.00			
Series "B" - Issued			1,619,000
Less:			
Retired or Converted into Series "A" Bonds	1,423,500		
Held in Treasury	351	1,423,851	195,149"

One company showed treasury bonds deducted from the sinking fund payment shown in the current liabilities section:

Example C - The Norwalk Tire and Rubber Company - Balance Sheet 9/30/46

"Current Liabilities:		
Sinking fund payment due within one year for retirement of 4% convertible debentures	88,000	
Less convertible debentures held in treasury	30,000	58,000"

(The examples shown under "Long Term Debt - Treatment of Current Portion" should be noted)

CONTINGENT LIABILITIES

Of the contingent liabilities which were recognized and described as such, those appearing most often were:

77 Lawsuits (other than portal to portal suits.)
50 Purchase and construction committments
27 Prior year taxes
21 Commercial paper
20 Guarantees
14 Subsidiary indebtedness

Possible liability with respect to renegotiation settlements was seldom listed under the title of contingent liabilities, usually being discussed in a separate note.

Because legislation passed in 1947 rendered portal to portal claims ineffectual, no statistics on the treatment thereof are presented. Companies which reported such claims in their 1946 statements usually discussed them in footnotes, with or without disclosure of the amounts involved in the suits, no provision being shown therefor in the financial statements.

Contingent liabilities were usually discussed in footnotes, but in several instances were shown but not valued as the last item on the liability side of the balance sheet. In several reports contingent assets were recognized.

The three excerpts which follow indicate the recognition of contingent liabilities with respect to interest on taxes withheld (Example A), a repurchase agreement (Example B) and future taxes payable (Example C).

Example A - Willys Overland Co. - footnote 9/30/46

"Acting on the advice of its general counsel and as permitted by the Internal Revenue Code, the Company, upon filing the above claims (under section 722), elected to withhold payment of taxes for the three years ended September 30, 1944, in the amount of $6,235,603.68. Interest would be payable thereon should these claims be finally denied and interest not abated by the Department. This $6,235,603.68 is included in the Balance Sheet as a current liability, but no specific provision has been made for the aforementioned interest, which, based on the advice of General Counsel, is not being accrued or paid, it being a contingent expense until the related issues are fully determined. Computed to September 30, 1946, this interest amounts to approximately $1,160,000."

Example B - Lockheed Aircraft Corporation - footnote 12/31/46

"The company has a contingent liability in the maximum amount of $1,238,662 in connection with a repurchase agreement covering airplanes sold during September and October 1946. Under the terms of the agreement the purchaser may demand that the company repurchase the airplanes, which must be in good and air-worthy condition, any time within five years from the date of purchase . . . ."

Example C. Standard Brands Inc. - Balance Sheet 12/31/46

"Contingent Liabilities:

. . . Certain finished product inventories in bond are, under Federal law, subject to payment of Federal excise taxes upon withdrawal from bond."

RESERVES SHOWN BELOW CURRENT LIABILITIES SECTION ON THE BALANCE SHEET

121 No reserve shown
272 "Contingency Reserves" or words "and other contingencies" (or similar) added to an otherwise specific reserve title, with no further purpose disclosed.
143 "Insurance", "self-insurance", "workmen's compensation insurance" and other reserves for various forms of self-insurance.
59 Reserves for future inventory price declines (in addition, reserves were noted as deductions from the asset "Inventories" in 29 instances.)
50 Reserves for war and post-war contingency adjustments
46 "General", "Other", "Sundry", "Miscellaneous" Reserves
44 Reserves involving plant and equipment (other than depreciation.) This group included reserves for deferred maintenance, replacement of equipment, furnace relining, rebuilding and repair, plant dismantlement, reconversions, renewals, and revisions of manufacturing programs.
26 Reserves for tax contingencies
22 Reserves for warranties and guarantees
20 Reserves involving foreign operations.
This group included reserves for foreign exchange, foreign operation, foreign investments and contingencies, and the rehabilitation of foreign business.
12 Reserves for employee benefits.
This group included reserves for past service pension credits, unemployment benefits, general company welfare, wage adjustments, etc.
10 Reserves for replacement of basic LIFO.
110 Miscellaneous reserves with specific titles.
935

Unusual or Interesting Reserves

Crane Co. - Balance Sheet 12/31/46

"Reserves and Appropriations

Appropriation toward excess of future replacement cost of machinery and equipment over original cost . . . . . $500,000"
(appropriated from "net profit for the year")

Consolidated Cigar Corporation - Balance Sheet 12/31/46

"Reserve for Crop Hazards and Other Contingencies"

The Firestone Tire and Rubber Company - Balance Sheet 10/31/46

"Reserves
For Replacement of Assets Destroyed by Fire
(Insurance Recovery less Expenditures) . . . . 1,240,000"

Kimberly Clark Corporation - Balance Sheet 12/31/46

"Reserves:
For extraordinary obsolescence"

Art Metal Construction Company - Balance Sheet 12/31/46

"Reserves:
Special Reserve for doubtful accounts 332,000"
(Created from surplus in prior period)

The W. L. Maxson Corporation - Footnote 12/31/46

"In 1946 and subsequent years, the Corporation and its consolidated subsidiaries will not be entitled to any deduction for tax purposes in respect of depreciation on certain plant facilities acquired for war production (which had a net book value of $217,512 at December 31, 1946) which were fully amortized for tax purposes in 1945 and prior years. Accordingly a reserve for future Federal income taxes has been provided to cover the estimated additional taxes payable as a result of 1946 and subsequent years' provision for depreciation of such facilities being non-deductible for tax purposes. Of this reserve, $16,750 is applicable to non-deductible depreciation provided during 1946 and has been credited to income."

400 Either no reserve or no apparent increase during the year (comparative statements not available in most of these cases as final check on creation of or net increase in reserve.)
52 Charge against income prior to the determination of "net income for the year" (or variations thereof)
36 Charge after the determination of net income but prior to the determination of a net balance carried to surplus,
or
Charge made at the end of the income account but with wording of items or subtotals either omitted or so vague that it is not clear whether the provision for contingencies was considered to be a charge against income or an appropriation after the net income was determined.
11 Charge made to Earned Surplus
15 Charge made to other reserve or liability account
14 Increase in contingency reserve apparent but no indication of surplus charge or appropriation of net income.
6 Miscellaneous
534

Sun Oil Company disclosed an unusual credit to the contingency reserve:

"During the year 1946, Sun Oil Company, in conformity with the basis agreed upon for settlement of Federal income tax liabilities, capitalized certain exploratory costs which had been charged to expense during the years 1941 to 1944, inclusive. The net amount of the costs capitalized, $1,439,225, was credited to the reserve for contingencies." (footnote).

The auditors of Browne and Sharpe Manufacturing Co. indicate in their report a preference for charging and crediting certain items to the income account rather than to the reserve for contingencies and earned surplus:

> "We refer to the charges during the year 1946 made to reserve for contingencies, as noted on the consolidated balance sheet, namely $534,099 for portion of past service pension cost and $108,433 for portion of retroactive wages, and to the credit of $338,000 made to consolidated surplus, as shown in the statement thereof, for estimated refund of federal taxes because of carry-back of unused excess profits tax credit. In our opinion, the two charges just mentioned should preferably be placed in consolidated income account

and the $338,000 credit, though it is non-recurrent, may properly be included in that account. If the three items, which amount to $304,532 (net), be taken into consolidated income account, the resulting consolidated net income would be $2,157,312 which, in our opinion, is a fair representation of the consolidated net income accruing in the year."

". . . . In our opinion, the accompanying consolidated balance sheet, and related statements of consolidated income and consolidated surplus except as indicated in the preceding paragraph . . ."

National Supply Company indicated a change in reserve title as follows:

"The Reserve for Postwar Adjustments and Contingencies in the sum of $1,200,000.00 has been restated by the Board of Directors as a Reserve for Contingencies." (footnote)

A multiple purpose reserve was described by Hercules Powder Company:

"Reserve for Contingencies - This reserve has been provided for possible liabilities and losses (after giving effect to related tax reductions) with respect to taxes and interest thereon, contract costs, extraordinary inventory losses, dismissal wages, renegotiation refunds, and other contingencies resulting from the war. No segregation has been made of the part of the contingency reserve which may constitute a current liability." (footnote)

RESERVES FOR UNDISCLOSED CONTINGENCIES AND FUTURE INVENTORY PRICE DECLINES - HOW DECREASED

445 Either no reserve shown or no apparent decrease during the year
30 Credits to cash or liability accounts with direct charges to reserves - usually disclosed in footnotes or president's letter
5 Credits in the income statement appearing before the determination of net income for the year
13 Credits appearing in the income statement after the designation of net income for the year resulting in a balance carried to surplus, or credits shown as extraordinary items with many variations in wording of balances before and after such credits
20 Credits to Earned Surplus
8 Credits to other reserve accounts
9 Credits to income statement described or shown as offsetting specific expenses included therein
5 Decrease in contingency reserve apparent (through comparative statements) but no indication of where credited.
1 Credit to Investment in foreign subsidiary
1 Credit to liability for renegotiation under current liabilities
1 Transfer to income statement of dividends from foreign subsidiaries previously credited to contingency reserve
538

The Ohio Oil Corporation presents a single step form of income statement in which a transfer from a reserve account is included with income items in the first (or credit) section of the statement.

MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES - HOW SHOWN

In only three balance sheets was the minority interest in consolidated subsidiaries shown in the capital stock section. In all other reports examined the minority interest was shown above that section.

In a few cases the minority interest was limited to a preferred stock (e.g. Loew's Inc., Purity Bakeries Corp., Philadelphia Dairy Products Co., Inc., General Motors Corp.), in others it involved both common and preferred stock. (e.g. Joslyn Manufacturing and Supply Co., Alaska Pacific Salmon Co.).

Several mining and oil producing concerns showed capital stock at the top of the liability side of the balance sheet, with earned surplus as the last item and the minority interest between the two sections. (e.g. U. S. Smelting Refining and Mining Co., Cities Service Co.).

53 Minority Interest in Capital Stock and Surplus shown in one amount
6 Minority interest in capital stock shown separately from minority interest in surplus
466 No minority interest shown
525

The examples shown below indicate disclosure of liquidation value of minority interest (Example A), minority interests in preferred stock, common stock and surplus (Example B) and minority interest in Preferred Stock and surplus (Example C)

Example A - Houdaille-Hershey Corporation - Balance Sheet 12/31/46

"Minority Interest in Muskegon Motor Specialties Company - Class A convertible capital stock of no par value - 52,090 shares (Note A). . . ."

Note A - ". . . .The minority interest in the net worth of Muskegon Motor Specialties Company as of December 31, 1946, if computed on a liquidation basis would have amounted to $1,271,424.94."

Example B - The Mead Corporation - Balance Sheet 12/28/46

"Minority Interests
Preferred Stock (Par Value $92,400.00) and Common Stock (Par Value $388.00) of Subsidiary Company and Equity in Surplus $93,346.00. . . ."

Example C - McGraw Hill Publishing Company, Inc., Balance Sheet 12/31/46

"Minority Interest in Subsidiary Company
In 4% Preferred Stock and Surplus . . . ."

Example D illustrates a liability item combining a minority interest in preferred stock with an unusual method of handling negative goodwill:

Example D - The Permutit Company - Balance Sheet 12/31/46

"Simplex Valve and Meter Company
Excess over cost of book amounts of net assets after provisional reserves; also amounts applicable to 77-2/3 shares of preferred stock in hands of public . . . ."
(shown immediately below current liabilities)

Some indication as to the relative proportion of stock held by minority stockholders is illustrated in Example E:

Example E - The Lambert Company - Balance Sheet 12/31/46

"Minority Interest in Subsidiary
Represented by 28,250 shares of Lambert Pharmacal Company (1/24th of total shares) . . . ."

CAPITAL STOCK - HOW SHOWN

379 Number of shares authorized and outstanding, and amount outstanding, each class shown separately if more than one class, with par or stated value per share shown.
4 Number of shares authorized and outstanding, with par or stated value per share shown separately for more than one class, but only combined amount outstanding shown.
129 Neither par nor stated value shown per share - common stock
26 Neither par nor stated value shown per share - preferred stock
8 Number of shares of authorized capital not shown
6 Number of shares of outstanding stock not stated.
552 (some reports contained more than one item)

Listed below are the number of times certain information regarding capital stock was presented:

58 Redemption Value of Preferred Stock
45 Preferences on liquidation of Preferred Stock
55 Reservation of common stock for conversion of other security issues of same company
18 Reservation of common stock for outstanding options or warrants
16 Reservation of common stock for sale to officers and/or employees
13 Common stock exchangeable for stock of other corporation
24 Stated value of capital stock quoted in the aggregate but not per share
6 Stock authorized but none issued to date

Regal Shoe Company showed the number of common stock purchase warrants authorized and the number issued and outstanding in the capital stock section of its balance sheet.

Philip Morris & Co., Ltd. valued part of its outstanding common stock at $5 per share and the remainder at $2 per share.

"Common, par value $5 per share, authorized 3,000,000 shares; outstanding at March 31, 1947, 1,998,468 shares (552,000 shares issued for equivalent of $2 per share) . . . . $8,336,340"

Atlas Powder Company valued its no par common stock at "paid-in value."

The Cuneo Press, Inc. deducted "Sinking Fund requirement for redemption of preferred shares" from the total of outstanding preferred stock, outstanding common stock, capital surplus and earned surplus.

International Paper Company showed "Preferred Stocks of Subsidiary" as a separate item immediately above the capital stock section.

Armstrong Cork Company valued no par preferred stock at "minimum redemption price."

American Radiator and Standard Sanitary Corporation showed in the balance sheet the aggregate redemption price and preference on liquidation of outstanding par value preferred stock.

Adam Hat Stores, Inc. added to capital stock the "excess of stated value of converted preferred stock over par value of common stock issued therefor " . . . . "in accordance with the opinion of counsel that the conversion did not result in a capital reduction." (footnote)

The Federal Machine and Welder Corporation showed $300,000 of "Subscription to Capital Stock (40,000 shares at $7.50)" in the capital stock and surplus section of its report.

Interstate Bakeries Corporation indicated an aggregate preferred stock liquidation value in excess of all common stock and surplus. The unpaid cumulative dividends on the preferred stock totaled $2,020,556.

Capital stock transactions in connection with a merger which were not completely effected at the balance sheet date were treated as complete for statement purposes by Follansbee Steel Corporation:

"In the balance sheet, the outstanding Debentures and common stock of the corporation have been stated as though all exchanges in connection with the merger at June 30, 1946, had been effected, although $125,200 face amount of Debentures and 3,196 shares of common stock remain to be issued in exchange for securities previously issued." (footnote)

TREASURY STOCK - HOW SHOWN

291	No treasury stock shown
127	Deducted from issued stock of the same class, usually valued at par or stated value, in some instances at cost, or basis not stated.
72	Deducted from total of capital and surplus, usually valued at cost, but in some instances at par or basis not stated. In one case stated at a value below cost (Harbison Walker Refractories).
14	Deducted from Surplus, usually Earned Surplus, but in one instance from Capital Surplus (U. S. Steel Corp.)
11	Shown as an asset; in four of such instances, there was no explanation of item.
10	Unclassified
525	

No par treasury stock was sometimes mentioned parenthetically on the balance sheet without any valuation being assigned thereto.(e.g. Dictaphone Corporation, The Mead Corporation)

Baldwin Locomotive Corporation deducted common stock held in the treasury from the total of common and preferred stock issued.

Continental Oil Company showed treasury stock carried at no value.

Several companies preferred to deduct the total of unissued and treasury stock from the authorized amount to arrive at the outstanding amount (American Locomotive Company - Diamond Match Co.).

Hearst Consolidated Publications deducted the total of treasury stock and parent company stock owned by a subsidiary from the parent company's issued stock to arrive at outstanding stock.

Medusa Portland Cement Company treated preferred and common treasury stock differently, the former shown (in 1945) as a reduction of the issued amount, and the latter deducted from the total of common capital, earned and acquired surplus.

SECTION III - INCOME STATEMENT

TITLE OF "INCOME STATEMENT"

There were more titles used in which the word "Income" appeared than titles employing the words "Profit and Loss." However, the most generally used single title was "Statement of Profit and Loss" or "Profit and Loss Statement."

The word "statement" was sometimes replaced by the words "account" or "summary." In other cases the title was merely "Income" or "Profit and Loss." Where combined income and surplus statements were used, a joint title covered both statements.

"Statement of Earnings", "Statement of Operations" and "Results of Operations" were titles which varied from those found in the two main groupings.

160	Statement of profit and loss or profit and loss statement
127	Income statement or statement of income
62	Statement of income and (earned) surplus
51	Statement of profit and loss and (earned) surplus
33	Income Account
13	Summary of income
7	Income and (Earned) Surplus Account
6	Summary of income and (earned) surplus
6	Statement of Earnings or Earnings Statement
4	Statement of Operations
4	Income and Profit and Loss
4	Summary of profit and loss
6	No Income Statements presented
42	Unclassified variations
525	

FORM OF INCOME STATEMENT

The multiple step form was used in 77% of the income statements. Where statements were designed to show the distribution of income among various groups, such as employees, the government, and the stockholders, the single step form of statement was generally used.

Of the various industrial groups, meatpackers and rubber companies made the widest use of the single step form.

Registered companies used the single step form of statement and modifications thereof relatively more often than the non-registered companies.

399 Multiple Step Form
58 Single Step Form
56 Single Step Form with exception of provision for income taxes and/or an extraordinary item, shown separately deducted at the end of the statement.
6 No Income Statement presented
6 Unclassified
525

Pullman Inc. presented a "Consolidated Income Account" in three sections. Such sections were headed "Car Service Operations", "Manufacturing and Engineering Operations" and "Investment Operations". Costs or expenses relating to each type of revenue were shown in each of the three sections and the resultant "net earning" amounts were then combined.

E. I. Du Pont de Nemours and Company presented a "Statement of Consolidated Income" in two sections headed "Operating Income" and "Other Income." Each section was shown in single step form with the applicable portion of the federal tax provision shown in each section.

Park and Tilford, Inc. key the following footnote to "Sales", "Gross Profit on Sales" and "Net Income for the Year":

"Profit on Transactions of a Special Nature, which are not necessarily recurrent.

The Profit and Loss Statement herein includes gross profits on transactions of a special nature which are not necessarily recurrent in the amount of $1,732,427.50."

VOLUME OF BUSINESS - HOW SHOWN

While approximately 8% of the registered companies did not show their sales figure, about 21% of the non-registered companies omitted this item from their income statements.

In approximately 70% of the statements examined, sales were specifically indicated as being "net." At least half of the remaining statements showed sales without any indication as to whether stated "net" or "gross."

Among the industrial groups, the oil companies generally used the terms "Gross Income from Operations" or "Gross Operating Income (or Revenue)," and shipbuilding concerns often used the term "Gross Income from Contracts." Companies with government contracts sometimes indicated the volume of business attributable to costs and fees under cost plus fixed fee contracts.

387	Sales shown in one amount
53	Sales not reported
31	"Sales and Operating Revenues" (or similar)
26	Sales analyzed, usually by products
22	"Gross Income from Operations" (or similar term)
6	No Income Statement presented
525	

The Standard Oil Company (Ohio) and the City Ice and Fuel Company showed "gasoline and oil taxes" and "Federal and State excise taxes", respectively, as deductions from their sales figure.

York Corporation excluded billings on contracts less than 85% completed from net sales.

Bath Iron Works Corporation described its method of recognizing profit and loss on contract work as follows:

> "The company follows the practice of recording estimated profits accrued during construction on long-term shipbuilding contracts by applying the percentages of completion in each year to the final profits estimated for the respective contracts. In the case of long-term contracts with the U. S. Navy Department, the percentages used are furnished by U. S. Navy representatives; for other long-term contracts, the percentages are determined by relating the actual expenditures to the estimated final costs of the respective contracts.
>
> If a loss is indicated by the estimate on a contract, it is the company's practice to provide a reserve for the entire net loss, after consideration of any expected reduction in income taxes resulting from the loss." (footnote)

Pathe Industries, Inc. changed its method of recording income:

> "During the year, the method of recording income from film rentals was changed from a collection to a billing basis, to conform to industry practice . . . "

> "While these revised accounting procedures are in accordance with accepted practice and have our approval, they have resulted in an increase of approximately $215,000.00 in the net income of the year under review."

". . . . applied on a basis consistent with
that of the previous year, except as
stated in the preceding paragraph."
(accountants' certificate)

The profit and loss statement contained in the report of the United States Smelting Refining and Mining Company did not show a figure for "Sales." The company followed a policy of accruing its income on a production rather than a sales basis. Accordingly, the first item in the profit and loss statement was designated as "Gross value from production and gross revenue from other operations."

COST OF GOODS SOLD - HOW SHOWN

"Cost of goods sold" was presented in a variety of ways in 1946 income statements.

The most frequently used method showed the item separately. However, a considerable number of companies combined cost of sales with other expenses, usually general and administrative, or "operating." Where statements contained such terms as "Manufacturing Costs" "Operating Costs" or other terminology variations, it was not always clear as to whether or not such terms were equivalent to "cost of goods sold."

The parenthetical exclusion or inclusion of various expenses in connection with the "cost of goods sold" item did not follow a standard pattern.

229	Shown separately as "Cost of Goods Sold" or "Cost of Sales"
185	Combined in one amount with other expenses
57	Cost of sales figure not reported
34	Terms other than "cost of goods sold" used
14	Various headings (e.g. "operating costs") followed by listing of expenses
6	No Income Statement presented
525	

GROSS PROFIT - HOW SHOWN

Sixty-four percent of the reports examined did not show "gross profit." The combining of cost of goods sold with other expenses, the use of the single step form of statement, and the use of very abbreviated forms, were the principal reasons for the omission of this item.

337	Not shown
130	Shown as the difference between sales and cost of goods sold and specifically described as gross profit
28	Shown as initial figure of the income statement
18	Amount shown as the difference between sales and cost of sales, but not given any designation
6	No income statement presented
6	Unclassified
525	

There appeared to be considerable variations both in the items charged before a "gross profit" figure, and the terminology used to describe that figure. The examples quoted below illustrate varying presentations:

Brunswick-Balke-Collender Co. 12/31/46

"Net Sales 22,268,766.48
Gross Profit on Sales 7,766,222.23"

U. S. Potash Co. 12/31/46

"Gross Sales . . . .
Less Freight and Handling . . . .
Net Sales . . . .
Cost of Product Sold (including depreciation . . . . but exclusive of royalties, property taxes, and depletion and not including any amortization of emergency facilities) . . . .
Remainder . . . ."

Endicott Johnson Corp. 11/30/46

"Net sales. . . .
Cost of goods sold, based upon the normal stock method of inventory (see Note 1) after including $2,197,383.30 transferred to reserves therefor . .
Provision for market decline on hide committments (see Note 1) . .
Gross Profit. ."

Craddock Terry Shoe Corporation 11/30/46

"Net Sales . . .
Cost of Sales, Selling, Administrative and General Expenses. .
Gross Profit from Operations . . ."

ENGINEERING, EXPERIMENTAL, AND DEVELOPMENT COSTS - HOW SHOWN

Such items were shown among the assets in 17 instances, and as a separate charge in 72 income statements.

Many companies did not state their policy with respect to the capitalization, amortization, or complete write-off, as incurred, of such expenses, a charge in the income statement often being the only indication of such costs.

Engineering, experimental, and development costs, were mentioned most often by the airplane industry and by mining companies.

The diversity of treatment accorded such costs by the airplane industry is illustrated by the fact that Lockheed Aircraft Corporation and North American Aviation, Inc. both indicated a deferment of development and other expenses incurred on specific models, whereas Republic Aviation Corporation and Consolidated Vultee Aircraft Corporation apparently charged similar types of expenses to the income account.

United Aircraft Corporation indicated the following policy:

"The inventories at balance sheet date include $13,840,793 relating to engineering and development projects covered under contracts entered into with the United States Government, principally during the current year, which contracts cover a substantial portion of current engineering and development costs and expenses. It is the established practice of the corporation to charge engineering and development costs and expenses to operations as incurred, and to transfer there from to experimental inventories allocable costs and expenses under contracts for experimental products." (footnote)

Douglas Aircraft Company, Inc. changed its policy during 1946 (change mentioned and approved in accountant's report):

"During the year under report the company adopted the accounting policy of charging to expense as incurred all expenditures for experimentation and development of new models of aircraft instead of capitalizing them in the first instance and either amortizing the cost against subsequent production or writing off the cost of unsuccessful projects, as was done in 1945 and prior years. Had the former method been continued the income for the year under report would have been approximately $500,000 greater, after tax adjustments, than the amount reflected in these statements." (footnote)

/For discussion of treatment of "Intangible Development Cost" by oil companies, see Section II "Intangibles"./

The president's letter stated the following with respect to the research cost of United Shoe Machinery Corporation:

> "Our balance sheet and surplus account as of the close of the fiscal year ended February 28, 1947 is submitted as a part of this report. The net income, after provision for taxes, as shown by the accompanying surplus account amounted to $8,797,971.79. In the following summary of net income, we wish to explain that (a) the earnings from general operations have been adjusted by an amount of $500,000 covering a portion of our current year's research cost, which has been charged to reserve for contingencies; (b) the provision for federal taxes gives effect to an adjustment of approximately $650,000 applicable to expenditures during the year principally for research, which because of Internal Revenue Bureau policy are not chargeable in the current year against taxable income but from which the corporation should receive the benefit by way of deduction from such taxable gross income in future years."
> (President's Letter)

The two excerpts below indicated unusual treatments involving research and development expenses:

<u>A. O. Smith Corporation</u> - Income Statement - 7/31/46

"Operating Charges (including . . . . $250,000 provision to reserve for research and development expense)"

"Deferred Charges include the sum of $286,743 representing expenditures for exploration and development costs, ... pertaining to the Golden Sunlight mining operations after deducting proceeds from such operations . . . . At July 31, 1946 this project was still in the development stage and no provision has been made for amortization of these net expenditures." (footnote)

<u>The International Nickel Company of Canada, Ltd.</u>

"The balance in contingent, insurance and other reserves at December 31, 1945 was $12,666,800. Charges during the year amounted to $574,782, representing items previously reserved for and <u>special research and development committments</u> leaving a balance of <u>$12,092,018."</u> <u>(President's Letter)</u>

SELLING EXPENSES - HOW SHOWN

Selling and general and administrative expenses were usually grouped together, and shown either separately or included in a total with the cost of goods sold item.

289	Combined with other expenses (usually general and administrative expenses)
124	Combined with cost of goods sold
101	None shown (word "selling" does not appear)
9	Shown separately
2	Deducted from sales /see below/
525	

Several sugar companies were noted which deducted "marketing" expenses before deducting cost of sales:

The Amalgamated Sugar Company - Income Statement - 9/30/46

"Sugar sales	17,616,330.55
Less: Federal excise tax on sugar	1,465,541.13
Sales - less excise tax	16,150,789.42
Sugar marketing expenses	2,687,211.01
Net return on sugar sold	13,463,578.41
Cost of sugar sold	11,219,523.39
Gross profit from sugar sales	2,244,055.02"

* * *

ADMINISTRATIVE AND GENERAL EXPENSES - HOW SHOWN

309	Combined with other expenses (usually selling expenses)
95	Combined with cost of goods sold
73	None shown (words "administrative" or "general" do not appear)
48	Shown as a separate item
525	

WAGES AND SALARIES - HOW SHOWN

Many corporations, usually by means of simplified statements, pie charts, or graphs, attempted to show how the sales dollar was distributed or utilized, with particular emphasis on the share distributed to employees in the form of wages and other benefits, to stockholders in the form of dividends, to the government in the form of taxes, and the amount retained for use in the business.

In only 11 cases were wages and salaries shown separately in the audited financial statements.

Many of the registered corporations presented comparative figures on total salaries and wages and the corresponding number of employees (usually two year comparisons) in the president's letter.

392 Not shown
122 Shown in the president's report by means of pie charts, graphs or uncertified statements, but not shown in the certified statements
11 Shown separately in the certified income statements
525

PROVISION FOR DOUBTFUL ACCOUNTS - HOW SHOWN

This provision was shown separately in 8% of the reports.

479 None shown or mentioned
23 Shown as a separate amount
10 Mentioned but combined with other items, amount not shown
3 Deducted from sales figure
6 No income statements presented
4 Unclassified
525

Endicott Johnson Corporation showed a reserve for doubtful accounts on the balance sheet in the amount of $400,000, and the following charge in the income statement:

> "Provision for doubtful accounts ($200,000.00) less excess of recoveries on accounts previously written off over bad debt write offs for current year ($6,714.18) . . . . $193,285.82."

Hearst Consolidated Publications, Inc., used the following title in the income statement above a classified presentation of source of revenue:

> "OPERATING REVENUE (less discounts, returns, allowances, and provision for uncollectible receivables less recoveries):"

Douglas Aircraft Company, Inc. designated their sales figure as follows:

> "Net sales, including fees accrued and costs incurred under cost plus-a-fixed-fee contracts, after deducting allowances of $520,000 for possible inability to obtain payment of all items . . . . ."

DEPRECIATION - METHOD OF COMPUTING ANNUAL CHARGE

Only 5% of the companies examined stated their method of computing depreciation.

498	Not stated
19	Straight line method
7	Based in part on volume of production
1	Diminishing Balances Method
525	

Four companies stated that they used a composite rate in determining the annual depreciation charge.

The rate of operations was considered by Jones and Laughlin Steel Corporation in determining the annual depreciation charge:

> "In accordance with the established policy of the Corporation, consideration is given to the rate of operations at the steel plants in providing for depreciation. The normal composite rate of depreciation, namely 4%, was reduced in years of low operations to not less than 75% of the normal rate. In view of this policy, the Board of Directors of the Corporation set rates of 4% and 4-1/4% for the years 1946 and 1945, respectively. Accordingly, the depreciation provision for 1945 was approximately $482,000 more than the amount computed at the normal rate." (footnote)

The depreciation policy of Lima Locomotive Works, Inc., was based in part upon the productive activity of the plant:

> "The company's depreciation policy is to consider one-half of its basic depreciation rates as providing for ordinary obsolescence and the other one-half for wear and tear. Excepting for certain classes of property deemed unaffected by fluctuations in volume of production, that portion of the rates providing for wear and tear is applied on the basis of plant production for the year as compared with the average production in the ten-year period ended December 31, 1931. However, by agreement with the U. S. Treasury Department in the year 1942, the effect of the productive factor is sharply restricted in its modification of the basic depreciation rates, when it is substantially above the ten-year period average." (footnote)

> "The company's depreciation policy, as explained in Note 1 to the financial statements, is based in part upon the productive activity of the plant. We are of the opinion that the apportionment of depreciation charges on the basis explained is fair and reasonable."
> (Accountant's Certificate)

The Texas Gulf Sulphur Company indicated a somewhat similar policy to that of Lima Locomotive Works, Inc.:

> "The useful life of the company's plants currently operating has been so conservatively estimated that if the high average rate of production of the past several years is continued, these plants will be entirely depreciated in the next two or three years, a time which will antedate the useful life of these plants." (Note in body of Balance Sheet)

The following reference to depreciation was included in the accountant's certificate accompanying the report of The American Hardware Corporation:

> "The declining balance method of providing for depreciation of plant property, regularly followed for many years, has been continued in 1946."

PROVISION FOR DEPRECIATION - HOW SHOWN

The two most generally used methods of showing the depreciation charge were (1) as a separate deduction in the income statement, and (2) in a separate footnote below the income statement. Where the latter method was used, there was usually no indication as to which cost or expense item(s) in the income statement contained the depreciation charge.

156	Shown as a separate deduction in the income statement
111	Shown in a note below the income statement or with other footnotes.
68	Combined total of depreciation and amortization shown as a separate amount in the income account
60	Not shown or mentioned
47	Included in cost of sales (amount of depreciation shown in 43 instances)
41	Combined with depletion, retirements, or replacements, total shown separately.
20	Shown parenthetically in the income statement.
13	Included partially in cost of sales and partially in another expense classification
9	Unclassified
525	

All 24 of the Oil companies included in the study deducted depletion in arriving at net income. Seven of 11 companies extracting non-ferrous metals deducted depletion in arriving at net income, whereas three made no deduction for same, and one company provided for depletion of metal mines by a charge to surplus. Although Anaconda Copper Mining Company made no deduction for depletion of its metal mines, it did provide for depletion of its timberlands and phosphate deposits in determining net income.

Depletion of metal mines was set forth separately in the income statement in only two of the seven instances where it was deducted.

Crane Company gave effect in its financial statements to the excess of anticipated replacement cost of machinery and equipment over original cost. A footnote referred to the president's letter, where the following explanation was given:

> "While the provision for depreciation is considered the appropriate charge for absorbing the original cost of buildings and equipment acquired in the past, it does not include any provision for the extra cost that would be experienced in replacing such assets at the present purchasing power of the dollar. Accordingly, pursuant to action taken by the board of directors, the company has made an initial appropriation of $500,000 out of 1946 earnings toward the excess of anticipated replacement cost over original cost of its older and less efficient machinery and equipment. This by no means represents the total of such additional cost that would be experienced if the company were faced with immediately replacing all of its machinery and equipment and does not take into account such possible costs in regard to land and buildings."

The Lambert Company indicated that the estimates of independent appraisers as to the remaining useful life of principal properties, plant and equipment was used in determining the 1946 provision for depreciation:

> "Provision for the depreciation of the principal properties, plant and equipment was made by charges against income for the year 1946, based on the estimated remaining useful lives of the respective units as determined by independent appraisers. For the remaining items, provision for depreciation was made by the application of fixed annual rates to the costs of the respective items." (President's Letter)

In addition to stating the company's policy of depreciating assets on a straight line basis, American Transformer Company gave the percentages used in computing depreciation for various types of property, and in addition disclosed the following with regard to related accounting treatments:

> "It is the company's practice to charge maintenance and repairs against income. Expenditures for renewals and betterments are capitalized and the asset accounts and reserve for depreciation are relieved of the gross amounts and accumulated depreciation in respect of items replaced, returned or otherwise disposed of. Loss on retirements is charged against operations." (footnote)

Two companies changed their methods of charging the cost of tools and dies to the income account. /The accompanying accountant's reports noted and approved these changes./

Samson United Corporation

"Prior to January 1, 1946, the Company amortized tools and dies at the rate of 33-1/3% per annum. As at January 1, 1946, the policy was adopted of amortizing tools and dies on the basis of units produced with the stipulation that the amortization period was not to exceed three years. As a result amortization for the year 1946 is higher by approximately $40,000.00 than it would have been had the old basis been continued." (footnote)

International Harvester Company

"Prior to November 1, 1945, tooling and pattern equipment was carried in the company's property accounts at amounts representing the cost of the original equipment at each plant adjusted for new products and increased facilities; replacements and renewals (excepting those required for major changes in design of products as explained in the preceding paragraph) were charged to manufacturing expense, and no provision was made for amortization of the amounts capitalized. Effective November 1, 1945, the company adopted the practice of capitalizing expenditures for all tooling and pattern equipment, except expenditures required for repairs and maintenance, and of amortizing the cost of such assets over their estimated service lives by annual charges against income." (footnote)

Compare the policies as stated above with that of Stewart Warner Corporation:

"The total provision for depreciation and amortization for the year included as deductions in the above statement amounted to $2,249,007, of which $602,593 represents depreciation of buildings, machinery and equipment and $1,646,414 represents jigs, dies and tools which are charged to expense when purchased." (footnote)

Glenn L. Martin Company and Stahl Meyer, Inc. are two companies which called attention in a footnote to the fact that the 1946 depreciation charge reflected normal rates rather than the accelerated rates used in prior years.

The treasury department in 1946 completed the audit of prior year tax returns for Polaroid Corporation and Lily-Tulip Cup Corporation. In each case, the corporation described in a footnote the resulting adjustment of the depreciation claimed in prior year tax returns.

The balance of the depreciation reserve for rolling stock shown in the report of Pullman Incorporated exceeded the investment therein. The Company was awaiting instructions from the ICC regarding the excess reserve and future depreciation policy.

The difficulty of accurately determining annual depletion and depreciation charges was indicated in the report of Phelps Dodge Corporation:

> "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." (Accountant's Report)

COST OF PAST SERVICE PENSION CREDITS

Thirty-five companies treated a portion of the pension costs attributable to past service of employees as a current expense chargeable to income (often combined with an amount representing current pension cost), while sixteen companies charged the past service cost either partially or in a lump sum to earned surplus, reserves created out of earned surplus, or to other types of reserves. Four companies treated portions of payments therefor as deferred charges.

A diversity of accounting treatment was found in those instances where charges were made other than to the income account.

The reserves to which such charges were made, while usually created by transfer from earned surplus, in one instance involved a transfer from a reserve for war and other contingencies (American Locomotive Company); in other cases the charge was made either directly to Reserve for Contingencies (Brown & Sharpe Manufacturing Company) or a portion of "Reserve for Contingencies and Extraordinary Charges" was transferred to the income account to offset the charge therein (Lambert Company).

Where the charge was made to earned surplus, in some instances there was a transfer thereto from a reserve for contingencies (U. S. Smelting and Refining Company, American Car and Foundry Company).

FEDERAL INCOME TAXES - HOW SHOWN

While the amount of federal income taxes was stated separately in about 74% of the reports where such taxes were payable, some reports combined the federal provision with state income taxes, foreign income taxes, claims for tax refunds, or adjustments of prior year tax provisions.

348	Federal tax provision shown separately
60	Combined with state income taxes, federal provision not shown separately
74	Combined with other items (principally foreign income taxes), federal provision not shown separately
50	No federal tax provision shown
6	No income statement presented
538	(Some federal tax provisions were combined with both state and foreign income taxes)

Crane Company and Burlington Mills Corporation called attention in footnotes to the taxes payable upon transfer to the parent company of earnings of foreign subsidiaries.

Gruen Watch Company "estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate $458,000."

Anderson, Clayton & Co. included a theoretical provision for taxes on the distributable earned surplus of subsidiaries at the balance sheet date in Reserve for Contingencies:

> "No deduction has been made in the consolidated income statement for taxes which would have been incurred by the company had it received in dividends complete distribution of the year's income of all subsidiaries;such theoretical taxes would have amounted to approximately $1,000,000.00. A theoretical provision for taxes on the distributable earned surplus of subsidiaries at July 31, 1946 is included in Reserve for Contingencies in the amount of $3,885,046.18. 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 indeterminate, being dependent upon income tax rates in effect at the actual time of transfer." (footnote)

/See also Johnson & Johnson, Walter Kidde & Co., Colgate Palmolive Peet Company, and Simmons Co. for further treatments of taxes on foreign earnings/

Best Foods, Inc. comments in a footnote on a sale of assets which, although resulting in a book loss, apparently had the net effect of reducing taxes in an amount almost three times the extent of the book loss:

> ". . . as of March 1, 1946, certain milling and related assets were sold as discussed more fully in the foregoing letter to stockholders. This sale resulted in a book loss of $217,463, but after giving effect to the related reductions in Federal taxes, estimated at not less than $600,000, resulted in a net credit to earned surplus of $382,537. The provision for Federal income and excess profits taxes as shown in the foregoing Statement of Profit and Loss includes a special charge of $600,000 in order to state the provision at the amount which would have resulted had the sale not occurred."

Pullman Incorporated is unable to calculate with any certainty the refund on 1944 taxes as a result of carrying back an unused excess profits tax credit for 1946:

> ". . . Furthermore, based upon the consolidated return filed for 1944 and on the estimated taxable income to be included in the consolidated return to be filed for the year 1946, a presently undeterminable amount will be recoverable from taxes paid in 1944 as a result of carrying back the unused consolidated excess profits tax credit of the year 1946. In view of the number of years' tax returns still open and the inability at this time to determine the amount of the 1946 earnings of the carrier subsidiary, if any, which will be allocated to the Railroad Buying Group

> (see Note D), the amount of this refund cannot be calculated with any certainty and, therefore, it has not been reflected in the accounts as at December 31, 1946.
>
> "The balance in the reserve for Federal tax contingencies plus the amount of the carry-back refund above referred to when finally ascertained may be considered a general reserve against any additional assessments of Federal income taxes which may be received." (footnote)

The accountant's opinion is qualified with respect to tax contingencies in the Walter Kidde & Company, Inc. report:

> "In our opinion, except for adjustments, if any, which may be occasioned by resolution of the contingency referred to in Note 3 of Notes to Financial Statements, the accompanying balance sheet . . . ." (accountant's certificate)
>
> "The United States Treasury has asserted net tax deficiencies in amounts totaling \$695,500 for the years 1940, 1941 and 1942. The major questions raised by the Treasury are basic in nature and exist in relation to the eventual determination of taxable income for the years 1943, 1944, 1945 and 1946, which may involve approximately \$200,000 of additional tax deficiencies. The company and its tax counsel believe that there is no substantial additional tax liability under a proper interpretation of the tax code and that the existing provisions for taxes and contingencies are adequate.
>
> "In December 1944, the company, without prejudice, and to stop the running of interest, paid the Treasury \$693,912 to be applied against the aforesaid deficiencies. The cash so paid, which is included in the item 'Miscellaneous Receivables, Deposits, etc.' in the balance sheet, will be refundable to the company, if its protests against the asserted deficiencies are upheld." (footnote)

ALLOCATION OF INCOME TAXES

The following discussion is based on those reports where charges or credits to reserves, surplus, or deferred charge accounts were indicated as being made net of the related tax effect.

In cases where an item resulting in a material reduction in income taxes was charged to a reserve account, practice was equally divided between two of the three presentations recommended in the Institute's Accounting Research Bulletin No. 23.

Ten companies followed the practice of charging the income account with the extraordinary costs or losses and transferring a portion of the reserve equal in amount to the excess of such costs over the related tax reduction as a special credit to the income account (e.g. see the reports of Borg-Warner Corporation, Lambert Company, Motor Wheel Corporation, Nash-Kelvinator Corporation, and Chrysler Corporation).

Ten other companies charged the costs net of the tax reduction attributable thereto to the reserve and included a separate charge in the income statement representing the portion of such costs equivalent to the tax reduction resulting therefrom (e.g. see the reports of Doehler-Jarvis Corporation, Standard Brands Incorporated, Westinghouse Electric Corporation*, McCall Corporation, and Mack Trucks, Inc.).

American Car and Foundry Company, however, showed the current provision for income taxes as if the item charged to the reserve account was not deductible for tax purposes. However, information provided in a footnote enabled the determination of the amount of taxes estimated as legally payable.

In cases where an item resulting in a material reduction in income taxes was charged to surplus for financial statement purposes, treatments in general showed minor variations from the presentation recommended in the Institute's Accounting Research Bulletin No. 23. The Wheeling Steel Corporation and Armour & Company reports are examples of cases where there was strict adherence to the recommended presentation. In some instances involving a material charge to surplus, although a single figure for income taxes appeared in the income statement itself, a footnote clearly stated the fact that an amount representing the tax reduction attributable to the surplus charge was included in the tax provision shown (e.g. see May Department Stores and Best Foods, Inc.** reports). In other cases the extraordinary charge less the tax reduction attributable thereto was shown in the income statement after the net income figure rather than in the surplus reconciliation itself (e.g. see Hudson Motor Car Co. and United Artists Theatre Circuit Co., Inc. reports). In other cases, although a material charge to surplus net of the reduction in taxes attributable thereto was shown in the surplus reconciliation, the provision for taxes appeared as one figure in the income statement without any reference to the estimated amount of legal taxes payable.

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*This company describes the charge in its income account as "Amount Equivalent to Increase in Federal Carry-back Tax Refunds or Reduction in Federal Income Taxes on account of charges to reserves for postwar contingencies . . . ."

** Note in this case that book loss on sale of certain assets which was charged to surplus was offset by an estimated tax reduction attributable thereto greatly in excess of the loss itself.

In cases where an item resulting in a material increase in income taxes was credited to surplus, variations in presentation of the related tax effect similar to those discussed above in connection with surplus charges, were found (e.g. see the reports of Ralston Purina Co., West Virginia Pulp and Paper, Corn Products Refining Co., Aviation Corporation, and Johnson and Johnson).

For two of the more complex cases involving tax allocations consult the reports of Cramp Shipbuilding Company and Koppers Company, Inc. The latter company showed a deferred charge for contribution to its Pension Trust "equal to the estimated Federal income tax reductions expected to be realized therefrom in future years" and charged its income account with an amount equal to the estimated reduction in the 1946 Federal income tax applicable to the pro rata portion of past service pension costs deductible for tax purposes.

In the income statement of E. I. duPont de Nemours & Company the total provision for Federal taxes was separately allocated as charges to "Operating Income" and to "Other Income."

The report of the National Cash Register Company contains an interesting footnote describing its accounting treatment of a situation involving certain payments deductible for tax purposes but deferred as charges to future revenues in the corporate accounts. The item "Reserve against salesmen's commissions" was shown as a deduction in the income account with a reference to the following footnote:

> "The reserve provided each year is equivalent to federal income tax reductions arising from the payment of salesmen's commissions on orders not shipped. In computing federal income taxes, commissions advanced to salesmen on orders not shipped are deductible in the year in which paid, but in the financial accounts such commissions are carried as advances in the balance sheet until shipments are made. The balance of such reserves at December 31, 1946, amounted to $3,121,932 and at December 31, 1945, to $1,486,448."

A method of tax allocation arising where material items included in the income statement are not reflected in the computation of taxable income was noted in three 1946 reports. (Revere Copper and Brass, Inc., The W. L. Maxson Corporation, and Marmon Herrington Co., Inc.) Where emergency facilities have been completely amortized for tax purposes, but have not been so amortized or have been restated in the company's accounting records, there results a charge for depreciation in the company's current income statement which cannot be used as a deduction on the tax return.

The three companies established reserve accounts (shown on the liability side of the balance sheet) either equal to:

"the estimated additional taxes payable as a result of 1946 and subsequent years' provision for depreciation of such facilities being non-deductible for such purposes"

or

"Deferred portion of reduction in federal taxes resulting from accelerated amortization of emergency facilities."

Each year a portion of such reserves was transferred to the income statement as either a credit adjustment after the tax provision or as a separate credit before the tax provision.

While the above tax allocations were made in connection with items which had been fully deducted on prior year tax returns but which were being deducted in the companies' 1946 income statements, Stewart Warner Corporation adjusted its tax figure for a provision for possible future inventory price declines. A footnote to its report described the allocation as follows:

"The provision of $1,558,000 for possible future inventory price declines charged to cost of sales has been reduced by $608,000, the applicable Federal income tax effect, which has been considered in arriving at the provision for Federal income taxes for the year; the difference of $950,000 represents the net reserve provision. This amount together with $95,000 carried forward from previous years comprises the reserve of $1,045,000 deducted from inventories on the balance sheet at December 31, 1946."

Some companies gave explanations of the differences between taxable and book income as follows:

Lukens Steel Company

". . . . The companies intend to file a consolidated Federal income tax return for the fiscal year 1946, which will indicate taxable net income of approximately $480,000. The difference between this amount and the loss of $270,246.79 (before provision for the current year's income taxes and adjustment of taxes and refunds for prior years) shown on the accompanying consolidated statement of income is attributable to the required treatment of certain items for income tax purposes in a manner which varies from the accounting procedures followed by the companies." (footnote)

General Mills, Inc.

"Certain reserves provided by the company and its subsidiaries are not deductible for the purpose of computing taxable income, actual losses or expenditures being allowable in the years incurred. Furthermore, the depreciation provision for corporate purposes is in excess of the amount allowable as an income tax deduction. As a result of these and other variations, the taxable income for the year ended

May 31, 1947, was computed to be more than the corporate income before taxes, as was also the case in the preceding taxable year." (footnote)

The Bay Petroleum Corporation

> "In filing Federal and State income tax returns, intangible drilling and development costs have been deducted in determining taxable income, in accordance with the corporation's established practice and as permitted by the tax authorities, notwithstanding such costs are capitalized in the accounts. Provision for Federal and State taxes on income for 1946 has been made on this basis." (footnote)

MINORITY INTEREST IN CURRENT INCOME OF SUBSIDIARIES - HOW SHOWN

Where such an item was shown, 61% of the reports showed the minority interest in consolidated subsidiaries as the last item in the income statement (after provision for income taxes) before arriving at the amount transferred to earned surplus. There was considerable variation in the terminology used to describe the balances before and after the deduction of minority interest.

36% followed the secondary treatment, involving the inclusion of such minority interest with other listed expenses in the body of the income statement, before the provision for income taxes. This latter treatment was most often found in the single step type of statement.

452	Either not a consolidation, no minority interest, or no minority interest shown
41	Minority interest shown after income tax provision
24	Minority interest shown before income tax provision
6	No income statement shown
2	Miscellaneous
525	

Panhandle Producing and Refining Company showed a separate item in their income statement for losses of construction subsidiaries, from which was deducted the portion thereof applicable to preferred stockholders prior to the acquisition of such stock.

Bay Petroleum Company deducted "Adjustment of provision for minority interests in subsidiary company" from earned surplus.

The wording used in Purity Bakeries Corporation income statement follows:

"Net income for year - all companies . . . .
Deduct:
Dividends paid or accrued on subsidiary company's 7% cumulative preferred stock in hands of public from that company's net income . . . .
Consolidated Net Income accruing to parent company . . . ."

SECTION IV - SURPLUS STATEMENT

"EARNED SURPLUS" - HOW DESCRIBED

The schedule below indicates the terminology used in describing what is generally known as "earned surplus." While approximately 80% of the reports used the traditional term, a small group was attempting to describe "earned surplus" in non-technical terms.

410	Earned Surplus
49	Earned Surplus from a specific date
1	Earned Surplus, classified as appropriated and unappropriated
1	Earned Surplus retained for the conduct of the business
30	Surplus
2	Surplus - Undivided Profits
1	Further Surplus
2	Operating Surplus or Surplus from operations
1	Surplus from operations from a specific date
3	Earned surplus (deficit)
3	Deficit
1	Earned Surplus - Balance (date) Deficit
1	Deficit from operations
1	Deficit account and earned surplus from reorganization
2	Income reinvested in the business
2	Earnings reinvested in the business
2	Net income retained for use in the business
2	Profit employed in the business
1	Earnings reinvested
1	Earnings reinvested and employed
1	Income reinvested or retained in the business
1	Income invested in the business
1	Earnings retained in the business
1	Net income retained in the business
1	Income retained in the business - unreserved balance
1	Earnings accumulated since inception, retained and invested in conduct of the business
1	Income accumulated since ______ and retained in the enterprise
1	Accumulated earnings
1	Net income employed in the business
525	

Pet Milk Company's report explained the "surplus" concept as follows:

"The term 'surplus' as used in corporate financial statements is, in some respects, an unfortunate one. When we say that a million dollars was added to surplus, we are not saying at all that a million dollars was put into a fund for which we had no need; it is only saying that a million dollars left over after paying dividends technically went into what is called 'surplus' in the balance sheet. In this case the million dollars, and something more as will be noted hereafter, went to plant improvement." (President's Letter)

E. I. DuPont de Nemours and Company did not subdivide its surplus account, and the auditors commented thereon as follows:

"The sources of surplus, as noted on the consolidated balance sheet, are 'earned, paid-in and arising from revaluation of assets,' but it has not been the practice of the company to subdivide its surplus account. Lacking a definitive and authoritative basis upon which to predicate retrospective allocations of the various charges and credits which have been made to surplus since incorporation of the company, we have not derived separate balances for the respective classes of surplus as of December 31, 1946."
(Anaconda Copper Mining Company and Phelps Dodge Corporation also did not subdivide their surplus accounts)

Crucible Steel Company explained a difference between earned surplus balances shown in the 1946 and the 1945 reports as follows:

"The balance of Earned Surplus at the beginning of the year is stated as $559,529 less than the amount shown at the end of 1945 in the annual report for that year for the purpose of conforming with financial statements in a Registration Statement filed with the Securities and Exchange Commission in 1946, in which such amount was applied retroactively to prior years' income."
(footnote)

DESIGNATIONS FOR OTHER THAN "EARNED" SURPLUS

300	"Capital Surplus"
129	No surplus item shown other than "earned"
82	"Paid-in Surplus"
5	"Capital in excess of stated amount"
4	"Capital Surplus - Paid-in"
3	Surplus arising from revaluation of property (appraisal surplus)
2	Donated Surplus
2	"Capital paid for common stock in excess of par value"
2	Combined with capital stock ("stated capital")
2	"Capital (paid-in) Surplus"
1	"Capital Surplus, representing surplus at _______, date readjustment of capital stock"
1	"Capital paid-in, in addition to capital stock"
1	"Initial and capital surplus"
1	"Further amounts paid in by stockholders"
1	"Capital surplus arising from retirement of treasury stock in 1939"
1	"Special capital reserve accumulated pursuant to requirements of charter"
1	"Initial surplus" (earned surplus also shown)
1	"Initial and Capital surplus"
1	"Surplus arising from acquisition of certain wholly owned subsidiaries"
540	(Some reports contained more than one item)

CLASSIFICATION OF 453 EARNED SURPLUS CHARGES AND CREDITS
(Excluding dividends and income for the year)

Of the 525 reports examined, 239 companies (46%) showed no charges or credits to earned surplus (other than dividends and income for the year). The remaining 286 companies showed 227 earned surplus charges and 226 earned surplus credits.

Dr.	Cr.	
65	69	Prior year adjustments or corrections of previous years' estimates
3	18	Unusual Gains or Losses
32	-	Write-off of Intangibles and write off of difference between cost and net book value of investments in subsidiaries
-	2	Negative Goodwill
8	-	Bond Discount - Write Off
7	-	Recapitalization and merger expense
5	17	Consolidation and merger adjustments
1	5	Adjustment of Investment in subsidiaries
27	92	To and From Reserves
62	4	Capital Stock Transactions
17	19	Miscellaneous
227	226	

A supporting schedule for major classes in the above summary follows:

Dr.	Cr.	Prior year adjustments or corrections of previous year estimates
7	20	Depreciation and amortization
16	6	Renegotiation and contract termination
19	28	Taxes
-	9	Carryback claims and refunds
6	-	Inventories
5	-	Past Service Pension Cost
-	1	Accounts Receivable
12	5	Unclassified
65	69	

		Unusual gains or losses
3	5	Plant, property and equipment
-	9	Liquidation of subsidiary or investment therein
-	4	Unclassified
3	18	

		Write-Off of Intangibles
16	-	Goodwill, etc.
16	-	Difference between cost and book value of investment at time of acquisition
32		

Dr.	Cr.	Consolidation and merger adjustments
2	13	Surplus of subsidiary upon consolidation
-	4	Surplus upon merger
3	-	Adjustment of minority interest
5	17	
		Capital stock transactions
6	-	Premium on purchase of treasury stock
41	-	Premium on stock retirement
13	-	Expense of stock issue
1	-	Sale of treasury stock at a loss
-	2	Premium on sale of stock
1	-	Discount on sale of stock
-	2	Discount on purchase of treasury stock
62	4	

CLASSIFICATION OF 101 CAPITAL SURPLUS CHARGES

Of 525 reports examined, 143 showed no capital or paid-in surplus and an additional 185 indicated no change in the balance of such accounts during the year. The remaining 197 companies showed 101 charges and 219 credits to capital surplus. The charges were classified as follows:

51	Purchase and sale of stock
18	Transfers to Capital Stock
15	Write-Offs
6	Transfers to Earned Surplus
3	Appropriations
5	Consolidation, merger, and recapitalization entries
3	Unclassified
101	

A supporting schedule for major classes in the above summary follows:

	Purchase and sale of stock
18	Expenses in connection with sale of stock
15	Premium on Treasury Stock Purchased
12	Premium on Retirement of Stock
3	Premium on original sale of stock reversed upon retirement
1	Discount on sale of stock
1	Premium on original purchase of treasury stock offset against premium on sale thereof
1	Capital surplus allocable to treasury stock sold by a subsidiary
51	

Write-offs

4 Goodwill
2 Amortization of intangibles
4 Prior year adjustments affecting subsidiaries or predecessor companies
1 Deficit
2 Excess of acquisition cost of minority interest over book value
1 "Write-off as of December 31, 1945 of net appreciation of coal lands of a subsidiary" (The Pittston Company)
1 Capital surplus of subsidiary (arising principally from appreciation of assets) eliminated through acquisition of subsidiary company. (Eastern Stainless Steel Corporation)

15

Transfers to earned surplus

1 "Excess depreciation charges allocable to surplus arising from property revaluation (subsidiary)" (Pennsylvania Coal and Coke Corporation)
1 "Portion of amortization of appraisal appreciation applicable to capital surplus" (American Republics Corporation)
1 "Transfer to earned surplus of emergency facilities previously restated on books" (Columbia River Packers Association, Inc.)
1 "Transfer to earned surplus account of certain charges to capital surplus in 1932" (The Glidden Company)
1 "Surplus contributed by community transferred to Earned Surplus on completion of contract" (Brown Shoe Company, Inc.)
1 "Reversal of capital surplus which represented excess of original ledger value of land acquired in 1940 over cost based on value assigned to common shares issued in acquisition" (Cramp Shipbuilding Company)

6

Appropriations

1 "Additional liability set up on contract to purchase stock of a subsidiary . . . ." (Central Soya Co., Inc.)
1 "Appropriation for prior preferred stock retirement fund . . . ." (Twentieth Century-Fox Film Corporation)
1 "Provision of $100,000 in each year, for retirement of preferred shares pursuant to articles of incorporation, less amount of $50,000 in each year restored to surplus, the Corporation's obligation in this respect having been met . . . ." (Interchemical Corporation)

3

Consolidation, merger, and recapitalization entries

1 Minority stockholders interest in the increase in capital surplus of subsidiary and adjustment for minority shares acquired during the year.
1 Capital surplus used to extent of discount on preferred shares retired in prior years, to partially offset stock liability to preferred stockholders who exchanged their shares.
1 Excess of par and stated value of capital stock issued and cash paid over stated value of preferred stock received in exchange.
1 Expenses in connection with acquisition of subsidiary
1 Expenses incurred in connection with merger
5

The president's letter contained in the report of the Ohio Oil Company gave a narrative report on the history of the capital surplus account:

> "At the beginning of the year 1946 the capital surplus account had a balance of $8,483,045. This account originated in 1935 by transfer of $40,000,000 from stated value of common stock and was subsequently reduced by charge off of goodwill, franchises and premium on retirement of preferred stock. In 1946 the sum of $12,281,164 was transferred from earned surplus account and added to the capital surplus account and the total of $20,764,209 then in the latter account was transferred to the stated value of the capital stock. The net result of such action increased the permanent stated capital to $80,000,000, an amount approximately equal to the present net book value of the company's fixed assets."

CLASSIFICATION OF 219 CAPITAL SURPLUS CREDITS

Of 525 reports examined, 143 showed no capital or paid-in surplus and an additional 185 indicated no change in the balance of such accounts during the year. The remaining 197 companies showed 101 charges and

219 credits to capital. The credits were classified as **follows:**

79	Premium on issuance of capital stock
26	Conversion of capital stock into another issue of same company
13	Exchange of capital stock for that of other company
26	Treasury stock transactions
18	Transactions involving stock options
11	Restoration or realization of assets previously written off
10	Merger and consolidation adjustments
7	Transfers from reserves
6	Negative goodwill
5	Stock dividends
5	Changes in equity in subsidiary
3	Transfers from earned surplus
3	Transfers from capital stock
2	Stock warrants
5	Unclassified
219	

A supporting schedule for the above summary follows:

Premium on issuance of capital stock

56	**Excess of sale price of stock issued over** par or stated value thereof
1	Excess of sale price of preferred over involuntary liquidation price - less commissions
3	Excess of consideration received over amount allocated to common stock
1	Excess of market over stated value of unissued stock delivered under employment contracts
2	Excess of assigned value over par value of common stock issued in exchange for net assets and business or interest therein
1	Credits in connection with issuance of stock under employee stock plan
5	Excess of quoted market value of capital stock over stated value - issued in exchange for net assets
1	Excess of revalued net assets over par and stated value of stock issued in exchange therefor
4	Excess of net assets of subsidiary over par value of stock issued therefor
1	Excess of value placed on common stock sold to officers and employees over par value thereof
2	Excess of recorded value of producing leases over par value of common stock issued therefor
1	Excess value of net assets acquired in merger over par value of capital shares issued
1	Properties recorded on books and cash received in excess of par value of capital stock issued therefor
79	

Conversion of capital stock into another issue of same company

20 Excess of par value of preferred stock over par value of common stock on shares of second preferred converted to common stock (or similar)
1 Cash adjustment in connection with exchange of preference stock for preferred stock
2 Capital surplus arising from conversion of Preferred
1 Excess of conversion price over par of common issued for preferred
1 Difference in carrying values of preferred stock and common stock exchanged therefor
1 Excess of value assigned to preferred and common stock over paid-in value of stock issued in exchange therefor

26

Exchange of capital stock for that of other company

1 Exchange of stock with merged corporation
3 Excess of book value of subsidiary stock purchased over cash paid and stated value of common stock issued
2 Excess over par value of amount (based on market quotations) ascribed by board of directors to capital stock issued for stock of _____ company.
1 Excess of approximate quoted market value of common stock in excess of par issued in connection with purchase of capital stock of subsidiary
1 Excess of par value of stock of subsidiary over par value of stock issued therefor
1 Excess of market value of subsidiary stock over par value of parent stock issued in exchange therefor
2 Excess of capitalized value per share over stated value per share of common stock issued in exchange for capital stock of subsidiary
1 Excess of amounts assigned to preferred and common stocks issued for the capital stock of subsidiary over the carrying and par values thereof, respectively
1 Excess of recorded value of additional investment in stocks of subsidiary over par value of stock issued therefor

13

Treasury stock - purchase and retirement

5 Excess of book, par or stated value over cost of shares acquired
2 Discount on preferred stock purchased
1 Credit arising through retirement of prior preferred stock
1 Cancellation of shares previously held in treasury
2 Amount arising from purchase and/or retirement of preferred stock
3 Excess of par or stated value of common stock reacquired or retired over cost

14

Treasury stock - sale and distribution

1 Excess of market quotations over cost of treasury stock distributed to employees, less applicable income taxes
3 Excess over cost of value assigned to T/S exchanged for properties
1 Excess of net assets over cost of T/S issued in acquiring outstanding capital stock of subsidiary
5 Excess of proceeds from disposition of T/S over cost thereof
1 Excess of sale price of T/S over par value
1 Profit on sale of T/S
12

Stock options

2 Portion of amount received upon exercise of options
6 Excess of proceeds received from sales of common stock under option agreements and upon exercise of option warrants over the par value
1 Amount received in excess of par of common stock sold to employees under stock purchase option
1 Proceeds upon exercise of options for common stock
6 Excess of option price over par of unissued stock reserved for options sold during year
1 Excess over average cost of consideration received from exercise of options for capital stock held by subsidiary
1 Premium on common stock issued upon exercise of options granted to certain executives
18

Restoration or realization of assets previously written-off

1 Fair operating values ascribed to properties adapted to some operating use, previously written off against capital surplus
1 Restoration of plant asset values of merged corporation written off in 1939, net of depreciation for intervening period, shown in 1946 report of American Appraisal Co.
1 Gain on asset disposal attributable to former write down
1 Proceeds from disposal of unessential properties previously written-off against capital surplus
1 Final recovery value of properties not required for operations over adjusted values of prior years
3 Proceeds of sale of plant to the extent of previous write-down through reserve for revaluation of capital assets created by reduction of stated value of common stock in prior year
1 Realization of assets fully reserved for at 12/31/45 through capital surplus
1 Proceeds from disposition of idle property
1 Realization of amortization on patents charged-off
11

Merger and consolidation adjustments

1 Surplus arising from consolidation of majority owned subsidiary
1 Capital surplus of merged corporation
1 Adjustments (net) arising from changes in ownership of various companies consolidated
1 Amount of dividends in arrears on preferred stock eliminated by merger
1 Adjustment of taxes of subsidiary prior to merger
1 Paid-In Surplus of foreign subsidiary restored to consolidation
1 Prior year tax and depreciation credit adjustments applicable to subsidiary prior to date of acquisition credited to capital surplus
1 Adjustments due to changes by Treasury Department for prior years - subsidiary corporations
2 Surplus arising from acquisition of additional interests in subsidiary after adjustment of provision for minority interests

10

Transferred from reserves

1 For retirement of preferred shares
1 For recoveries during year from reserves created out of capital surplus
1 Release of balance of general reserve
1 Release of balances of reserves for foreign investments - non-consolidated subsidiaries
1 Transfer of appropriation, in respect of property, no longer required
1 For contingencies and retroactive wage awards acquired from merged corporation
1 Realization of post-war refund of foreign excess profits taxes (foreign statutory restrictions)

7

Negative goodwill

2 Net excess of book value of net assets of subsidiaries at date of acquisition over amount at which investment is recorded
1 Excess of equity in net assets of subsidiary at date of acquisition over cost of its capital stock purchased
2 Excess of book value of acquired subsidiary over cost of investment
1 Capital surplus resulting from acquisition of entire capital stock of subsidiary

6

Stock dividends

4 Excess of fair value over par
1 Excess of market value over par

5

Changes in equity in subsidiary

1 Excess of equity over subsidiary dividends
1 Increase in equity in subsidiary
2 Revaluation of investments
1 Net increase in equity in consolidated subsidiary arising from sale by subsidiary of stock at price in excess of underlying book value

5

Transferred from earned surplus

1 Transfer of British tax refund from earned surplus
2 Transfer of stock dividends declared by subsidiaries

3

Transfer from capital stock

3 Reduction in stated value of common stock

Stock warrants

1 Common stock purchase warrants - sale of
1 Credit with respect to warrants exercised

2

Unclassified

1 Values assigned to properties acquired without capital expenditures
1 Appreciation on steamer sold during year
1 Par value of shares of present company no longer issuable in exchange for shares of predecessor company
1 Adjustment for dividends paid - complying with SEC
1 Miscellaneous credits (net)

5

EARNED SURPLUS RESTRICTIONS - STATED REASONS FOR

110 instances were noted in which earned surplus was restricted as to dividend declaration therefrom by provisions of a bond indenture or loan agreement. Such restriction was usually mentioned in a footnote.

In 41 cases the provisions governing the issue of preferred stocks placed restrictions on earned surplus in so far as dividends on common stock were concerned. In some cases a footnote summary of such provisions was presented while others merely indicated parenthetically on the balance sheet or in a footnote the dollar amount of such restriction.

Nineteen of the manufacturing companies specifically indicated the extent to which the purchase of treasury stock restricted earned surplus.

Eleven out of the 24 oil companies' reports indicated restrictions as to surplus distributions because of a U. S. District Court consent decree with respect to common carrier pipe line earnings.

DIVIDENDS - WHERE CHARGED

Dividends declared or paid were charged to surplus in 95% of the reports. Eighteen companies showed dividends as the last deduction in the income statement, before arriving at a balance designated as the "amount retained in the business" (or similar title).

463	"Earned Surplus," "Surplus," or equivalent
37	None paid or declared
18	Charged as an appropriation of "Net Income."
4	**Total of capital and earned surplus**
1	Preferred dividends to income and common dividends to surplus
1	Combined total of capital stock and surplus
1	Divided between capital and earned surplus
525	

Allied Chemical and Dye Corporation deducted dividends from "surplus" which consisted of "Capital Surplus" and "Further Surplus."

International Shoe Company added the "amount transferred to surplus" from the income statement to the total of capital stock and surplus at the beginning of the year, and deducted dividends from the resulting total to arrive at one amount designated "Common Stock and Surplus." Immediately below, the portions of this amount applicable to common stock and to earned surplus were shown separately.

Dividends paid in 1946 on preferred stock by U. S. Rubber Co. while deducted from earned surplus, were classified as "From 1945 income" and "From 1946 income."

The Cleveland Builders Supply Company, which showed an earned surplus deficit at the beginning of the fiscal year, paid dividends in excess of "Net Profit for the year," charging approximately half of such dividends to earned surplus and half to paid-in surplus, a credit balance being shown for earned surplus at the end of the year.

The Haloid Corporation showed as a charge to surplus a three months dividend on cumulative preferred stock after deducting therefrom the portion remitted by purchasers for a period prior to the issuance of such stock.

Two treatments with respect to stock dividends are illustrated below:

"Investments are stated herein at book value at December 31, 1946. With respect to the dividend paid December 28, 1946 in shares of Class B Stock of The Hat Corporation of America, excess of book value over the market value at the date of distribution was, upon advice of counsel, charged to capital surplus." (Certificate)

"Complying with the request of the Securities and Exchange Commission, the company has capitalized stock dividends by charging earned surplus with the fair market value thereof at dates of declaration, with the limitation that the amounts capitalized shall not exceed the consolidated net earnings for the year after deducting cash dividends in such year." (footnote)

SECTION V - ACCOUNTANT'S REPORT

TITLE VARIATIONS FOR ACCOUNTANT'S REPORT

In 48% of the statements examined no title was used for the accountant's report.

In instances where the accountant's letterhead was not reproduced it was impossible to tell whether the title used was supplied by the client or by his public accountant.

Where a title was used, the word "report" was used in 154 cases, whereas the word "certificate" appeared in 109 instances.

251	No title used
93	"Accountant's report"
39	"Auditor's report"
22	Other titles which include the word "report"
57	"Accountant's certificate"
30	"Auditor's certificate"
22	Other titles including the word "certificate"
10	Other titles which do not include the words "certificate" or "report"
1	No certificate presented
525	

ACCOUNTANT'S REPORT - TO WHOM ADDRESSED

294	Board of Directors
99	"Stockholders" or "Shareholders"
66	"XYZ" Company
46	Board of Directors and Stockholders
10	President and Board of Directors
8	Not addressed to any group or person
2	Miscellaneous
525	

Miscellaneous:

"To Twentieth Century-Fox Film Corporation,
Its Directors and Stockholders:"

"The President, The Board of Directors and Stockholders of
The American Tobacco Company
111 Fifth Avenue, New York 3, N. Y.

STANDARD SHORT FORM OF ACCOUNTANT'S REPORT - USE OF

The standard form of accountant's report recommended by the American Institute of Accountants has been widely adopted.

Both Price, Waterhouse & Co. and Haskins & Sells have modified the Institute's recommended form to arrive at standard forms for their own use, but relatively few other accounting firms varied from the suggested type of short-form report.

The chart below compares the Price, Waterhouse & Co. and Haskins & Sells report forms with the Institute's standard form. The numbers in parentheses indicate the order in which the phrases appear in the respective forms. In some instances both Haskins & Sells and Price, Waterhouse & Co. added additional phrases to their standard forms.

Form recommended by the Institute	Haskins & Sells Form	Price, Waterhouse & Co. Form
We have examined . . . . for the year then ended	(1) Same	(1) Same
have reviewed the system of internal control	(9) in view of the system of internal control	(equivalent phrase omitted)
and the accounting procedures of the company	(2) have reviewed the accounting procedures of the company	(equivalent phrase omitted)
and without making a detailed audit of the transactions	(equivalent phrase omitted)	(equivalent phrase omitted)
have examined or tested accounting records of the company and other supporting evidence	(3) and have examined its accounting records and other evidence in support of such financial statements.	(4) and included such tests of the accounting records and other supporting evidence, and such other procedures as we considered necessary.
by methods and to the extent we deemed appropriate	(8) to the extent we deemed appropriate	
Our examination was made in accordance with generally accepted auditing standards	(4) Same	(2) Same
applicable in the circumstances	(5) Same	(3) Same

Form recommended by the Institute	Haskins & Sells Form	Price, Waterhouse & Co. Form
and included all procedures we considered necessary	(6) Same	
. . . . in conformity with generally accepted accounting principles	(10) . . . . in conformity with generally accepted accounting principles and practices	(5) Same
applied on a basis consistent with that of the preceding year	(11) Same	(6) Same
	(7) which procedures were applied by tests	

VARIATIONS FROM STANDARD SHORT-FORM REPORT

Omissions and variations in connection with individual phrases contained in the standard short-form accountant's report are presented below (excluding Price, Waterhouse & Co. and Haskins & Sells).

"have reviewed the system of internal control"

The accountants listed below closed the opening sentence of their report (beginning "We have examined . . . .") with a period, and began the second sentence:

"In connection therewith, we have reviewed the system of internal control . . . ."

Peat, Marwick, Mitchell & Co. (Excello Corporation)
Allen R. Smart & Co. (The National Supply Co. - Boeing Airplane Co.)
R. G. Rankin & Co. (Bristol-Myers Co.)
Lawrence E. Brown & Co. (Curtis Publishing Co.)
Miller, Donaldson & Co. (Loew's Inc.)

or

"We have reviewed the system of internal control . . . ."

Allen R. Smart & Co. (United Aircraft Corporation)

Other reports did not make any reference to the system of internal control of their clients:

R. G. Rankin & Co. (Liberty Aircraft Products Corporation)
Fedde & Co. (Elastic Stop Nut Corporation of America)
A. M. Pullen & Co. (Craddock Terry Shoe Corporation)
James Barr & Co. (M. H. Fishman Co., Inc. 5¢ - $1 Stores)

R. J. DeVoe & Co. (Clyde Porcelain Steel Corporation) stated that they had " . . . . reviewed the system of accounting procedure of the company" (no mention of internal control).

"and the accounting procedures of the company"

Two accountants made no mention of an examination of their clients' accounting procedures:

James Barr & Co. (M. H. Fishman Co., Inc.)
R. G. Rankin & Co. (Liberty Aircraft Products Corp.)

Several accountants specifically mentioned reviewing the accounting procedures of subsidiary companies as well as those of the parent company:

Arthur Young & Company (Libby, McNeil & Libby)
Peat, Marwick, Mitchell & Co. (G. R. Kinney Co., Inc.)

Other variations of the above phrase were:

"and made a general review of accounting procedures and of operating accounts ~~for~~ the period"
A. M. Pullen & Co. (Craddock Terry Shoe Corporation)

"have reviewed the system of internal control and the accounting procedures of the company during the year 1946"
Ernest W. Bell & Co. (The Ohio Match Co.)

"and without making a detailed audit of the transactions"

This phrase was omitted from the following reports:

Allen R. Smart & Co. (Boeing Airplane Co.)
Lincoln G. Kelly & Co. (The Amalgamated Sugar Co.)
James Barr & Co. (M. H. Fishman Co. Inc.)
Robert C. Triesler (O'Sullivan Rubber Corp.)

Other variations found in 1946 reports were:

"without making a detailed audit of all transactions"
R. G. Rankin & Co. (Bristol-Myers Co.)

"and without making detailed audits of the transactions"
Bigelow, Kent, Willard & Co. (American Wringer Co.)

"but we did not make a detailed audit of all transactions"
F. G. Masquelette & Co. (Peden Iron & Steel Co.)

"have examined or tested accounting records of the company and other supporting evidence"

The following accountants omitted the words "of the company":

Ernst & Ernst (Douglas Aircraft Co., Inc.)
Peat, Marwick, Mitchell & Co. (Excello Corporation)
Eisner & Lubin (Bendix Home Appliances, Inc.)
Murray, Kearns & Co. (The Moxie Co.)
Barrow, Wade, Guthrie & Co. (The Safety Car Heating & Lighting Co Inc.)

"have examined or tested (their) (its) accounting records . . . ."
Allen R. Smart & Co. (United Aircraft Corporation)
Lincoln G. Kelly & Co. (The Amalgamated Sugar Co.)

"and have examined the accounting records and other evidence in support of such financial statements"
Robert C. Triesler (O'Sullivan Corporation)

"by methods and to the extent we deemed appropriate"

The introduction of the words ",at times," after the word "methods" was a practice followed by accountants in the instances listed below:

Leslie Banks & Co. (American Locomotive Co., Columbian Carbon Co., Hercules Powder Co.)
Allen R. Smart & Co. (The Mead Corp., The National Supply Co.)
R. G. Lingley & Co. (Lima Locomotive Works, Inc.)
Ernst & Ernst (R. J. Reynolds Tobacco Co.)
J. L. Nicholson & Co. (Raybestos-Manhattan, Inc.)
Seidman & Seidman (Adam Hat Stores, Inc.)

The above phrase was omitted by:

O. J. Neff & Co. (The Cessna Aircraft Co.)

Other variations were:

". . . . and other supporting evidence to the extent we deemed appropriate"
R. G. Rankin & Co. (International Business Machines Corp.)

"by methods and to the extent we deemed reasonably appropriate"
Whitfield, Stratford & Co. (Jantzen Knitting Mills)

"in a manner, and to the extent that we deemed appropriate in view of . . . ."
"to the extent that we deemed appropriate in view of . . . ."
F. G. Masquelette (Peden Iron & Steel Co., Southwest Lumber Mills Inc.)

"which procedures were applied by tests to the extent deemed appropriate in view of the system of internal control"
Robert C. Triesler (O'Sullivan Rubber Corporation)

"our examination was made in accordance with generally accepted auditing standards"

The above statement was omitted in the following instances:

R. J. DeVoe & Co. (Clyde Porcelain Steel Corporation)
Ernest W. Bell & Co. (Ohio Match Co.)
A. M. Pullen & Co. (Craddock Terry Shoe Corporation)

Variations:

"our examination was made in accordance with generally accepted standards applicable in the circumstances"
James Barr & Co. (M. H. Fishman Co., Inc.)

"My examination was made in accordance with generally accepted auditing procedures I considered necessary,"
Robert C. Triesler (O'Sullivan Rubber Corporation)

"applicable in the circumstances"

The following reports omitted this phrase:

R. G. Rankin & Co. (Bristol Myers Co., Liberty Aircraft Products Corp.)
A. M. Pullen & Co. (Craddock Terry Shoe Corporation)
R. J. DeVoe & Co. (Clyde Porcelain Steel Corporation)
Peat, Marwick, Mitchell & Co. (P. R. Mallory)
Ernest W. Bell & Co. (Ohio Match Co.)
Robert C. Triesler (O'Sullivan Rubber Corp.)

"and included all procedures which we considered necessary"

This phrase was not used by:

Ernest W. Bell & Co. (Ohio Match Co.)
A. M. Pullen & Co. (Craddock Terry Shoe Corporation)
R. J. DeVoe & Co. (Clyde Porcelain Steel Corporation)

Other variations were:

"in accordance with generally accepted auditing procedures I considered necessary"
Robert C. Triesler (O'Sullivan Rubber Corporation)

". . . . considered necessary in view of the system of internal control"
Main & Co. (A. B. Farquahar Co.)

"in conformity with generally accepted accounting principles"

The following firm inserted the words "and are" in front of this phrase:

Arthur Andersen & Co. (Schenley Distillers Corp., Marathon Corp., Briggs & Stratton Corp., Miller & Hart Inc.)

Alexander J. Lindsay & Co. omitted this phrase in connection with the Argo Oil Corporation report.

Other variations:

"in conformity with accepted accounting principles"
Lawrence E. Brown & Co. (Curtis Publishing Co.)
Leonard Levine (Polaroid Corp.)

"in accordance with accepted accounting principles"
Wright, Long & Co. (D. Emil Klein Co. Inc.)

"in conformity with generally accepted accounting principles and practices"
Robert C. Triesler (O'Sullivan Rubber Corporation)
F. G. Masquelette (Southwest Lumber Mills, Inc.)

"applied on a basis consistent with that of the preceding year"

This phrase was omitted by:

Alexander J. Lindsay & Co. (Argo Oil Corporation)
Ernest W. Bell & Co. (The Ohio Match Co.)

Variations:

". . . . consistent in all material respects . . . ."
Leslie Banks & Co. (Columbian Carbon Co.)

". . . . consistently applied."
Robert C. Triesler (O'Sullivan Corporation)

". . . . consistently followed,"
Wright, Long & Co. (D. Emil Klein)

"maintained by the Company on a basis consistent with that of the preceding year"
Frazer & Torbet (The Rath Packing Company)

"applied on a consistent basis" (1945 and 1946 statements both presented)
Lybrand, Ross Bros. & Montgomery (The American Tobacco Co.)
George Rossetter & Co. (National Cylinder Gas Co.)

"applied on a basis consistent with those of the respective preceding years" (1945 and 1946 statements both presented)
Lybrand, Ross Bros. & Montgomery (General Refractories Co.)

"principles on a basis consistent with that of prior periods"
R. J. DeVoe (Clyde Porcelain Steel Corp.)

Certain accountants' reports showed major variations from the form or wording recommended by the American Institute of Accountants.

Excerpts from such reports follow:

Amos D. Albee, Son and Co. (United Shoe Machinery Corporation)
"We have audited the accounts of the United Shoe Machinery Corporation for the fiscal year ended February 28, 1947. . ." (the four paragraphs which followed described the audit procedure connected with cash, marketable securities, investment stocks, accounts receivable, inventories, accounts payable, and liabilities. The opinion paragraph followed in standard form)

Wright, Long and Co. (D. Emil Klein Co., Inc.)
"We have audited the accounts of D. Emil Klein Co., Inc. for the year ended December 31, 1946. Such transactions as were not audited in detail were subjected to comprehensive tests. All information which was requested was supplied . . ." (the four paragraphs which followed prior to the opinion paragraph were devoted to audit procedures, adequacy of reserves, and information obtained from corporate officials)

Hart Brothers, Drake and Co. (Chartered Accountants) (National Paper and Type Company)
"We have audited the books of the National Paper and Type Company for the fiscal year ended August 31, 1946, as kept by the General Office in New York, and have incorporated therewith the Assets and Liabilities carried at the Company's Foreign Subsidiaries and Branches, which we have accepted as correct in accordance with signed reports received from the Subsidiaries and Branches by the General Office. In our opinion, the foregoing Balance Sheet exhibits a true statement of the Company's affairs as reflected by the books and reports. The Inventories of Stock on Hand have been approved by the General Office.

No Customers' Notes Receivable are under discount at General Office, or, we are informed, at the Subsidiaries and Branches."

Snyder, Farr and Co. (Peoples Drug Stores, Inc.)
"We have examined the accounts and records of Peoples Drug Stores, Inc., and its subsidiary companies, for the year ended December 31, 1946; we have reviewed the

system of internal control and the accounting procedures of the Company, and, without making a detailed audit of the transactions, have satisfied ourselves, by extensive and comprehensive tests, that the accounts are correctly stated.

(the three following paragraphs were devoted to auditing procedures)

"The accounts have been determined on a basis consistent with that of prior years by the application of the accounting system regularly employed by the company. In our opinion, the accounting system fully conforms to accepted accounting principles."

(Then followed the opinion paragraph in standard form)

Loomis, Suffern and Fernald (Kennecott Copper Corporation)
". . . . in conformity with generally accepted accounting principles appropriately applied to the respective mining, manufacturing, transportation and other enterprises included in the consolidated statements, and applied for each year on a basis consistent with that of the preceding year."

Price, Waterhouse and Co. (U. S. Steel Corporation)
"As independent auditors elected at the annual meeting of stockholders of United States Steel Corporation held on May 6, 1946, we have examined the consolidated statement of financial position of United States Steel Corporation . . . ."

Price, Waterhouse and Co. (International Silver Co. of Canada, Ltd.)
"We have examined the attached financial statements of . . . ."
"In our opinion, these financial statements present fairly . . . ."

Price, Waterhouse and Co. (Caterpillar Tractor Co.)
"We have made annual examinations of the accounts of the company since incorporation and, in our opinion, the supplementary statements 3 to 7 fairly present the historical financial data for the years included therein"
(final paragraph)

Haskins and Sells (Alpha Portland Cement Co.)
"In our opinion, the accompanying balance sheet and related summaries of income and surplus, which are in agreement with the general books of the Company, fairly present . . . ."

Barrow, Wade, Guthrie and Co. (The Yale and Towne Manufacturing Co.)

"In our opinion, the foregoing Balance Sheet and related Statement of Income and Surplus, read in conjunction with the comments contained in the President's report under items numbered 2, 6, 7, 16, 22, 35, and General Comments, present fairly the position . . . ."

Arthur Young and Co. (Giddings and Lewis Machine Tool Company)
"We have examined the accounts of Giddings and Lewis Machine Tool Company at December 31, 1946 and the statement of income and surplus . . . ."

Patterson, Teele and Dennis (Jones and Lamson Machine Co.)

"We have made an examination of the books and accounts of Jones and Lamson Machine Co. for the year ended December 31, 1946, and of the accompanying balance sheet at December 31, 1946, and the statement of profit and loss for the year ended at that date."

Arthur Andersen and Co. (Briggs and Stratton)
"In our opinion, ... present fairly the position of Briggs and Stratton Corporation at December 31, 1946, and the net results of its operations. ." (income statement presented was condensed)

F. G. Masquelette and Co. (Southwest Lumber Mills, Inc.)
". . . . reflect the true results of operation for the fiscal year . . ."

ITEMS DISCUSSED MOST OFTEN IN ACCOUNTANTS' SHORT FORM REPORTS

The reader's attention is called to the fact that some reports, while using the recommended wording, also include lengthy descriptions of audit procedures followed. (e.g. Main and Co. - Westinghouse Electric Co.)

The following listing shows the items which were most often commented on in connection with exceptions, qualifications, or descriptions of audit procedure:

61 Subsidiaries - audit by other accountants
56 Inability to confirm receivables from the U. S. Government and agencies thereof
54 Inventories
54 Incorporation (in the opinion paragraph) of footnotes as an integral part of the financial statements
25 Receivables - other than from the U. S. Government and agencies thereof
12 Taxes
11 Renegotiation
10 Fixed assets and depreciation policy
9 Foreign subsidiaries
7 Adequacy of reserves
7 Examinations made in previous year(s)
5 Subsidiaries - principles of consolidation
4 Cash
4 Emergency Facilities
4 Accounts Payable
3 Depletion
3 Portal to portal suits

Many other items were mentioned in addition to those listed above.

To find copies of exceptions or qualifications which were described or referred to in the opinion paragraphs of reports examined, the reader is referred to the other sections of this survey dealing with the subject in question.

Except for the one company which presented no accountant's certificate with its annual report, an opinion was expressed by an accountant in every instance. In no case were the exceptions considered sufficiently material to prevent the expression of a positive opinion.