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American Institute of Accountants

Accounting Trends in Corporate Reports

AMERICAN INSTITUTE OF ACCOUNTANTS
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Accounting Trends in Corporate Reports

A study of corporate reports with closing dates in the twelve months ending June 30, 1948 by the Research Department, American Institute of Accountants

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INTRODUCTION

In 1946 the Council of the American Institute of Accountants authorized the Research Department to initiate a long term program for the analysis of corporate reports.

Accounting Survey of 525 Corporate Reports, based on annual reports covering fiscal years ending between July 1946 and June 1947, was the first publication issued under that program.

This second volume, *Accounting Trends in Corporate Reports,* is based on a survey of over 900 annual reports with fiscal years ending between July 1947 and June 1948, inclusive. In order to enable comparisons between the two studies, the statistics presented herein were based on the reports of the same 525 companies whose reports were analyzed in the previous year, with material from additional reports being included in narrative form. While some changes have been made in the topics and classifications, comparable figures from both surveys have been included wherever possible.

Many of the topics studied indicate the influence thereon of recommendations contained in Accounting Research Bulletins issued by the Committee on Accounting Procedure. References to specific bulletins are included in the discussion of many of the related topics.

A list of the companies on whose reports the tabulations were based is appended. These companies constitute a cross section of industrial corporations. Approximately 84% of those listed are relatively large companies filing registration statements with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934.

In order that readers with access to a collection of annual reports may refer to examples of treatments under discussion herein, the names of corporations have either been given parenthetically or references made by number to the list in the appendix.

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

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Section 1: GENERAL

Customary Certified Statements

While 68% of all reports contained separate and distinct balance sheets, income statements, and surplus statements, a trend was noticed towards an increased use of the combined income and surplus statement (for examples see companies 148, 74, 263) and the incorporation of the earned surplus account into the balance sheet when no charges or credits thereto were involved other than the transfer of earnings and the deduction of dividends (for examples see companies 36, 524, 97).

1947	1946	
358	369	Separate balance sheet, income statement, and surplus statement
136	129	Balance sheet, combined income and surplus statement
21	18	Balance sheet and income statement only—no separate surplus statement
5	5	Balance sheet only
1	1	No certified statements presented
4	3	Balance sheet and surplus statement—income items in surplus statement
525	525	

Fiscal Year Changes

Three instances were noted in which change of date for the fiscal year closing necessitated reports covering more than a year.

Lukens Steel Company presented income statements for a 56-week period and for a 52-week period.

General Finance Corporation and Liberty Products Corporation each covered a 13-month period of operations by showing income statements covering one year, the former showing the additional one month's operations in a vertical column adjoining the annual income and surplus statements, while the latter adjusted the opening earned surplus balance for the additional month's operations.

Form

Attention is invited to the presentation by some companies of a separate statement of capital stock and surplus instead of the more usual statement of earned surplus. Such statements were given titles such as "Statement of Consolidated Net Worth" (Standard Oil Co. of New Jersey), "Statement of Stockholders' Interest" (Standard Oil Co. of Ohio), "Statement of Capital Stock and Surplus" (International Shoe Co.).

The Byrndun Co., with 5 different kinds of stock outstanding, showed "capital stock and surplus" as a single total on its balance sheet and presented a separate schedule setting forth details of the capital stock issues and interim changes in the capital and earned surplus accounts. The Moxie Company showed its capital stock and surplus accounts as separate exhibits. The surplus account reconciled beginning and ending balances for four specific categories of surplus as well as for total surplus. Other companies showed only surplus items in such a schedule (e.g., Blaw Knox Co. showed surplus changes in a section titled "Supplementary Financial Information").

All of the companies which did not present a separate surplus statement indicated the year's adjustments on the face of the balance sheet. Such adjustments generally involved only earnings and dividends.

The U. S. Smelting, Refining and Mining Company presented its certified profit and loss summary in the body of the president's letter but showed the balance sheet and accountant's certificate thereafter.

Change of State of Incorporation

As at December 31, 1947, in accordance with a plan of reorganization, Belding Heminway Corporation changed its state of incorporation from Connecticut to Delaware. In the accountant's certificate the balance sheet reported on was that of the Delaware company while the income statement referred to was that of the Connecticut corporation.

Capital Surplus Statement

Some accountants specifically mentioned the capital surplus account in the opinion paragraph of their report when such account was shown separately in the financial statements (e.g., The Borden Co.).

Additional Certified Statements

1947	
7	Parent company statements
13	Subsidiary statements—domestic
14	Subsidiary statements—foreign
7	Reserve statements
8	Miscellaneous

Domestic Subsidiaries

Additional certified statements of domestic subsidiaries were used by the retail stores examined to a greater extent than by the other tabulated industries. City Stores Co. presented individual sets of statements for each store in addition to consolidated statements. J. C. Penney Co. showed the parent company statements separately and furnished those of subsidiary companies as inserts to the main report of the parent. Allied Stores Corp. presented the certified statements of a new subsidiary for the first time, while Safeway Stores changed its policy of consolidation during the year with the result that subsidiaries' statements were presented separately (See section on consolidation policy).

When presenting the statements of domestic subsidiaries in addition to those of the parent or the consolidated group, balance sheets, income and surplus statements were usually shown although in some instances only a balance sheet was presented. (For examples of the latter treatment see Panhandle Producing and Refining Co. Westinghouse Electric Co., Nash Kelvinator Corp.).

Practice was divided as to the use of additional certificates for the added statements of domestic subsidiaries. Some accountants covered all the statements in one certificate (e.g., Cuneo Press, Inc., Keystone Steel Co.) while others used separate certificates for each unit whose statements were presented in the annual report (California Packing Co., Continental Motors Corp.).

Foreign Subsidiaries

Additional certified statements in relation to foreign subsidiaries were of three types. (See Accounting Research Bulletin No. 4, pages 30-31.)

In some instances, the balance sheet, income and surplus statement (s) of specific non-consolidated foreign subsidiaries (e.g., Collins & Aikman Corp., Boeing Airplane Co., International Silver Co.) or all non-consolidated subsidiaries operating outside the United States (Standard Brands, Inc.) were presented.

In other cases, where foreign subsidiaries were included in the basic consolidated statements, a statement, variously termed "net investment in Europe" (United Fruit Co.), "net assets of foreign countries" (National Cash Register Co.), or "foreign subsidiaries net assets—income accounts" (Colgate Palmolive Peet Co.), was shown in addition to the regular statements and mentioned separately in the opinion paragraph of the related auditor's report.

The third type of presentation involved a statement of net assets by geographical areas included as footnote material but not specifically referred to by the auditor in his certificate (e.g., United Merchants & Manufacturers, Inc., Anderson, Clayton & Co.). Additional information on foreign earnings, dividends and restrictions was usually given in narrative form in the footnotes.

Armour & Co., in a statement of foreign assets, current liabilities and earnings, contrasted a geographical breakdown thereof with corresponding domestic accounts. This statement was separately referred to in the opinion paragraph of the auditor's certificate. (For additional references see companies 157, 481, 299, 431.)

Parent Company Statements

The presentation of the parent companies' certified financial statements in addition to the certified consolidated financial statements of the parent and subsidiaries was the practice of three oil companies (127, 244, 462) out of seven instances noted. Both sets of statements were usually included in one accountant's report. The American Banknote Co. illustrated an alternative practice by showing the parent and consolidated statements in adjoining vertical columns.

Reserves

In seven instances, statements of reserve accounts were presented and specifically mentioned in the opinion paragraph of the related auditors' reports. In the majority of instances contingency reserves were involved (e.g., Texas Gulf Sulphur Co. Food Machinery Corp.). Other certified reserve accounts involved pensions (Butler Bros.) and all reserve accounts (American Sugar Refining Co.).

Miscellaneous

Other miscellaneous items which were classified as additional certified statements because they were specifically named in the auditor's report were of the following types:

- Schedules (Caterpillar Tractor Co., International Paper Co.)
- Statement of funds, earnings per share, and 15-year comparative statements (Caterpillar Tractor Co.)
- Supplemental compensation fund (Bendix Aviation Corp.)
- Retirement system assets and bank balance sheet (R. H. Macy & Co., Inc.)
- Profit and loss—factory retail store (Byrndun Corp.)

Certified Statements—Comparative Form Used

Eighteen more companies used comparative statements in 1947 than in 1946. A greater tendency toward furnishing comparative statements for both the balance sheet and combined income and surplus statement or for all three separate financial statements was noted in 1947. However, more than one-half of the reports examined did not contain any comparative certified statements.

The auditor's certificate usually covered only the current year with no reference therein to the statements furnished in an adjoining vertical column or columns for the prior year (s).

1947	1946	
279	297	No comparative statements
		Comparative statements furnished:
97	86	Balance sheet, income statement, and surplus statement
50	62	Balance sheet and income statement only
63	43	Balance sheet, combined income and surplus statement
11	18	Income statement and surplus statement only
19	14	Income statement only
6	5	Balance sheet only
525	525	

The auditor's report accompanying Gulf Oil Corporation's financial statements expressed an opinion covering a three-year comparative income statement. (See also General Bottlers, Inc.)

Caterpillar Tractor Co. and Commercial Credit Company presented 15 and 12-year additional comparative statements which their auditors indicated as being fairly presented.

Westinghouse Electric Co., Johnson & Johnson, Byrndun Corp. and Dennison Manufacturing Corporation presented 3-year comparative balance sheets and income statements. However, the auditors in each case only mentioned the year 1947 in their certificate.

Some corporations (e.g., Time Inc., Anheuser-Busch Corp.) used an increase-decrease column to accentuate changes in comparative reports.

Uncertified Statements

The listing below of various types of non-certified statements was compiled for the first time this year particularly with the idea of noting any forms of statements which might indicate a need for new types of certified statements. The tabulations provide a broad basis for further study. (See *The Journal of Accountancy*—July 1948 for "Analysis of the Three Principal Types of Supplementary Income Statements" based on this survey).

1947	
110	Summary earnings comparisons for more than two years
92	Supplementary income statements—employment costs shown as a separate item
10	Condensed income statements—employment costs not shown
34	Detailed income statement comparisons—more than two years (National Dairy Products Corp.)

70 Charts showing distribution of sales dollar (National Biscuit Co.)
39 Statements of source and application of funds (Electric Autolite Co.)
34 Comparative balance sheets — more than two years (Bigelow Sanford Carpet Co., Inc.)
28 Simplified balance sheets—standard form (General Refractories Co.)
12 Balance sheets similar to outline form discussed under "Form of Certified Balance Sheets" (American Rolling Mill Co.)
15 Schedules or footnotes showing detail of condensed certified statements (Bethlehem Steel Co.)
14 Working capital statements (Monsanto Chemical Co.)
13 Statements showing changes in property accounts during year (Monsanto Chemical Co.)
7 Statement of foreign assets (as opposed to footnote disclosure) (U. S. Rubber Co.)
7 Detail of earned and capital surplus entries —more than two years (Bethlehem Steel Corp.)
5 Taxes—statements of (Fruehauf Trailer Co.)
4 Comparative tables of expenses—more than two years (Goodyear Tire & Rubber Co.)
4 Reserve statements (Pepsi Cola Co.)
3 Subsidiary statements—foreign (John Morrell & Co.)
3 Pro-forma balance sheets (Butler Bros.)
2 Bonus computations (General Motors Corp.)
2 Retirement fund (Owens Illinois Glass Co.)
1 Parent co. statement (Jantzen Knitting Mills, Inc.)
1 Subsidiary statement—domestic (Belding Heminway Co., Inc.)
1 Earnings and disposition (Atlantic Co.)
1 Comparative net assets (Lone Star Cement Corp.)
1 Comparison wages and dividends—10 years (Houdaille Hersey Corp.)
1 10 years comparison with four competing companies (P. Morris & Co., Ltd., Inc.)

A variety of titles were used to describe the 39 supplementary statements listed as "Statements of Source and Application of Funds." These titles often contained references to "working capital." The purpose of such a statement was described by Jones and Laughlin Steel Corp. as follows:

> "This statement does not take the place of the income statement which appears later in this report. Its purpose is not to account for net income or profits but to show as nearly as practicable the amounts which the corporation had to pay out during the year as against the amounts available to the corporation for these payments. The words received or paid as used below mean received or receivable and paid or payable respectively."

Two interesting features in connection with pie charts were the showing of the estimated labor content of purchased items by J. I. Case & Co., and the inclusion of the provision for possible inventory price decline in the cost of materials entering into the product by the Diamond Match Co.

In their supplementary balance sheet Foremost Dairies Inc. showed in a separate column the percentage change in each item.

The auditors of International Paper Co. were specifically absolved of any responsibility for certain financial material prepared by the company. A note below the uncertified statements explained:

> "This summary is presented as an exhibit with the report of the Company and is not covered by the auditor's report."

As indicated in the above statistics, many companies presented supplementary income statements designed to contrast labor costs with the sales figure. Because finished products were leased rather than sold, the president of ExCello Corporation stated that it was impossible to balance sales against wages and for that reason no supplementary income statement was presented.

Consolidation Policy

In order to distinguish between the treatments accorded to domestic and foreign subsidiaries, subsidiaries were classified as domestic and foreign in the analyses which follow. (See "Audit of Corporate Accounts"—pages 20-21.)

Domestic Subsidiaries

Of the 355 reports in which domestic subsidiaries were consolidated, only 41% gave some indication of their consolidation policy.

145 No domestic subsidiaries indicated
25 Domestic subsidiaries indicated but not consolidated

211 No Statement of Policy
- 174—But all domestic subsidiaries consolidated (Subsidiaries were indicated in the statement headings and accountants reports but no investment was shown therein on the balance sheets)
- 37—But some domestic subsidiaries consolidated, others excluded

148 Policy Indicated
- 71—Subsidiaries consolidated were 100% owned
- 48—Positive statement that *all* domestic subsidiaries were consolidated (usually found only in the statement headings—e.g., "XYZ Corp. and all domestic subsidiaries")
- 7—Stated percentage of ownership determined inclusion of subsidiaries in consolidation
- 9—Subsidiaries excluded because operations not homogeneous with those of parent company
- 6—No fixed percentage stated for over-all policy but percentage of ownership quoted for individual subsidiaries
- 3—Only domestic sales companies consolidated
- 1—All consolidated except mutual insurance company and three subsidiaries less than 60% owned (National Dairy Products Corporation)
- 1—Voting controlled subsidiaries consolidated (20th Century Fox Film Corporation)
- 1—Only 100% owned subsidiaries consolidated except one 100% owned pipe line with earnings restricted (Shell Oil Corporation)
- 1—Subsidiary excluded in 1947 because of bankruptcy (Northrop Aircraft Corp.)

529 (Some companies used more than one listed policy)

The changes in consolidation policy of domestic subsidiaries noted during the year are described below.

In 1947 the General Electric Company presented certified consolidated statements in addition to the certified parent company's statements formerly provided. The president clearly explained this major change in consolidation policy as follows:

"Heretofore, except in a few cases involving special circumstances, all financial and statistical data reported by your Company have related exclusively to transactions and accounts of the parent Company—General Electric. This means that its accounts have not been consolidated with those of any of its affiliates, which are companies a majority of whose voting stock General Electric owns. However, the parent Company's investment in its affiliates, and the operating results of such companies, have been reflected in the financial statements of your Company for many years on the basis outlined in Note 3 on page 22 of this Report.

"Because the directors believe that the stockholders should be given as comprehensive a picture as possible of General Electric affairs, and also because of the growing importance of the manufacturing affiliates in terms of investment and business volume, all financial statistics will be reported hereafter on a basis which consolidates with the accounts of the parent Company the accounts of certain affiliated companies whose voting stock is 100 per cent owned by your Company, directly or indirectly, as described in Note 1 on page 18 of this Report. Essentially the consolidation covers the domestic manufacturing activities of the General Electric family because it does not include affiliates whose business is conducted outside the United States or those domestic companies whose principal activities are in the fields of merchandising, finance, etc.

"Broadly speaking, the consolidated financial statements differ from statements relating only to the accounts of the parent Company in the following significant respects: (1) the sales volume is increased by the difference between the total sales of the affiliates included in the consolidation and the amount of intercompany transactions; (2) net income reflects the parent company's equity in the total net earnings or losses of the affiliates included in the consolidation whereas formerly it reflected only the amounts received as dividends from such companies; and (3) various asset, liability and other balance sheet accounts are increased (and the "Investments" account reduced) by the aggregate of the balances in corresponding accounts of the affiliates consolidated.

"All comments and statistics included in the text and exhibits of this Report relate to the consolidated accounts unless accompanied by a specific notation to the contrary."

Safeway Stores Inc. changed its consolidation policy to show separately "the assets, liabilities and results of the various operations carried on and financed by the different groups", and explained the change in a footnote as follows:

"Principles of Consolidation. The consolidated financial statements of Safeway Stores, Incorporated include all subsidiaries except (1) Cortland Equipment Lessors, Incorporated (the activities of which are confined to the ownership and financing of store and other equipment leased to and used by Safeway Stores, Inc. and its U. S. subsidiaries), (2) Salem Commodities, Inc. and its subsidiaries (the activities of which are confined to the purchases, manufacture, storage, etc. of reserve merchandise in advance of the normal requirements of the chain store operations and include certain activities formerly carried on directly by departments of the parent company), and (3) Canada Safeway Limited and its subsidiaries (the operations of which are confined to the Dominion of Canada in which country restrictions are in effect). In the previous year the financial statements included all subsidiaries except Cortland Equipment Lessors, Incorporated; the change in the extent of consolidation was made for the purpose of showing separately the assets, liabilities and results of the various operations carried on and financed by the different groups."

The above change was reflected in the related accountant's report as follows:

"In our opinion the accompanying balance sheets and related statements of profit and loss, income and surplus present fairly the postion as of December 31, 1947 and the results of the operations for the year then ended, respectively of (1) Safeway Stores, Incorporated and certain subsidiaries (2) Cortland Equipment Lessors, Incorporated (3) Salem Commodities, Incorporated and subsidiaries and (4) Canada Safeway Limited and subsidiaries all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the extent of consolidation set forth in Note 1 to the Financial Statements."

The General Tire & Rubber Company in 1947 consolidated an 81.3% owned subsidiary, which was not consolidated in the previous year when 68.2% owned. The accountant's report stated "In our opinion . . . on a basis consistent (see Note A for change in basis of consolidation which we approve) in all material respects with that of the preceding year."

The reason for exclusion of a domestic subsidiary from consolidation was expressed in a footnote by the Associated Dry Goods Corporation as follows:

"Inclusion of Fifth Fifty-Second Corporation in the consolidated statements has been discontinued for the reason that the activities of the subsidiary are limited to operation of real estate not presently used by Associated Dry Goods Corporation or any of its subsidiaries." (The accountant's report approved the change.)

While the fiscal year of Northrop Aircraft Inc. ended July 31, 1947, a footnote disclosed that:

"Salisbury Motors, Inc., a wholly owned subsidiary, initiated proceedings on August 20, 1947 under Chapter XI of the Federal Bankruptcy Act seeking an arrangement with its creditors. Provision for loss on investment in and advances to the subsidiary has been made in the amounts of $921,670.58 in the current period and $110,434.52 in the preceding year. Because of the foregoing circumstances and of the fact that the Company's other subsidiary (Northrop Foundry, Inc.) was dissolved during the year, the Company has this year abandoned the making of consolidated financial statements." [No reference to the change was made in the accountant's report.]

In 1947 Deere & Co. changed its practice to include retail stores in consolidation. "In prior years the investments in retail stores were carried under 'other assets' in the consolidated balance sheet and the income from operations of the stores was shown in one amount in the statement of consolidated income." (Footnote.)

Reasons for non-consolidation of subsidiaries were stated as follows:

"The accounts of West Edmond Oil Company in which the Company owns all of the stock, and of Idaho Refining Company and its subsidiaries in which the Company has a stock interest of approximately 91% are not included in the consolidation for one or more of the following reasons: (1) it is not considered that either the assets or the business of such subsidiaries is of material importance in comparison with total assets and business of the Company and its consolidated subsidiaries, the combined capital and surplus of these subsidiaries being less than 2% of the consolidated capital and surplus; (2) bonds, loans and purchase obligations of unconsolidated subsidiaries at December 31, 1947, for which the Company has no obligation, amounted to $12,123,732; (3) the accounts and the accounting procedures of Idaho Refining Company and its subsidiaries have not be coordinated with those of the Company." (Phillips Petroleum Company)

Foreign Subsidiaries

360 No foreign subsidiaries indicated
95 No Statement of Policy
- 47—foreign subsidiaries indicated but none consolidated
- 36—but foreign subsidiaries consolidated
- 11—some but not all foreign subsidiaries consolidated
- 1—but percentage ownership in unconsolidated subsidiaries stated

70 Policy Indicated
- 22—Based on geographical location
- 15—Based on percentage ownership
- 10—Based on geographical location and percentage ownership
- 16—No foreign subsidiaries consolidated
- 5—All foreign subsidiaries consolidated
- 2—Some foreign subsidiaries consolidated in income account but not in balance sheet.

525

Geographical Location of Foreign Subsidiaries	Consolidated	Not Consolidated
Canada	54	34
Western hemisphere (exc. Canada)	24	15

England	10	39
Continental Europe	5	20
Far East	5	—
West Africa	1	—
India	1	—
All but Canada	—	8
All but western hemisphere	—	2
Allied occupied and liberated countries	—	1
Other than above	2	15

The following excerpts describe changes in consolidation policy during the year whereby certain foreign subsidiaries were included in consolidation:

(1) "For the first time since 1938 the assets and liabilities and the income and expenses of our London Company have been included in the consolidated statements. Due to the war this subsidiary was eliminated from the consolidation in 1939 and only the investment in and advances to it were included in the balance sheet. Also, the figures of our International Corporation and our Canadian Company are included in the consolidated statements for the first time, because control of both was acquired by us during 1947. Prior to 1947, the Newton Falls Paper Mill was operated as an unincorporated joint venture and our consolidated earnings statements included our share of its earnings. Inasmuch as the Mill was incorporated on January 1, 1947, McGraw-Hill income thereafter will include only such dividends as may actually be received. (President's letter.) . . . Included in the foregoing statements are the assets and liabilities and the income and expenses of McGraw-Hill Publishing Co., Limited, a 100% owned subsidiary. Due to war conditions this subsidiary was eliminated from the consolidation in 1939. Since that time, and through 1946 only the investment in and advances to this company have been shown on the balance sheet." (McGraw-Hill Publishing Company—accountant's report.)

(2) "As stated on page 58 the consolidated financial statements include the manufacturing subsidiaries of International Standard Electric Corporation with the exception of those located in Southeastern Europe and Shanghai. These subsidiaries have not been previously included in the consolidated financial statements since 1939. Except for this change the financial statements are presented on a basis consistent with that of the preceding year." (International Telephone & Telegraph Co.—accountant's report.)

(3) "Consistent with that of the preceding year, with the exception that the undistributed net profits of the English, Australian, and South African subsidiaries were included in the consolidated income of the current year. (Bristol Myers Co.—accountant's report.)

(4) "During the year 1947 the company resumed its former policy of including in its consolidated financial statements the accounts of all subsidiaries more than 95% owned (except for a French subsidiary which is not significant and is carried on the books at $1.) (footnote—American Brake Shoe Company—The related accountant's report noted and approved the change.)

In a footnote, Paramount Pictures Inc. stated that the consolidated balance sheet included companies operating in Sweden, Belgium, Portugal, and the Philippines in 1947 but not in 1946, without significant effect on the accounts.

In contrast to the foregoing the following excerpts describe policy changes as a result of which foreign subsidiaries were excluded from consolidation during the year:

(1) ". . . accounting principles applied on a basis consistent with that of the preceding year except as to the changes, which we approve, with respect to the accounts of subsidiary companies operating in foreign territories as stated in Note A to the financial statements. (Accountant's report.)

"The consolidated statement of profit and loss includes the income and costs and expenses of subsidiary companies operating in foreign territories but the equity in undistributed earnings of those companies for the year ending August 31, 1947 has been deducted in arriving at the net profit carried to earned surplus. The consolidated balance sheet at August 31, 1947 does not include the assets, liabilities or the surpluses of those companies. Heretofore, the assets, liabilities, earnings and surpluses of those companies were included in the consolidated financial statements." (Warner Bros. Pictures, Inc.—footnote.)

(2) "Certain exchange control regulations or restrictions exist in the foreign countries in which Coty International Corporation has operating subsidiaries. These restrictions are particularly stringent in France and for that reason the accounts of Coty S.A. (France) and other subsidiaries in France have not been included in the attached consolidated financial statements. In the circumstances we are not in a position to render an opinion relative to the amount at which the investments in and advances to subsidiary companies not consolidated ($1,232,657 being the portion of the total investments in and advances to subsidiaries allocated to the subsidiary companies not consolidated) are carried in the attached balance sheets. The summary of financial information regarding the principal subsidiaries not consolidated (Coty S.A. (France) and other subsidiaries in France) appended hereto indicates that, after taking into account the devaluation of the French franc which occurred in January 1948, the underlying equity therein amounted to $1,086,000.

"In our opinion, based on our examination and on the report of other independent public accountants with respect to the British subsidiary, and subject to the reservations set forth in the preceding paragraph, the attached balance sheets of Coty International Corporation (parent company) and of Coty International Corporation and its subsidiaries (consolidated) at December 31, 1947 and the related statements of profit and loss and surplus for the year then ended, when read in conjunction with the notes thereto, present fairly the position as of December 31, 1947 and the results of operations for the year then ended, of the corporation and of the corporation and its subsidiaries consolidated, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also in our opinion, the accompanying summary of combined financial position of Coty S.A. (France) and other subsidiaries in France and the related statements of profit and loss and unappropriated surplus, when read in conjunction with the notes thereto, fairly summarize (in French francs) the combined position of such companies as of December 31, 1947 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Coty International Corporation—Accountant's report.)

(3) "The accounts of an English subsidiary have been excluded from the consolidation, effective January 1, 1947. The effect of this change in accounting is insignificant." (Footnote.)

"In our opinion, . . . in conformity with generally accepted accounting principles which were applied on a basis consistent with that of the preceding year except for the exclusion of the accounts of a foreign subsidiary company from the consolidation, which we approve, as explained in Note 3 of the accompanying notations to financial statements." (Hercules Powder Co.—Accountant's report.)

Attention is invited to the previously quoted excerpts from the report of Safeway Stores Inc. in which a Canadian subsidiary was excluded from consolidation.

The following excerpt contains an interesting reason advanced for the exclusion of a foreign subsidiary from consolidation:

"The corporation owns all of the deferred (common) shares and substantially all of the second preference shares of Celotex Limited, a company in England engaged in the manufacture and sale of Celotex products. The accounts of Celotex Limited are not consolidated in the accompanying financial statements because a substantial amount of its capital is represented by first preference shares owned almost entirely by the public.

"In our opinion, . . ." (The Celotex Corporation—Accountant's report.)

Post Balance Sheet Disclosures

Post balance sheet disclosures occurred most frequently in the president's letter or narrative section of the report.

Of 211 items disclosed, 59 (28%) appeared in the footnotes to the financial statements, some of these disclosures being duplicated in the narrative sections of the reports.

In a few instances post balance sheet events were indicated parenthetically on the face of the balance sheet (e.g., U. S. Rubber Co., Cuneo Press, Ely & Walker Dry Goods Co., Bassett Furniture Industries Inc.)

Walgreen Co. showed on its balance sheet of September 30, 1947 a current liability "cost of preferred stock redeemed on November 10, 1947 . . . $310,867" and deducted from authorized and outstanding preferred stock "par value of 3,000 shares redeemed on November 10, 1947, included in current liabilities above . . . $300,000." The "premium and accrued dividends on preferred stock redeemed on November 10, 1947" ($10,867) was shown as a charge in the statement of earned surplus.

Post balance sheet disclosures were seldom found in the accountant's report. However, the auditor's report for The West Penn Electric Co., contained the following remarks:

"Early in 1948, the American Water Works and Electric Company, Incorporated (former parent of The West Penn Electric Company) completed its dissolution and liquidation pursuant to reorganization plans approved by the Securities and Exchange Commission and the District Court of the United States for the District of Delaware. The plans did not provide for such action as will be necessary in order to conform the holding company system of The West Penn Electric Company to the provisions of Section 11 of the Public Utility Holding Company Act of 1935. The extent to which the accounts of The West Penn Electric Company may be affected in the future in the development and consummation of such further plans is not determinable at present.

"In our opinion, subject to the reservation in the preceding paragraph, the accompanying balance sheets and related statements of income and surplus present fairly the position of The West Penn Electric Company and of that company and its consolidated subsidiary companies, at December 31, 1947, and the results of their operations for the year (on the basis stated in the footnote to the consolidated income account), in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

The items marked *N* in the statistical table below appeared only in the narrative section and items marked *F* appeared only in the footnotes. Treatment of the remaining items varied between disclosure in the narrative section and/or in the footnotes but was not exclusively confined to one or the other section.

1947	1946	
32	23	Declaration, payment or receipt of dividends
..	14	Portal to portal suits
18	11	Refinancing operations and capital stock transactions
14	6	Major property acquisitions or sales

1N	6	Renegotiation settlements — war contract payments
3	6	Union negotiations—strikes
8	6	Legal suits filed, appealed or settled
8N	5	Death, resignation or appointment of officers or directors
12	4	Acquisition or sale of subsidiaries
..	3	Dividends received from foreign subsidiaries
1F	3	Options exercised or granted
19N	3	Sales, orders or earnings statistics or trends therein
..	3	Motion pictures completed
11N	2	Price changes
1	2	Amendments to certificate of incorporation or charter
..	2	Portal to Portal Act, May 14, 1947
27	2	Funds borrowed or repaid
2F	2	Agreement to purchase assets of other company
2N	2	Action of board of directors
..	2	Percentage ownership of subsidiaries
1F	..	Insurance claims filed
2F	..	Use of post balance sheet exchange rate for French franc
1N	..	Treasury certificate of indebtedness exchanged for later maturity
2N	..	Employee bonus
1N	..	Group insurance enrollment
4N	..	Testing or introduction of new product
1N	..	Reduction in overtime operations
2	..	Payments to pension trust
1F	..	Increase in stated capital
3N	..	Reduction in inventories
3	..	Receipt of federal tax refund
1F	..	Bankruptcy of subsidiary
1N	..	Number of stockholders
1N	..	Advertising program
2N	..	Acquisition of large block of corporation stock by new group
2N	..	Air policy reports
2	..	New contract
1N	..	Appropriation by board of directors for inventory reserve
1N	..	Resumption of distilling
1F	..	Receipt of court judgment under SEC Act of 1934
1N	..	Opening of new plant
1N	..	Purchase commitments
1C	..	Letter from Bureau of Internal Revenue re hearing
1F	..	Market price unlisted securities
1N	..	Additional tax assessment
1N	..	Foreign market closed because of exchange restrictions
1N	..	Major repairs
1F	..	Subsidiary's claim settled
1N	..	Route and mail applications
1F	..	Revision of depreciation charge
1N	..	Sinking fund payments
1N	..	Oil importation
1N	..	Change of name
1F	..	Release of impounded cash
1N	..	Government restrictions on use of tin
1N	..	Wage increase
1F	..	Receipt of Canadian funds
1F	..	Incorporation of branches

Employee Benefit Plans

1947	1946	
191	154	Pension plans
105	94	Group insurance plans
69	70	Plans described as "profit sharing," "incentive," "bonus" (management and non-management)
4	..	Cost of living adjustments (e.g., Sun Oil Co., Standard Oil Co. of Ohio)
9	7	Employees stock purchase plans
104	..	Other benefits mentioned such as paid vacations, sick leave, etc.

Reference to employee benefit plans was often found only in the president's letter. A portion of the increase indicated for pension plans arose from brief references in 1947 reports not found in the reports of the previous year, although such plans were then in existence.

Among the benefit plans the following interesting titles appeared:

Pension and profit sharing plan (e.g., Dow Chemical Co.)
Employees saving and profit sharing plans (e.g., Clyde Porcelain Steel Co.)
Employees saving and profit sharing pension plan (Goldblatt Bros.)
Employees saving plan (Union Carbide and Carbon Co.)
Employees annual wage plan (Spiegel, Inc.)
Stock distribution to employees (Scott Paper Co.)

In its contract with principal employee groups in the fall of 1947, International Shoe Co. introduced a new feature. "Under the arrangement, wage rates are automatically adjusted upward and downward as the Consumers Price Index, National Average of Large Cities, of the Department of Labor, moves upward and downward. This is limited to a maximum increase of 12¢ per hour, and by a provision that rates will not go below those in effect on October 1." (The same index was used by Keystone Steel Co. to adjust pension payments.)

Standard Oil Company of Ohio, National Cylinder Gas Co., Swift & Co., and Standard Oil Company of California were among the companies which amended their pension plans during the year to provide increased benefits.

Notes on Pension Plans

Due to the many variations in pension plan provisions and the varying degrees of disclosure of such provisions, no classification of pension plans has been made. The following references deal with disclosures relating to specific plans.

Atlas Powder Co. and Stone & Webster Inc. both showed the amount of the pension fund and a pension reserve on the balance sheet, the former deducting the amount in the pension trust from the reserve for pensions, and the latter showing the fund among the assets. Most companies, however, omitted both the fund and the liability from the balance sheet, as indicated in the following footnote from the report of the American Smelting, Mining and Refining Co.:

> "This balance sheet does not include cash and U. S. Government securities at cost aggregating $629,452.19 remaining in the Pension Trust at 12/31/47, nor any provision for the company's obligations under the pension plan, as the annuities purchased under the plan adopted in 1941 together with the trust fund are considered by the company adequate to meet its liability accrued in respect to the pension plan to 12/31/47."

International Nickel Company indicated that the funds for the pension plan were held partly by a trust and partly under the control of the board of directors.

The following footnote described the contingent liability for potential pension cost:

> "The plan by its term is cancelable by the corporation without further cost except with respect to employes who have then reached retirement age. Such potential cost is presently estimated at approximately $939,000, subject to progressive reduction by reason of the death or increasing age of such participants prior to retirement." [Sinclair Oil Co.]

Because the plan adopted by the Superior Oil Company may be terminated at any time without liability for unpaid past service costs, no provision for such contingent liability in the estimated amount of $666,000 was made.

Follansbee Steel Corp. advanced the past service portion contributed by its employees, showing the amount advanced as a current asset to be deducted from payrolls at 3% during 1948.

The following references to the deductibility for tax purposes of contributions to an approved pension trust which was discontinued were found in the report of the Hayes Manufacturing Company:

> "The federal income and excess profits tax returns of Raneco Corporation, a subsidiary of American Engineering Company, for the years 1942, 1943, and 1944 have been examined by an internal revenue agent but his report has not yet been submitted as he takes exception to amounts distributed by a trustee in liquidation of an approved pension trust plan which was discontinued and therefore questions the deductibility of contributions by the corporation under the plan. The corporation disavows any liability for actions of the trustee but, if necessary, expects to successfully contest the preliminary findings of the revenue agent by adjusting the distributions made by the trustee and for such purpose has created a reserve for contingencies in the amount of $30,000 which is deemed to be adequate. . . . The returns for the period from January 1 to February 28, 1945, the date of its acquisition by American, have not been examined." (footnote)

The reserve for pensions was described by the General Cable Corp. as follows:

> "This reserve has been provided as partial coverage against present and future liability, if any, for pension payments, the amount of which is indeterminate. Commencing October 1, 1945, current pension payments, formerly charged to profit and loss, have been charged against this reserve." (footnote)

Pittsburgh Plate Glass Co. (see also the Babcock & Wilcox Co.) decided to establish a reserve for future pensions during the year:

> "For a number of years the company has paid from current income, on a voluntary basis, certain retirement and relief benefits to older and disabled employees of long service not covered by the company's retirement plan for salaried employees. While no change has been made in the voluntary and terminable nature of the plan, it has been deemed advisable to establish a reserve (calculated on an actuarial basis) to record the potential payments to these retired employees. This change in accounting practice was effected by appropriating $3,476,675 from income. Additional charges to cost of sales in 1947 because of this change were nominal." [The related accountants report noted and approved the change.]

The Sherwin Williams Company in its August 31, 1947 report charged a $3,500,000 provision for pensions (also a $1,500,000 provision for possible inventory shrinkage) before "net profit." The president commented on the pension provision as follows:

"As to the $3,500,000 provided for a pension reserve, the management and the board of directors believe that at this time an employees' retirement plan should be adopted and such plan is being submitted to the stockholders for approval at the annual meeting of stockholders to be held December 9, 1947. In anticipation of such approval, it was deemed advisable to set up the above mentioned sum of $3,500,000 as a reserve out of the year's earnings."

Talon, Inc. indicated a contingent liability for past service pension cost as follows:

"Under the terms of the pension plan entered into by the company on December 31, 1944, for the benefit of the employees, there is a contingent obligation to pay, over a period of six years ending December 31, 1953, premiums of approximately $152,000 plus interest with credit for adjustments, based on past services accredited compensation. The right to change or discontinue the plan is necessarily reserved by the company."

Hooker Electrochemical Company indicated that cost of past service pensions will be currently borne by the company as the pensions are paid:

"The company established a retirement program effective October 1, 1946 which has been approved by the stockholders and by the Bureau of Internal Revenue. Employees contribute to the cost of future service benefits but the company will pay the greater part of this cost. Such future service benefits are insured under contracts with life insurance companies and the company has paid and there has been charged against income for 1947 the estimated company share in the amount of $308,818 for the 12 months commenced October 1, 1947. Contributions paid by the company are not returnable. The cost of past service pensions, which have not been funded or insured, will be currently borne by the company as the pensions are paid; the future annual amount involved cannot be accurately estimated but it will be relatively small for the next few years. The company has reserved the right to modify, amend or discontinue the program, including the payment of past service pensions, at any time."

National Cylinder Gas Company described an amendment to its retirement annuity plan in the president's letter as follows:

"All permanent employees received paid vacations. The Company makes available to its employees group life and hospital insurance as well as a retirement annuity plan. During the past year we amended this annuity contract in order to recognize the increased costs of living since the date of inception of the plan. Under the amendment the past service annuities for those employees who were working for the Company in 1940 will be based on the monthly rates of compensation as of December 1, 1947 rather than as of December 31, 1940 (the previous basic date). The contract was also amended to provide that in the event of death of an employee after retirement, the total of the amounts paid to him as annuity and the death benefit payable to his beneficiary shall not be less than the amounts paid in by him plus interest.

"The increased annuities may be discontinued at any time if the Company so desires because of reduced cost of living or other reasons. If carried to completion, the cost of such increased past service annuities is estimated to be $350,000, of which $10,000 was paid in 1947. If discontinued at the end of ten years, the total cost is estimated at $73,000.

"The objective in all these matters is greater security and more profitable work for the employees. With their fine cooperation we hope to produce a better return on investment for the stockholders, and to provide constantly improved products, methods, and service for our customers."

Reporting of Earnings Per Share in the President's Letter When Appropriation Was Shown as the Last Deduction in the Income Statement

While Accounting Research Bulletins Nos. 28, 31, 32, and 33 indicated that items excluded from the determination of net income could be shown in the income statement after the amount designated as net income, Accounting Research Bulletin No. 35 stated that such deductions should be displayed in the surplus statement in order to minimize the possibility of misconception as to whether earnings for the period were the amounts captioned as net income or were the final or more prominent amount shown on the income statement after the deduction or addition of such charges or credits. (Bulletin No. 35 was issued subsequent to the reports examined in this survey.)

A comparison of the reported earnings per share in the president's letter with the net income reported in the certified income statements, revealed that many reports quoted earnings per share based on the balance remaining after an appropriation had been deducted from a clearly designated "net income" figure. While the amounts in the president's letter were usually clearly designated, the fact that per share figures based on "net income" were not also quoted might prove misleading to certain readers.

61 Net income clearly designated in the income statement, but

(34) Earnings per share based on balance after appropriation

(9) Earnings per share quoted on both "net income" and balance remaining after appropriation
(8) Earnings per share based on amount of net income
(6) Earnings per share not quoted, but aggregate amount after appropriation mentioned by the president
(3) No earnings figure quoted by the president
(1) Earnings per share not quoted, but net income reported by the president

9 Net income not considered to be clearly designated in the income statement, earnings per share quoted by the president based on balance after appropriation

(6) Net income designated "net income before . . ." and the balance after the appropriation designated "net income after . . ." or "net income transferred to surplus."
(2) Net income not designated
(1) "Net income after taxes"—followed by appropriation—final amount designated "profit and loss surplus for year."

While the previous statistics dealt with appropriations, several reports were noted in which the president quoted only one earnings per share figure, such per share amount including transfers of unrequired reserves for renegotiation or contingencies.

Dividend Policy—Reasons Advanced For Retaining Earnings

The statistics below relate only to those companies which gave reasons for the retention of earnings, and do not include companies which merely commented on such items as rising costs, etc., without relating such factors to the need for retaining earnings. Some reports referred to more than one of the items listed below.

The petroleum industry stressed the high cost of plant replacements in the presidents' letters of their annual corporate reports more often than any other industry noted.

60 The high cost of plant replacements (Lukens Steel Co.)
46 Plant expansion requirements (Jones & Laughlin Steel Corp.)
22 Working capital needs (Belding Heminway Co. Inc.)
8 Increased volume of business (Hercules Powder Co.)
6 Inventory replacements (Bethlehem Steel Co.)
5 Increased cost of doing business (Crucible Steel Co.)
4 Inflation of inventory values (Atlas Powder Co.)
2 Increases in inventories and accounts receivable (Mohawk Rubber Co.)
2 Increased inventory volume (Thompson Products Inc.)
2 Much greater risk inherent in operating during inflationary periods (General Electric Co.)
1 Gradual tightening of credit (Pittsburgh Steel Co.)
1 Accounts Receivable harder to collect (Continental Steel Co.)
1 To meet competition by reducing operating costs (Ruberoid Co.)
1 New product development (Copperweld Steel Co.)
1 High cost of tobacco (American Tobacco Co.)
1 Expansion and research (Corn Products Refining Co.)
1 Desire to avoid borrowing (General Electric Co.)
1 To finance growth—increases in accounts receivable, inventories, deferred charges, and plant and equipment (Bristol Myers Co.)
1 For further development (Colonial Stores Inc.)
1 Maintain strong financial position (Bigelow Sanford Carpet Co. Inc.)
1 To finance needs of expanding business (York Corp.)
1 Engineering and research (Lima Hamilton Corp.)
1 For tools and equipment and for operating purposes in order to maintain its position and to meet rising costs (Iron Fireman Mfg. Co.)
1 Increased provision required for income tax (Autocar Co.)
1 Margin of safety against shrinkage of business as well as capital for carrying on business with a depreciated dollar (Koppers Co.)

Section 2: BALANCE SHEET

Title of Certified "Balance Sheet"

The trend indicated by the table below indicates the adoption of titles other than "balance sheet" principally in connection with the outline form discussed in the next section which deals with the form of certified balance sheets.

1947	1946	
485	506	"Balance sheet"
23	9	"Statement of financial position" or "financial position"
10	6	"Statement of financial condition"
1	1	"Statement of assets and liabilities" (Artloom Corp.)
1	1	"Investment" (Johns Manville Corp.)
1	1	"Statement of assets, liabilities and net worth" (Brewster Aeronautical Corp.)
1	..	"Statement of ownership" (Westinghouse Electric Corp.)
1	..	"Assets, liabilities and capital investment" (A. E. Staley Mfg. Co.)
1	..	"Statement of what the company owned and what it owed." (American Asphalt Roof Corp.)
1	1	No heading used (Curtis Publishing Co.)
525	525	

Several companies adopted the titles "statement of financial position" or "statement of financial condition" without changing the statement form. (See S. H. Kress & Co., Clyde Porcelain Steel Corporation.)

Form of Certified Balance Sheet

The most pronounced trend in balance sheet presentation was the adoption of variations of the following outline form:

Current assets
(less)
Current liabilities
(equals)
Working capital (net current assets)
(add)
Other assets
(deduct)
Other liabilities
(equals)
Net assets
Represented by:
Capital stock
(and)
Earnings reinvested

Of 525 reports examined, the number of companies using variations of this form in 1947 (28) was more than double the number in 1946 (13). (For names of companies adopting the form outlined above during the past year see companies 463, 7, 284, 350, 524, 105, 111, 522, 516, 374, 455, 36, 213, 55, 357.) The preceding section indicates new titles adopted in conjunction with this form.

1947	
486	Assets equals liabilities plus capital stock and surplus—current items first
4	Same as above but non-current items first
3	Assets minus liabilities equals capital stock and surplus
24	Current assets minus current liabilities, plus other assets minus other liabilities equals net equity (capital stock and surplus)
4	Similar to above but bonds as well as stock included in equity interest
4	In three sections (1) assets, (2) liabilities and reserves, (3) capital stock and surplus
525	

An interesting new development was found in four of the above reports wherein long term debt and reserves were included with capital stock and "earnings retained in the business" (earned surplus) under the heading "sources of invested capital," "investors equity" or similar title. (See The American Rolling Mill Co., General Aniline & Film Corp., Armour & Co., and The National Cash Register Co.)

A further development with respect to the form outlined previously was the separation of the last section into an independent statement.

Standard Oil Co. of Ohio and Colt's Manufacturing Company showed the section referred to on a separate page entitled "statement of stockholders' interest" and "statement of stockholders' ownership" respectively (practice also followed in 1946). The accountants in both instances named these statements separately in their audit reports.

Several 1947 reports were noted which varied from the 1946 reports in that the stockholders equity in capital stock and surplus was emphasized in the following ways:

In some cases the equation
Assets equals Liabilities plus Stockholders Equity
was given added emphasis by showing and extending the amount of total liabilities (or total liabilities and reserves), and adding it to the total stockholder equity shown under a separate heading. (e.g. Houdaille Hershey Corp. and Standard Oil Co. of Indiana.)

In other instances the equation
Assets minus liabilities equals stockholders' equity
was adopted during the year as the basis for the form of balance sheet. Ohio Oil Company, Westinghouse Electric Co. and The A. E. Staley Mfg. Co. used the titles "shareholders investment in the business," "stockholders equity evidenced by" and "capital investment—represented by" for the final section. (The Westinghouse Electric Co. report used the terms "the Companies own" and "the Companies owe" in their "consolidated statement of ownership" for 1947 to replace the terms "assets" and "liabilities" used in 1946.)

A few companies did not segregate current assets (e.g., American Asphalt Roof Co.)

Other section titles than "current assets" were used in a few instances:

"Current and working assets"—Tidewater Assoc. Oil Co., Warner Bros. Picture Inc., Loews Inc.

"Current and accrued assets"—General Public Utilities Corp.

"Cash Resources"—Union Oil Co. of California

Trade Accounts and Notes Receivable

No significant trends were noted in the treatment of current receivables during the year.

1947	1946	
281	272	Trade accounts shown but no trade notes
144	151	Trade accounts and notes combined in one amount
58	60	Trade accounts and notes shown separately
38	35	Receivables not identified as either trade notes or accounts
4	2	No trade notes or accounts shown
..	5	Miscellaneous
525	525	

Corn Products Refining Company showed foreign receivables separately in current assets as follows:

"Notes and accounts receivable
Domestic ....
Foreign ...."

The following appendix references indicate the names of some corporations assigning, discounting, selling and purchasing accounts receivable:

Assigning—426, 418, 432, 301, 127, 495
Selling—492, 201, 421, 437
Purchasing—491
Discounting—200, 142

Some companies mentioned the trade practice by which accounts or notes receivable were included in current assets when due beyond a one year period (See companies 212, 520, 22, 64, 278, 102).

Similarly, installment accounts receivable sometimes included items maturing after one year (See companies 321, 330, 67, 102, 209, 471), (See Accounting Research Bulletin No. 30, paragraph 4(e).) The reports of several finance companies were noted which indicated that current receivables were not limited to those maturing within a year. (E.g., Household Finance Corporation and C.I.T. Financial Corporation). McKesson & Robbins split their installment receivables between current and non-current classifications on the basis of one year maturity.

The following note disclosed the nature of certain items included in current assets:

"Included in the accounts receivable is an amount of $18,311.50 representing an account, partly past due, owing by a corporation in which two officers of the company are financially interested. The inventory of materials and supplies also includes an amount of $10,943.21 usable only in work done for this customer." (Northrop Aircraft Inc.) (See Accounting Research Bulletin No. 30, paragraphs 4 (d) and 6 (c).)

The auditors of the Tex-O-Can Flour Mills Company took exception to the omission from the financial statements of an amount due from a customer:

"As stated in Note 3 to financial statements an amount of $248,000 due from a customer has been omitted from the accounts. If this item had been recorded at the amount expected to be realized thereon the assets and the consolidated earned surplus at May 31, 1947 and the consolidated income for the year ended that date would have been increased accordingly.

"In our opinion, with the exception stated in the preceding paragraph, . . ."

The receivables which appeared most frequently in the non-current section of the balance sheet were the following:

Refundable income taxes (See Accounting Research Bulletin No. 23, page 192)
Items due from employees (See Accounting Research Bulletin No. 30, paragraph 4 (d).)
Long term notes and accounts receivable—trade
Mortgages and real estate contracts receivable
Renegotiation claims

The following note on accounts with a Russian organization was found in the report of the Aetna Standard Engineering Co.:

"These accounts arise from a contract made in June 1946 with V.O. Machinoimport (a Russian Commercial Organization) for a seamless tube mill, a substantial portion of which was shipped and paid for in 1947 and early 1948. The United States Government decides whether an export license will be issued for the unshipped balance. This has not yet been decided although the question has been pending since March, 1948. If a license is denied, counsel is of the opinion that the buyer is legally liable for the balance of the account. Apart from the usual legal remedies counsel is also of the opinion that the Company would be eligible for relief under Section 204 of the "Foreign Aid Appropriation Act, 1949."

Reserve for Doubtful Notes and Accounts Receivable

No significant changes in treatment of this item were observed during the year.

1947	1946	
266	265	Amount shown deducted from trade receivables or stated parenthetically
113	115	Amount shown deducted from total of trade and other receivables or stated parenthetically after such total
79	77	No reserve shown or indicated
71	74	Asset stated net of reserve, amount of reserve not shown
1	..	Reserve included in accumulated earnings appropriated for contingencies
530	531	

The following excerpts from 1947 reports dealt with the reserve for doubtful accounts:

"During the year, the Company inaugurated the policy of providing a reserve for doubtful accounts on the basis of a fixed percentage of net sales." (Footnote.) ". . . in conformity with generally accepted accounting principles which, except for the change in method of providing for doubtful accounts receivable as stated in Note E to the financial statements (which change we consider proper), have been applied on a basis consistent with that of the preceding year." (Pacific Mills—Accountant's report.)

"The receivables shown are net after writing off all bad debts that we know of and after deducting a reserve of $200,000 to guard against possible loss from bad debts. The reserve has remained unchanged for many years." (Footnote—Yale & Towne Mfg. Co.)

"At June 30, 1947, the reserves for doubtful receivables were approximately $954,000 more than the amount which would normally result under the Company's policy of providing such reserves based on the age of the receivables. The board of directors have considered it desirable to retain these reserves. Operations for the current year reflect a provision for doubtful receivables in the amount of approximately $162,000. (Footnote—McKesson & Robbins Inc.)

Some companies deducted a reserve for (cash) discounts (and or allowances) from the receivables in addition to the reserve for doubtful accounts (See companies 236, 225, 78, 266, 69, 224). Montgomery Ward Co. Inc. deducted a "reserve for doubtful accounts and collection expense." Time Inc. showed accounts receivable less a reserve for cash discounts, newsstand returns, doubtful accounts, etc. Brunswick-Balke-

Collender Co. indicated a reserve for losses and unearned interest, while International Harvester Co. used the term "reserve for losses."

Marketable Securities—Basis of Valuation

The following trends during the 1947 fiscal year with respect to marketable securities were noted:

(1) A large number of companies disposed of their marketable securities—probably as a result of the need for cash resulting from increases in the price level.

(2) A reduction in the market price of securities over prices at the previous balance sheet date was disclosed by the increased parenthetical showing of market values below cost or by greater use of the notation "at cost which approximates market," rather than "at cost which is below market." (See Accounting Research Bulletin No. 30, para. 9, p. 251.)

1947	1946	
219	155	No marketable securities shown
107	145	At cost, market not stated (all government securities)
62	89	At cost, market value stated—above cost
57	78	No basis of valuation stated
24	17	At cost, market value stated—below cost
13	17	At lower of cost or market
31	18	At cost which approximates market
6	3	At market
7	7	At cost less reserve
1	6	At face value
2	..	At par
8	..	At cost, not over market
7	4	At redemption values
1	..	At cost less premiums paid on certain securities
1	1	At 1934 written down values
2	..	At cost which equals market
1	1	At lower of cost or principal amount
..	1	At amortized values
..	1	At realizable value
1	3	At or below cost
550	546	

The Columbia Brewing Co. combined cash and U. S. Treasury Notes in one amount as the initial item under current assets.

The Purolator Company indicated in a footnote that U. S. Treasury Certificates of Indebtedness, shown in the current assets section, were pledged as security for notes payable and that "the pledged securities may be released at the option of the company."

Bethlehem Steel Company priced government securities at market (below cost), formerly having shown them at cost.

Inventories—Basis of Pricing

No significant changes were noted in the basis of pricing. (See following section for increased use of Lifo method.)

1947	1946	
442	435	At the lower of cost or market
108	111	At cost
45	48	At lower than cost, market not mentioned
14	18	At less than the lower of cost or market
23	23	At market
5	3	No inventories or inventories negligible
14	15	Basis not stated
16	13	At less than market (cost not mentioned)
5	7	Contract price
10	14	Miscellaneous
682	687	

The basis of pricing, usually found on the balance sheet or in a footnote, was described in the auditor's certificate accompanying the Cuban American Sugar Company's report as follows:

> "Refined sugar on hand or in process and alcohol on hand at September 30, 1947 have been valued at the lower of cost or market. Raw sugar on hand for export, consisting entirely of 1947 crop sugars has been valued at the basic minimum sales contract price of $4.925 per 100 English pounds, f.a.s. Cuba. (The advance of $6,679,646.99 from the Commodity Credit Corporation has been deducted from the value of the sugars on hand out of the proceeds of which the advance is being liquidated.) Local consumption sugar on hand amounting to 5,388 bags has been valued at local sale prices and 6,134,956 gallons of final molasses have been valued at 7½ cents per gallon or its equivalent in sugar content. A reserve has been provided for estimated expenses of shipping sugar to port."

The following valuation formulae required the selection of the lowest of three alternative pricings:

"At cost, replacement cost or market, whichever is lowest." (Walworth Co.)

"Inventories are stated by groups or classes of merchandise at the lowest of (1) actual cost on the basis of first-in first-out, (2) replacement cost after allowance for any decline in the current market price of basic commodities, or (3) current selling prices of finished products, less allowance for selling expenses and normal margin of profit." (Mullens Manufacturing Corp.)

"At the lower of cost or market determined substantially on the basis of Fifo cost or replacement market and not in excess of realization market." (Hudson Motor Car Co.)

The following two excerpts give some detail as to the pricing of work in process:

"The amounts for inventory were based upon quantities determined by physical count or as shown by perpetual inventory records, which were periodically adjusted to physical counts. Inventories of raw materials and materials and supplies in finished and in process products were priced at average cost. Labor in finished and in process products was priced at standard costs after adjustment by a percentage determined by comparing total standard labor hours of production during each year, extended at average actual wage rates effective for each period, with standard labor hours of production for each year extended at standard rates established in prior years. Overhead has been included at a percentage (considered by the management as normal and consistent with prior years) of the inventory amount for labor." (Century Electric Company)

"Elevator contract installation and service costs in progress priced at standard cost of manufactured product plus actual cost of materials consumed in the field, field labor at actual cost and apportioned administrative and field overhead costs." (Otis Elevator Co.)

Basic Lifo

The auditor's certificate for the 1947 report of National Lead Co. took exception to the deviation in the 1946 application of "normal" stock principles, as follows:

"As explained in Note 1 to the consolidated financial statements, inventory reserves at December 31, 1946 are approximately $2,000,000 less, net income for 1946 is approximately $1,938,000 more and net income for 1947 is approximately $1,938,000 less than would have been the case if the company had not deviated in the application of the "normal stock" principles for the year 1946.

"Except as mentioned in the preceding paragraph . . ."

The Bridgeport Brass Co. increased "normal" inventory quantities in 1946. The 1947 statements indicated in a footnote the amount of reserve credit attributable to the prior year's increase.

Inventories—Method of Determining Cost

The most pronounced trend in relation to the determination of inventory costs during the year was the increased use of the Lifo method.

1947	1946	
284	281	Not indicated
97	102	First-in first-out
98	100	Average cost
92	79	Last-in first-out
24	23	Standard cost
5	6	Base stock
..	1	Highest cost charged out first (described as Lifo variation in 1947 report)
10	12	Retail method
5	3	No inventories—or inventories negligible
2	8	Miscellaneous
617	615	

Companies which indicated the method of determining cost for part of their inventory, but did not disclose the method used in connection with other sections of the inventory valued at cost, were classified in 1947 under "not indicated" as well as under other heading(s). In the 1946 analysis "not indicated" included only those companies which indicated no method whatsoever. (See Accounting Research Bulletin No. 29 —Statement 4.)

Adoption of Lifo

The number of companies mentioning the use of the Lifo inventory method showed a 16% increase in 1947 over 1946.

(For names of companies adopting Lifo method during the year see Appendix Nos. 43, 60, 83, 116, 151, 170, 228, 251, 258, 330, 399, 400, 478.)

In addition to the 13 companies adopting the method for the first time, 8 companies extended their use of the method. (See companies 55, 91, 127, 149, 284, 419, 474, 501.)

Increased use of the Lifo method was most noticeable in large companies in the meat packing, steel, and oil industries, and in the retail trade.

Several companies which did not disclose the method used for determining cost in 1946, indicated in their 1947 reports that they had been on the Lifo basis during 1946. 1946 statistics have been adjusted accordingly.

The president's letter of Globe Steel Tubes Co. indicated that the Lifo method "under contemplation earlier in the year, was, for various reasons, not adopted." The president further states ". . . there is included in the 1947 income a profit of approximately $75,000 (after taxes) realized from advances in price of raw material and other supplies which were in the inventory at the beginning of the year."

The following companies, not included in the 525 reports tabulated, were noted as having adopted or extended the use of the Lifo method during the year.

Arkansas Natural Gas Co.
Arnold Constable Corp.
Calumet & Hecla Consolidated Copper Co.
Climax Molybdenum Co.
Continental Can Co.
Copper Range Co.
Cosden Petroleum Co.
Pittsburgh Consolidated Coal Co.
William Whitman Co., Inc.

Where Lifo was adopted or extended during the year the president's letter usually discussed the method. A few excerpts from such letters follow:

"This method recognizes fluctuations in the purchasing power of the dollar by reflecting current costs of employment and purchases—whatever the price change—in the cost of products currently sold" (U. S. Steel Corp.)

"As result of the adoption of the 'Lifo' method and consequent adjustments, the company's consolidated net income from operations of the year 1947 is greater by $2,100,000 than it would have been if the 'reserve' method had been continued . . . The value of the December 31, 1947 inventories, at unit costs determined by the 'Lifo' method, was $33,901,000 (approximately 46% below their estimated market or net realization value on that date.)" (Tide Water Associated Oil Company.)

"This [Lifo] resulted in a charge to operations in 1947 of $1,289,029—and a corresponding reduction in book value of the inventory. This, in reality, is an inventory reserve which has been set aside out of profits and will be transferred to operating profits as the cost of corn drops to more normal levels." (Clinton Industries, Inc.)

"As a result of the adoption of the 'last-in, first-out' method of inventory valuation described in the last annual report, inventories of domestic whiskies produced by the Company were valued at approximately $12,800,000 less than they would have been on the cost basis used prior to 1946." (National Distillers Corporation.)

The president's letter in the report of Standard Oil Company of Kentucky stated the difference between the merchandise inventory valuation and current replacement costs, and the amount thereof arising during 1947. (See also American Brake Shoe Corp.)

A note to the financial statements of Textron Inc. indicated the excess of replacement market value over stated values of inventories.

Holly Sugar Corp. indicated in a footnote and in the president's letter the difference between the residual inventory value arrived at by use of the Lifo method and the valuation which would have resulted if the Fifo method had been used. The difference allocable to the year ending 3/31/48 (net of taxes) was also stated.

The Quaker State Oil Refining Company which used the Lifo method indicated parenthetically on the balance sheet the estimated inventory replacement cost.

Allied Stores stated parenthetically on the balance sheet the difference between the residual inventory value arrived at by use of the Lifo basis and the retail inventory method.

(The president's letter accompanying the annual report of Federated Department Stores contained an informative discussion of the Lifo method as applied to department stores. The material is a little too lengthy for quotation here.)

Several of the companies which adopted or extended the use of Lifo during 1947 specifically stated that such method was not used for tax purposes. (See Caterpillar Tractor Co., Hercules Motor Corporation, American Viscose Corporation.) On the other hand, Armour & Co. and Swift & Co. indicated in footnotes that their extended and retroactive use of the Lifo method has been agreed to by the Bureau of Internal Revenue.

While reductions to market are not allowed by the Bureau of Internal Revenue for tax reporting purposes when the Lifo method is used, several companies gave effect to such reductions in their published statements. For example, note the following two quotations:

"The vegetable oils and their by products included in the inventories were valued on the last-in, first-out basis at cost, except that the carrying value on a 'Lifo' basis of certain vegetable oils was reduced to state such oils at market value at August 31, 1947." (Footnote—Wesson Oil & Snowdrift Co. Inc.)

". . . other merchandise materials and supplies aggregating $13,349,316 at March 27, 1948 and $12,360,651 at March 29, 1947) were valued at cost on the basis of last-in, first-out or at market where lower in the case of individual items." (Footnote—First National Stores Inc.) (See also American Viscose Corporation)

The use of reserves to obtain inventory figures comparable to those resulting from the use of the Lifo method was disclosed in the reports of The May Department Stores Company (prior to the current year), Crane Co., Pittsburgh Plate Glass Co., and Artloom Corporation. (See Accounting Research Bulletin No. 30, paragraph 1.) These companies used the retail, Fifo, average, and standard cost methods, respectively, in conjunction with the type of reserve mentioned above, to arrive at their inventory valuations.

Phillips Petroleum Corporation indicated in a footnote that "the last-in, first-out method is applied on an annual basis for crude oil and on a monthly basis for other major products. . . ." whereas Union Oil Co. indicated that "inventories of crude and refined oil products are valued at cost adjusted to exclude abnormalities under the last-in, first-out method applied on a monthly basis; . . ."

The policy as to the monthly or annual computation of Lifo inventories is similarly divided between types of inventory in the following footnote to the Belding Heminway Company, Inc.:

> "Merchandise inventories are stated at the lower of cost, representing average cost, or market, representing replacement market after making allowance for any significant decline in prices of basic commodities, or selling market after making allowance for estimated selling expense and normal margin of profit; except that cotton yarns in the greige and in process are valued essentially on the basis of last-in, first-out determined on a yearly basis; and except that finished threads, finished piece goods, greige goods, raw materials other than cotton, and hosiery are valued essentially on the basis of last-in, first-out determined on a monthly basis. This method of inventory valuation has been consistently followed by the company for a period of years.
>
> If all of the inventory as at December 31, 1947 had been stated at the lower of cost or market, the amount at which the inventory is stated on the accompanying balance sheet would be increased by approximately $324,000.
>
> Cost of goods sold for the period under review has been determined on the basis of inventories established as heretofore outlined."

On March 4, 1948 the Treasury Department acquiesced in the court decision allowing retailers to use the Lifo method. However, regulations issued limited retroactive application to taxpayers who had filed tax returns on the Lifo basis and had issued reports to stockholders continually on that basis.

In order to comply with these regulations many retailers who had not used the Lifo basis continually since 1942 in their published reports, presented summarized restatements of their income accounts on a Lifo basis for fiscal years from 1942 to date. (E.g., Gimbel Bros., Inc., Associated Dry Goods Corporation, May Department Stores.) The claim for refund of federal taxes in each of the three reports named was shown below current assets. Footnotes in each report pointed out that present treasury regulations did not provide for a retroactive application of the Lifo method.

Gulf Oil Corporation used a combination of the terms "average" and "last-in, first-out" in describing their inventory valuation method. Their report stated under "Supplementary Financial Information":

> "Inventories of crude and refined oils are valued at average cost applied on the "last-in, first-out" basis which in the aggregate is substantially lower than current replacement cost and market value." (See Burlington Mills Corp. for "lower of average cost or replacement market on the basis of first-in, first-out")

The Clearing Machine Corporation indicated in a footnote a change in method of valuing labor and overhead in work-in-process which the auditor's report described as follows:

> "The company has changed its method of valuing labor and overhead in work in process inventories from cost, on a last-in, first-out basis to cost, on a first-in, first-out basis. As a result of this change, total labor and overhead in process at December 31, 1947 has been valued at approximately $95,000 more than it would have been on the former basis."

Two companies which used the Lifo method in 1947 also used inventory reserves. Scovell Manufacturing Company, in accordance with their customary practice, maintained reserves to reduce the price of copper and zinc to a fixed price, to reduce by ten percent the regular inventory valuation of certain finished goods and supplies, and to reduce the amount of overhead applicable to work in process. Bethlehem Steel Company set up a reserve out of income in the years 1939 to 1945 which reduced valuations determined under the first-in, first-out method and was deducted from the total inventories. The Lifo method was adopted for approximately 75% of consolidated inventories in 1947. However, the company made no final disposition of the reserve previously accumulated, the president stating:

> "In the consolidated balance sheet . . . the value of the inventories as of December 31, 1947 (and for purposes of comparison also as of December 31, 1946), is shown without deducting the reserve above referred to and the amount of such reserve is shown therein under reserves."

In order to illustrate the wording used in auditor's reports and related footnotes when the Lifo method has been adopted during the year, excerpts from three accountant's reports are appended:

(1) "Beginning with the year 1947, the Corporation adopted (for accounting but not for income tax purposes) a last-in, first-out method of accounting for pulp and major chemicals. Application of market prices if lower has been continued. The revised method, which we approve, had the effect of stating inventories at December 31, 1947 and profit for the year at $2,110,000 less than they would have been under the method previously used."

"The accounting principles applied during the year were consistent with those of the preceding year except with respect to inventories . . . as mentioned above." (Auditor's certificate.)

"Inventories—The method of charging to operations the cost of raw materials was changed effective January 1, 1947, from first-in, first-out to last-in, first-out, with continuation of write down of inventories to market if lower. Consequently, the inventories at December 31, 1947 have been priced, as to quantities equal to those at December 31, 1947, at prices then applied, and as to quantities in excess of those at that date at cost of the earliest 1947 purchases, but not in excess of market. As a result of this change, inventories at the close of 1947 were $2,110,000 less, and the cost of products sold during 1947 $2,110,000 greater than they would have been if the method applied in 1946 and prior years had been continued in 1947. This change in method has not been adopted for income tax purposes." (Footnote—American Viscose Corp.)

(2) "In our opinion, the accompanying consolidated balance sheet and summary of consolidated income and earned surplus present fairly the financial condition of the companies at December 31, 1947 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles. During the year the companies, with our approval, changed their practices with respect to the valuation of inventories and with respect to providing for certain pensions as explained in Notes 2 and 3 to the summary of consolidated income and earned surplus; with these exceptions the financial statements have been prepared on a basis consistent with that followed in the preparation of financial statements as originally reported for the preceding year." (Accountant's report.)

Notes: "Inventories are stated at less than cost or market and are after deducting reserves of $4,898,696 in 1947 and $4,489,281 in 1946. In 1947 the companies adopted the practice of providing reserves to reduce inventories of flax, linseed oil, and bristle (which have not been further processed) to a last-in, first-out basis of computing costs (based upon quantities and costs at January 1, 1941 and subsequent purchases and consumption) instead of an average cost basis. The reserve deducted at December 31, 1947 represents the amount necessary to reduce to a last-in, first-out basis inventories of these commodities valued at $8,238,569 on an average cost basis. The reserve deducted at December 31, 1946, which was originally provided for possible market declines, approximates the amount which would have been required at that date to reduce the inventories of the three commodities to a last-in, first-out basis." (Footnote—Pittsburgh Plate Glass Co.)

(3) "During the period from January 1, 1942, to December 31, 1945, the corporation made annual provisions out of income to cover any charges that might arise which are applicable to that period. In 1947 (effective as of January 1, 1942) the corporation changed its practice of stating inventories from the basis of 'Approximate cost not in excess of market applied on the general basis of first-in, first-out,' substantially to approximate cost not in excess of market on the general basis of last-in, first-out.

"The change has been effected by the provision of a reserve and the new basis was *not* adopted in computing federal income taxes. The total inventory reserve as of December 31, 1947, amounted to $2,215,-000 and includes:

(1) The inventory reserve of $540,985.03 shown in the balance sheet at December 31, 1946.

(2) The amount of $825,014.97 transferred from reserve for contingencies to cover the additional amount required as of December 31, 1946, on the adjusted basis.

(3) The amount of $849,000 which is applicable to the year 1947 and is included in cost of products sold in that year.

(4) Such change (approved by us) had the effect of reducing net income for 1947 by the amount of $849,000.

"In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of Hercules Motors Corporation at December 31, 1947, and the results of its operations for the year, in conformity with generally accepted accounting principles which, except for the change referred to in the preceding paragraph, have been applied on a basis consistent with that of the preceding year." (Accountant's report—Hercules Motors Corp.)

The following three excerpts illustrate wording used in describing extensions of the Lifo method by corporations already employing the method:

(1) "Subject to the comments contained in the notes to financial statements as to the undetermined amount of reduction in the net income of the current year with respect to adjustments belonging to prior years as a result of the change in the methods of valuing "last-in, first-out" inventories (which we approve), it is our opinion, that the accompanying consolidated balance sheet and statement of consolidated income and accumulated earnings present fairly the position of Swift & Company and consolidated subsidiaries at November 1, 1947, and the result of their operations for the period from October 26, 1946 to November 1, 1947, in conformity with generally accepted principles of accounting applied on a basis consistent with that of the preceding year." (Accountant's report.)

"Inventories and federal income taxes—Swift & Company and its domestic subsidiaries adopted the elective

'Last-in, first-out' (Lifo) method provided in the Internal Revenue Code with respect to a substantial portion of the product inventories effective as of January 1, 1941, and 1942, the basic dates for quantities and prices. During the current year the company reached a complete understanding with the Bureau of Internal Revenue as to the basis and methods to be applied in the valuation of such inventories. This understanding also covered the amounts of inventories as redetermined through the calendar (tax) year 1946. The new methods differ from those previously employed, particularly as to certain processing costs which are now valued on the basis of current costs. The adoption of the new 'Lifo' methods resulted in reductions in net income for the current fiscal year of (1) approximately $2,700,000 covering adjustments of income taxes and inventories to December 31, 1946 (the close of the latest tax year) and (2) approximately $4,300,000 from the application of the new methods during the period from January 1, 1947 to November 1, 1947. A portion of these reductions in net income for the current fiscal year is applicable to prior fiscal years but the amount thereof (believed to be substantial) is impracticable of determination. Other product inventories of the Domestic Companies are valued at approximate market, less selling expense. The product inventories of the Canadian subsidiaries are valued in a modified form of the 'Lifo' method." (Footnote—Swift & Co.)

(2) ". . . in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change indicated in Note (4) which we approve."

"The last-in, first-out method is employed in costing out inventories of certain products in order to reflect current cost of production in cost of goods sold. In 1947, the method of costing out inventories of another commodity was changed to last-in, first-out. If this change had not been made, net income for the year 1947 would have been approximately $137,000 greater. As an extension of this method, a reserve has been provided so that the quantities by which normal inventories of these products have been depleted, when subsequently restored, may be carried at the previously established last-in, first-out valuation." (Footnote—The Borden Co.)

(3) ". . . applied on a basis consistent (except for the changes, described in Note G, in pricing inventories which we approve) with that of the preceding year." (Accountant's report.)

"Certain inventories, heretofore priced by commodities at the lower of purchase costs or replacement prices, have been priced beginning January 1, 1947, at purchase costs applied on a "last-in, first-out" basis. In addition, the method of applying the production or purchase cost of the other inventories on a "last-in, first-out" basis, was changed beginning January 1, 1947. These changes reduced inventories as of December 31, 1947, and income before provision for income taxes for the year approximately $1,800,000 in comparison with the method used in 1946." (Footnote—Jones & Laughlin Steel Corp.)

Prepaid Expenses and Deferred Charges—How Shown

Accounting Research Bulletin No. 30 (paragraph 4) included prepaid expenses in a listing of resources designated by the term "current assets." By recommending a broader interpretation of working capital, the bulletin advocated a change in the practice followed by many companies with respect to prepaid items. The statistics below indicate that 89 companies adopted the practice during the year of showing prepaid items in the current assets section.

1947	1946	
		All Shown in Non-current Section:
139	157	Headed "Deferred" with individual items described as "prepaid"
91	114	Title included words "prepaid" and "deferred"
96	133	Described as "deferred"
73	79	Described as "prepaid"
25	23	Miscellaneous titles
424	506	
		All or Part Shown in Current Assets Section:
59	3	Described as "prepaid"—none shown below
30	..	"Prepaid" in current — "Deferred" in non-current
4	3	Prepaid and deferred split between current and non-current
1	..	Described as "prepaid" and "deferred"
1	..	"Deferred"—split between current and non-current
95	6	
7	13	No such items separately shown
526	525	

The auditors of Pennsylvania Coal & Coke Company mentioned that prepaid royalties on coal mined on leased property were not included on the balance sheet.

Some companies showed their prepaid expenses as the first item after the current assets section. (See companies 108, 135, 333.)

Other Current Assets

Interesting or unusual items separately shown in current assets included the following for which separate contra entries appeared in current liabilities: (See Accounting Research Bulletin No. 30, paragraph 6.)

Federal income taxes withheld by employer (Grumman Aircraft Engineering Corp.)
Cash in special bank account for liquidation of sundry liabilities (District Theatres Corp.)
Special deposit for repayment of loan (Republic Aviation Corp.)
Special deposit for payment of dividends (See Companies 495, 139, 276)
Deposit with trustee for payment of debenture interest (A. G. Spalding & Bros., Inc.)
Cash on deposit for claim of dissenting preferred stockholders of former subsidiary (Pittston Co.)
Cash received as advance payments on orders (Ingersoll Rand Co.)
Cash or deposit with sinking fund trustees for redemption of debentures (American Tobacco Co.)
Special deposit for dividends, matured funded debt and interest (P. Lorillard Co.)

Other interesting items appeared separately in current assets under the following designations: (See Accounting Research Bulletin No. 30.)

Cash in banks, on hand, and in transit (Grumman Aircraft Engineering Corp.)
Margin deposits on grain futures (Pillsbury Mills, Inc.)
Deposits with postmasters and postage stamps on hand (McCall Corp.)
Gold bullion (Parker Pen Co.)
Special deposit and redemption funds—not restricted (Tide Water Associated Oil Co.)
Cash impounded, resulting from items in litigation (H. K. Porter Co., Inc.)
U. S. Treasury Bonds, held in escrow (Crown Cork and Seal Co. Inc.)
Revenue Stamps (Bayuk Cigars Inc., Jacob Ruppert)

Cash:

U. S. Currency
Foreign Currency (Atlantic Refining Co.)

Deposit by wholly owned subsidiary as security in connection with amount due by a foreign subsidiary to bank in foreign country (Loews Inc.)

Where construction or production contracts were in process the accrued receivables on partially completed work were shown in various ways. (See Accounting Research Bulletin No. 19.) Some examples are shown below:

Billings on account less accumulated costs (Grumman Aircraft Engineering Corp.)
Deliveries less progress payments allocated thereto (Boeing Airplane Co.)
Estimated recoverable expenditures and fees under cost plus a fixed fee contracts with the U. S. (Boeing Airplane Co.)
(See also 79, 180, 371, 86)
Contract work in process unbilled—at estimated billing amount (General Railway Signal Co.)
(See also 311, 317)
Accrued unbilled escalation charges (American Car & Foundry Co.)
Accumulated costs on engineering service contracts, less writedown to estimated realizable value (North American Aviation Inc.)

Other companies showed billings to and collections or advances from clients as a deduction from the total current assets as listed prior thereto. (E.g., Blaw-Knox Co., Otis Elevator Co., General Electric Co., Westinghouse Electric Co., and United Aircraft Corp.)

The Diamond Match Co. in the following footnote indicated a change in balance sheet classification during the year:

> "Standing Timber and British Match Corporation Investment ($1,449,808.20) previously included with current assets are reflected on the above balance sheets as being non-current."

The following are examples of non-trade receivables found in 1947 reports in current assets:

Recoverable federal and Canadian taxes on income (207, 515) (See Accounting Research Bulletin No. 23, page 192)
Recoverable excise taxes (Parke Davis Co.)
Excess profits taxes recoverable—increased cost in 1944 and 1945 of replacing basic stock consumed in 1943 (Consolidated Cigar Corp.—same amount in current assets in both 1946 and 1947. See also 498, 186, 403)
Postwar refund of Dominion excess profits taxes (Creamery Package Co.—split between current and non-current)
Federal income and excess profits taxes recoverable due to carryback of 1947 loss, less unpaid installments of 1946 income tax of

$160,821.04 for which abatement claim has been filed (D. Emil Klein)
(See also 120, 76, 370, 379, 518)

U. S. Government alcohol tax recoverable (Sharp & Dohme Inc.)

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

Renegotiation rebate claims (120, 371, 486)

Insurance claims (Scott Paper Co.—Jones & Lamson Machine Co.)

Charges paid on consigned goods (National Paper & Type Co.)

Conditional sales contract notes (Creamery Package Mfg. Co.)

Claims for reimbursement from governmental agencies of expenditures for rehabilitation and improvement of leased plant facilities (Reynolds Metals Co.)

Unconsolidated Subsidiaries

The statistics below on "Investments and Advances—How Shown" and "Valuation Basis" summarize information on subsidiaries only, whereas in last year's analysis, affiliates and associates were also included in the tabulations. Information under "Additional Disclosure" was compiled this year for the first time.

Investments and Advances—How Shown

1947	
335	No investments or advances shown
107	Investments only—no advances shown
59	Investments and advances combined
24	Investments and advances shown separately
525	

Valuation Basis

1947	
335	No investments shown
91	At cost (85)
	(2) Less dividends received (Bendix Aviation Corp.)
	(1) Reduced for losses (Nash Kelvinator Corp.)
	(1) Not reduced for loss (Continental Motors Corp.)
	(1) Less adjustment at acquisition date (Addressograph Multigraph Corp.)
	(1) Less goodwill at acquisition (shown separately) (District Theatres Corp.)
47	No basis of valuation indicated (39)
	(7) Less reserve (International Shoe Co.)
	(1) Less losses in prior years (Coca-Cola Co.)
26	At net equity (18)
	(6) Less reserve (John Morrell & Co.)
	(2) Net assets in 1939 (American Chain & Cable Co., Inc.)
11	"At cost or less"—"at or below cost" (10)
	(1) Subsidiary previously written off (Otis Elevator Co.)
12	At cost less reserve, amount of reserve shown (Corn Products Refining Co.)
3	At cost less reserve, amount of reserve not shown
12	At nominal value (The Ruberoid Co.)
1	At cost of net tangible assets at date of acquisition (Pittsburgh Plate Glass Co.)
1	Estimated realizable value (A. E. Staley Mfg. Co.)
1	At 1935 values, subsequent additions at cost (Paramount Pictures Inc.)
2	At par value of capital stocks (Hearst Consol. Publications Inc.)
1	At book value (F. W. Woolworth Co.)
1	At values determined by Board of Directors in 1940 (American Radiator & Standard Sanitary Corp.)
2	As revalued in 1936 (American La France Foamite Corp.), and in 1944 (Koppers Co. Inc.)
2	At net assets in 194— less undistributed earnings and reserves (Socony Vacuum Oil Co.)
548	

Additional Disclosure

The item "investment in unconsolidated subsidiaries," or an item with similar designation, appeared in the balance sheets of 190 companies. In the 26 cases where such investment was valued at net equity, the cost of the investment and change in equity during the current year were seldom shown. Although no specific amounts were mentioned, there were 7 instances in which the equity was indicated to be in excess of book value or income was stated to be in excess of dividends. In 3 cases the investment was considered to be immaterial in amount. Of the remaining 154 cases representing companies showing investments in unconsolidated subsidiaries at cost or some modification thereof, 51% showed the parent company's current equity in such subsidiaries' net assets, 46% showed the extent of increase or decrease in the parent's equity in the subsidiaries since date of acquisition, and 53% showed the difference between the parent company's equity in the subsidiaries' net income for the period and dividends currently received therefrom. With respect to the latter, it was preponderant practice to include only actual dividends received in the consolidated income. (See "Audit of Corporate Accounts" (pages 20-21).)

The auditor's certificate with the report of United Artists Theatre Circuit, Inc. took exception to the accruing of undistributed profits of affiliated companies by mentioning the exception parenthetically in the opinion paragraph as follows:

"In our opinion, . . . in conformity with generally accepted accounting principles and practices (except with respect to accruing undistributed profits of affiliated companies) applied on a basis consistent with that of the preceding year"

"Note A: . . . It is the Company's practice to accrue its proportion of profits or losses of affiliated companies less than 100% owned (whether owned direct or through wholly-owned subsidiaries) and of their subsidiaries, adding to investment account its proportion of such profits and subtracting therefrom its proportion of such losses and any dividends received from such companies. This proportion during the year ended August 31, 1947 was 66 2/3% as to one affiliated company and 25% to 50½% as to the remaining affiliated companies. Included in the latter group is Metropolitan Playhouses, Inc. which cannot pay dividends until it has retired notes payable due up to 1950, aggregating $1,355,075; the Company's proportion, arising since acquisition, of the consolidated surplus at August 31, 1947 of Metropolitan Playhouses, Inc. and its wholly-owned subsidiaries amounted to $481,554.95. Metropolitan Playhouses, Inc. and its wholly-owned subsidiaries and another affiliated company, Robb & Rowley United, Inc., in turn, have affiliated companies which they own 50% or less, but the Company has not accrued its proportion of the combined undistributed surpluses at August 31, 1947 of such latter affiliated companies."

Reynolds Metals Company indicated in a footnote the composition of the excess of net assets over cost of investment in subsidiaries as follows:

"Note E: . . . The equity in the unconsolidated subsidiaries' net assets, as shown by their audited balance sheets, was greater than the cost of the investments by $629,027.01, comprising the sum of $328,522.36 for undistributed earnings of such subsidiaries since acquisition, plus $300,504.65 for the excess of equity in net assets of such subsidiaries at dates of acquisition of their shares, over the cost of investments in such shares."

The Bristol Myers Company included undistributed profits of certain foreign subsidiaries in consolidated income but the assets of such subsidiaries were excluded from the consolidated balance sheet. The accountant's report stated with respect thereto:

"We accepted, after review, the financial statements of Rubberset Company, Ltd. (Canada) and Sun Tube Corporation of Canada, Ltd. as at November 30, 1947 and Bristol-Myers Company of Canada, Ltd. and Bristol Laboratories of Canada, Ltd. as at December 31, 1947 as certified by independent auditors. While the financial statements of the English, Australian and South African subsidiaries as at October 31, 1947 were not included in the consolidated balance sheet, the consolidated statement of income and earned surplus includes the net profits of these unconsolidated subsidiaries for the year ended October 31, 1947 as certified by independent auditors.

". . . in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, with the exception that the undistributed net profits of the English, Australian and South African subsidiaries were included in the consolidated income of the current year."

Information as to the net assets and net profits of unconsolidated subsidiaries, while usually presented in footnotes, was sometimes found only in the president's letter (e.g., Minneapolis Honeywell Regulator Co.)

J. C. Penney Co. showed investments and advances to subsidiary companies at amounts as shown by subsidiaries' balance sheets, separating advances from capital stock and surplus (See also Spencer Kellogg) and showing "undistributed surplus of subsidiaries" separately on the balance sheet from the parent company's earned surplus. The 1947 profits of subsidiaries were added as a final item in the income statement to an undesignated balance to arrive at an amount designated "transferred to surplus." (See also 20th Century Fox.) Other companies stated the amount of undistributed earned surplus of foreign subsidiaries in a footnote rather than on the balance sheet itself. (E.g., American Cyanamid Co., Walworth Co.)

Three companies mentioning the adjustment of investments in foreign subsidiaries were noted:

"At December 31, 1946, investments in the English and Canadian subsidiaries included undistributed profits of $1,528,103.81 ($1,478,059.41 since acquisition and $50,044.40 at acquisition) which have been charged to the reserve of $2,506,939.96 carried for the subsidiaries at that date. The balance of $978,836.15 in the reserve has been added to accumulated employed earnings". (footnote) . . . In our opinion, . . . applied on a basis consistent with that of the preceding year, except for the manner of the treatment of foreign investments, which we approve, as described in Note A accompanying the financial statements". (Accountant's report—Underwood Corporation.)

"Since the German subsidiary is still in the hands of allied military authorities, none of our investment of $3,253,000 there has been reinstated. In the Philippines, while there has been little recovery of prewar assets, operations in 1946 and 1947 were sufficiently profitable that the Philippine subsidiary's net assets now exceed our prewar investment. Consequently, our investment of $1,195,000 in the Philippine subsidiary was fully reinstated in 1947." (President's letter—International Harvester Co.)

"The net assets of the Corporation and its subsidiaries located in Austria, Czechoslovakia, France, Germany, Hungary, Italy, Japan, Poland, and the Balkan countries continue to be reserved to $1.00 on the balance sheet, due to the unsettled conditions in these countries; but the Corporation has adjusted its investment in accordance with information received from these countries. The adjustment in 1947 amounted to $1,582,913.04, which was charged to the reserve for foreign investment provided in prior years. Final valuation of the Corporation's investment in these countries cannot be determined until the present uncertainties are clarified and representative foreign exchange rates become established." [President's letter — International Business Machine Corp.]

Cash or Marketable Securities Segregated as Non Current Assets

1947

123 Deposits made with other parties:
- (19) Under workmen's compensation laws (W. Virginia Pulp & Paper Co.)
- (17) Described as deposits—purpose not stated (General Railway Signal Co.)
- (16) Insurance companies (Gaylord Container Corp.)
- (11) Insurance deposits (Jacob Ruppert)
- (10) Government agencies (includes workmen's compensation) (Blaw-Knox Co.)
- (9) Trustees (Universal Leaf Tobacco Co.)
- (5) Lessors (Loews Inc.)
- (4) Parties to contracts (RKO Corp.)
- (3) Security for performance of obligations (North American Aviation Inc.)
- (2) Banks (Gillette Safety Razor Co.)
- (2) Landlords (W. T. Grant Co.)
- (2) For payment of dividends (Regal Shoe Co.)
- (2) In escrow under promissory note (Artloom Corp.)
- (2) For payment of matured and called bonds and interest coupons (Hearst Consolidated Publications Inc.)
- (1) Escrow agent re royalty payments (Follansbee Steel Corp.)
- (1) Under milk control laws (Borden Co.)
- (1) Travel advances (National Cylinder Gas Co.)
- (1) Cash deposited for ship replacements (Libby McNeil & Libby)
- (1) For payment of property taxes (Glenn L. Martin Co.)
- (1) With Treasury Dept.—to stop running of interest (W. Kidde & Co.)
- (1) Deposit under contract for raw material purchases (Harshaw Chemical Co.)
- (1) As guarantee for completion of improvements (Lerner Stores Corp.)
- (1) Rent and other (District Theatres Corp.)
- (1) Debenture retirement (American Window Glass Co.)
- (1) Preferred stock retirement (Craddock Terry Shoe Corp.)
- (1) Pension trust funds (Craddock Terry Shoe Corp.)
- (1) Pledged with surety companies under indemnity bonds (U. S. Potash Co.)
- (1) To secure self insurance under state law (Pittston Co.)
- (1) To secure loan of a non-affiliated company (Pittston Co.)
- (1) Deposit on tanker purchase (Cities Service Co.)
- (1) Equal to restricted earnings of pipe line subsidiaries (Gulf Oil Co.)
- (1) With utilities (American Asphalt Roof Corp.)
- (1) With War Asset Administration (Struthers Wells Corp.)

74 Funds held by corporations earmarked to meet specific expenses:
- (27) Plant expenditures (Congoleum Nairn Corp.)

(8) Pension or retirement liabilities (American Banknote Co.)
(7) Insurance reserves (contra)—(Electric Storage Battery Co.)
(5) Dividend, sinking fund, or interest payments (Cities Service Co.)
(5) Preferred stock retirement fund (Copperweld Steel Co.)
(2) Postwar rehabilitation (contra) (Jones & Laughlin Steel Co.)
(2) Funds provided by Government agency for extension of metal producing facilities (contra) (Anaconda Copper Co.)
(2) Insurance claims (Phelps Dodge Corp.)
(2) Contingencies (Permutit Co.)
(2) Working funds (Crown Central Petroleum Corp.)
(1) Replacement fund — fire loss (United Merchants & Manufacturers)
(1) Expenditures arising out of the war (U. S. Steel Corp.)
(1) Self insurance (Lone Star Cement Co.)
(1) Cash on deposit for building replacement (contra) (Gaylord Container Corp.)
(1) General Company Welfare Fund (contra) (International Business Machines Co.)
(1) Insurance and pension funds (contra) (Air Reduction Co.)
(1) Adjustments and contingencies (Allis Chalmers Mfg. Co.)
(1) Cash earmarked for re-equipment under British tax law (American Safety Razor Co.)
(1) Workmen's compensation fund (claims contra—Penn Coal & Coke Corp.)
(1) Tanker replacement (contra) (U. S. Industrial Chemicals Inc.)
(1) Debenture retirement (Cities Service Co.)
(1) Special trust funds (Atlantic Refining Co.)

14 Funds held for other parties:
(4) Store managers deposits (contra) (G. R. Kinney Co.)
(3) U. S. Government (contra) (Monsanto Chemical Co.)
(3) Employees savings bond fund (Hayes Mfg. Co.)
(1) Employees Christmas club and bond purchase plan (contra) (Bayuk Cigars)
(1) Cash advanced by customer less (equal) contractual liability therefor (Granite City Steel Co.)
(1) Deposits on contracts (Higgins Inc.)
(1) Distributions withheld from foreign stockholders (Kennecott Copper Co.)

11 Funds not readily available:
(2) Funds or deposit in a "blocked sterling" account in England (Blaw-Knox Co.)
(2) Cash in banks, subject to exchange restrictions (General Railway Signal Co.)
(1) Deposits in Canadian Bank (Willys Overland Motors Inc.)
(1) Cash in excess of operating needs subject to exchange restrictions in foreign countries (General Motors Corp.)
(1) Dividends of English subsidiary in banks abroad (Briggs Manufacturing Co.)
(1) Net current assets in foreign countries (restricted as to withdrawal) (Brunswick Balke Collender Co.)
(1) Postwar refund of foreign excess profits taxes restricted by government regulations (Gillette Safety Razor Co.)
(1) Amount owing by British subsidiary not at present collectible because of exchange restrictions (Chicago Pneumatic Tool Co.)
(1) Foreign currency set aside for construction purposes (Kennecott Copper Co.)

8 Segregated but purpose not explained

Cash Surrender Value of Life Insurance—How Shown

Accounting Research Bulletin No. 30 recommended, under its concept of the nature of current assets, the exclusion from current assets of cash surrender value of life insurance policies. In the 525 reports studied a trend in the direction of the bulletin's recommendation was noted. 87% of the reports containing this item showed it below current assets.

1947	1946	
428	424	No such items shown
13	19	Shown in current assets
84	82	Shown below current assets
525	525	

[For examples of change of policy see reports of companies 174, 331, 324, 448, 508.]

Emergency Facilities Covered by Necessity Certificates—How Currently Treated

Of 17 companies which disclosed in their 1946 reports that emergency facilities had not been completely amortized in their accounts in a manner similar to their treatment for tax purposes, only 8 companies made any reference to their policy with respect to emergency facilities in their 1947 reports. (See companies 127, 421, 181, 420, 33, 294, 518, 343.)

During the year 1947, the Miller Manufacturing Company was the only company among those tabulated to reverse previous amortization charges and substitute therefor depreciation at "normal" rates (see Accounting Research Bulletin No. 27). A footnote and the related auditor's report described the change as follows:

> "Reversal of amortization of facilities acquired under necessity certificates and substitution of normal depreciation: As of October 1, 1946 the amortization previously recorded on facilities in use in peacetime operations which were acquired under necessity certificates was reversed and depreciation at normal rates was substituted therefor. The adjustment resulted in credits to capital surplus and earned surplus which aggregated $241,105.21.
>
> "Applied on a basis consistent with that of the preceding year except for the reversal, which we approve, of amortization on facilities acquired under necessity certificates and substitution of depreciation at normal rates as explained in Note 3."

(Although not included in the sample of 525 corporations tabulated, it was noted that Allied Products Corp. also restated emergency facilities during the year.)

The reason for not restating emergency facilities was mentioned by the president of Reynolds Metals Co. as follows:

> "In last year's annual report, reference was made to an engineering survey which was undertaken for the purpose of determining whether the company should reinstate in the accounts any excessive amortization which may have been taken previously on facilities acquired during the war period under certificates of necessity. This engineering survey reported that an adjustment for excess amortization in the amount of $13,866,239 could be made based on the probable useful service life of equipment. Although the asset value of equipment shown on the balance sheet would be substantially increased by recording the adjustment, it was decided that the adjustment should not be recorded as a conservative measure."

A number of companies provided information on the amount of emergency facilities and pointed out that no depreciation thereon was reflected in the income statement. (E.g., footnote references—Jones & Lamson Machine Co., P. R. Mallory & Co., Inc., Square D. Co.; mentioned in president's letter—The Cessna Aircraft Corp.)

The Cramp Shipbuilding Company indicated that taxes relating to emergency facilities of an inactive company were in dispute.

Property—Basis of Valuation

While only two changes in the method of valuation of fixed assets were noted during the year in the reports tabulated, the 1947 statistics quoted below include minor rearrangements of the previous year's classifications as well as differences in degree of disclosure during the two years. Where appraisals or revaluations were mentioned, there was seldom any disclosure as to whether such values were in excess of or lower than cost.

1947	1946	
363	353	Cost
27	25	Less than cost
12	15	Book value
67	78	Based on appraisals
20	13	Revalued—no appraisal indicated
73	68	No basis indicated
3	2	Nominal
1	13	Acquisition values, subsequent additions at cost
5	5	Par of securities issued therefor
7	4	Miscellaneous
578	576	

A breakdown of the major classes in the above summary follows:

Cost

322	326	At cost
2	3	As determined for tax purposes

1947	1946	
		(Worthington Pump & Machinery Corp.)
12	10	Substantially at cost (or similar) (Hygrade Food Products Corp.)
5	2	At approximate cost (Pacific Mills)
7	6	Substantially at cost to predecessor companies (National Supply Co.)
1	1	On the basis of cost, based on investment in securities of subsidiary (Archer Daniels Midland Co.)
..	2	Estimated cost
..	1	Including excess of subsidiary cost over book value (Follansbee Steel Corp.)
2	2	At cost to acquired companies
1	..	Major portion based on cost (Eaton Mfg. Co.)
2	..	At acquisition cost (General Baking Co.)
1	..	Complex description of cost determination (Republic Steel Co.)
1	..	Amounts entered in accounts at time of formation (through agreement of consolidation) plus cost of additions, etc. (Gaylord Container Corp.)
3	..	At cost including amounts at which acquisitions for stock were recorded (Cuneo Press Inc.)
1	..	Cost determined by independent appraisal (The Arundel Corp.)
1	..	Cost represented by stated value of stock issued (Globe Steel Tubes Co.)
1	..	At cost less depreciation as compiled by the American Appraisal Co. (Haloid Corp.)
1	..	At cost (including amounts shown on books of predecessor companies at date of acquisition) (Koppers Co.)

Less Than Cost

1947	1946	
10	10	At cost or less (Inland Steel Co.)
1	1	At cost less reduction in book value (Libbey Owens Ford Glass Co.)
3	3	At or below cost—not in excess of cost (J. C. Penney Co.)
..	1	At cost less amortization
1	5	Principally at cost, but in part at lower valuations established by companies (Borden Co.)
1	1	At cost, including acquisitions for capital stock, less reductions in 1932 and 1939 (U. S. Gypsum Co.)
..	1	At cost less writedown by board of directors
1	1	At cost after charging off all expenditures for alterations and financing (McGraw-Hill Publishing Co.)
..	1	At cost less writedown of net appraisal
5	1	At cost less writedown (Federated Dept. Stores Inc.)
1	..	At less than cost in the aggregate (Armour & Co.)
1	..	Complex description (International Paper Co.)
1	..	At cost less allowance for usage (chills & flasks—Blaw-Knox Co.)
1	..	At less than cost after allowing for appreciation prior to 1910 (Yale & Towne Mfg. Co.)
1	..	At cost or less as determined by company engineers (Beatrice Foods Co.)

Book Value

1947	1946	
2	7	Book value—subsidiary additions at cost (Westinghouse Airbrake Co.)
2	3	Book value of companies merged, subsidiary additions at cost (Wheeling Steel Corp.)
1	1	As stated on the books after applying special reserves from capital surplus (Gillette Safety Razor Corp.)
1	1	At amount shown on predecessor books (Struthers Wells Corp.)
2	1	Book value of companies acquired, less writedowns (Remington Rand, Inc.)
1	1	Book value at time of acquisition of subsidiary company (Jones & Laughlin Steel Corp.)
..	1	Book figures of certain properties and equipment reduced as of...
1	..	Gross ledger amounts on books of subsidiaries (Sunshine Biscuits Inc.)
1	..	At amounts recorded at dates of acquisition (Container Corp. of America)

1	..	At aggregate of book values (Cities Service Co.)

Based On Appraisals

46	71	Based on appraisal, subsequent additions at cost
13	2	Appraisal or engineer's estimates
..	1	Inventories and valuations of independent engineers on basis of 3/1/13 values
..	2	Estimated appraisal values plus additions at cost
1	1	Based on appraised sound values in 1927 or prior, discounted approximately 20%, plus subsequent additions at cost and less special writeoffs and reserves (General Cable Corp.)
1	..	At sound values as appraised as of dates of acquisition, less certain adjustments (National Dairy Products Corp.)
1	..	Estimated sound values (Allis Chalmers Mfg. Co.)
1	..	Appraised value of land acquired in exchange for capital stock at organization (Goldblatt Bros. Inc.)
1	..	Estimated reproduction cost (1934) (Artloom Corp.)
1	..	Appraised at liquidation value (1930), subsequent additions at cost (American Agricultural & Chemical Co.)
1	1	In excess of cost per appraisal (American Republics Corp.)
1	..	Written up per 1944 appraisal (Pathe Industries Inc.)

Revalued—No Appraisals Indicated

1	1	Estimated sound values or amounts assigned thereto at date of purchase (City Stores Co.)
7	1	At values adjusted to ....; additions at cost (Paramount Pictures Inc.)
1	2	Revalued at prior date (York Corp.)
..	1	Values fixed in connection with reorganization of predecessor
1	1	Going concern values as determined by the companies at date of organization and later adjusted (Booth Fisheries Corp.)
1	3	As adjusted by stockholders (P. Lorillard Co.)
4	2	At value fixed by directors (Richfield Oil Corp.)
2	1	As revalued by the management as of ...., subsequent additions at cost (Collins & Aikman Corp.)
1	..	Difference between cost and underlying net assets applied to assets (Standard Oil Co.—New Jersey)
1	1	At cost except for increased valuations prior to organization of present parent company (Johns Manville Corp.)
1	..	Written up in 1934 (Art Metal Construction Co.)

Miscellaneous

1	1	Estimated useful value (Ainsworth Manufacturing Corp.)
..	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	2	March 1, 1913 U. S. Treasury Department valuations (Philadelphia Dairy Products Corp.)
1	..	Based on figures established in 1933 for income tax purposes, additions at cost (Dwight Mfg. Co.)
1	..	Amounts assigned upon acquisition (Allis Chalmers Mfg. Co.)
1	..	(Molds) at amount established as reasonable in prior years—not depreciated (Anchor Hocking Glass Corp.)
1	..	At depreciated cost as of 1927 plus subsequent additions at cost (American Bakeries Co.)

The Hayes Manufacturing Corporation changed its basis of valuation from a 1932 appraisal at "net sound values" to a cost basis described as follows:

> "Prior to October 1, 1946 property, plant and equipment of the Company was carried at the net sound value as appraised as of April 30, 1932 by the American Appraisal Company (except that land with a book value of $198,350.18 was not appraised at that time) plus subsequent additions at cost and less subsequent retirements and provision for depreciation and amortization. As of October 1, 1946 the carrying value of property, plant and equipment (except for land and fully amortized emergency facilities) was adjusted to

cost less depreciation based on a retroactive cost appraisal and estimates of the useful lives of the assets, as developed by The American Appraisal Company. (Footnote.)

"... in conformity with generally accepted accounting principles and practices, which, except for the change, of which we approve, in the Company's accounting for property, plant, and equipment and depreciation thereof as described in Note 3 to the financial statements, were applied on a basis consistent with that of the preceding year." (Accountant's report.)

The American Sugar Refining Co. indicated in a footnote that a restatement had been made:

"As a result of a study of all refinery plants, the company has established the costs at dates of acquisition of the various component plant assets, and the plant and related reserve accounts have been restated accordingly in 1947."

"In conformity with generally accepted accounting principles applied on a basis consistent (except as to adjustments of fixed assets and various reserves, which we approve) with that of the preceding year." (Accountant's report.)

American Brake Shoe Co. and General Aniline & Film Corp. mentioned the replacement value of fixed assets as determined for insurance purposes.

American Republics Corp. and Universal Cyclops Steel Corporation indicated that certain fixed assets were written up in 1933 and 1928 respectively.

The American Appraisal Co. determined cost and depreciation values for the Haloid Corporation.

Armstrong Cork Co. showed the depreciation reserve combined with a revaluation reserve set up in 1933. (See also Briggs Manufacturing Co.)

The Haskelite Co. included in plant, property and equipment a contract for the purchase of plant property, showing the contract liability in the non-current section.

Yale & Towne Manufacturing Corp. showed plant and equipment "net after providing adequate reserves . . . against possible losses, depreciation and obsolescence."

The New York Air Brake Co. showed depreciable assets at 1941 reproductive costs, plus additions at cost.

Chrysler Corporation stated today's replacement cost in the president's letter, while A. B. Farquahar quoted the appraised sound value of property in a footnote.

The accountant's certificate in the Cliff Mining Co. report stated that the SEC had requested that assets be shown at an amount which more nearly represented fair value. "In the interests of conservatism" the company placed a nominal value of $1 on real estate holdings. The accountant stated that the financial statements "conservatively" presented financial condition.

The Marion Power & Shovel Company during the year eliminated appreciation resulting from an appraisal of fixed assets at date of organization in 1927, reducing the assets to a cost basis, and charging appreciation surplus.

Allied Stores Corp. indicated in a footnote that properties held by subsidiaries, at dates of acquisition of their capital stocks, were reduced for part of the excess of the equity in net assets of certain subsidiaries at dates of acquisition over the cost of their capital stocks.

The following footnotes contained interesting descriptions of fixed asset valuations:

(1) "Plant and Equipment Valuation. The gross values at which plant and equipment are carried in the consolidated accounts have been determined from and based upon the findings of the United States Bureau of Corporations and accepted by the Bureau of Internal Revenue of the Treasury Department, as at the initial date of organization of the Corporation in 1901, plus actual cost of additions since, and less credits for the cost of properties sold, retired or disposed of otherwise. The depreciated amount shown in the consolidated statement of financial position for plant and equipment represents that portion of the gross value which is a cost applicable to operations of future periods, and does not purport to be either a realizable or replacement value." (United States Steel Corporation.)

(2) "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." (General Mills Inc.)

(3) "The total value for fixed capital assets represents values based on appraisals as of November 4, 1936, and January 1, 1944 (less depletion and depreciation to date) as shown by the records. The accounts do not show separately the book values of predecessor companies for assets and reserves transferred in accordance with the plan of reorganization at November 4, 1936, and the accounts do not show separately the amount of appraisal values in excess of the book values of predecessor companies so shown at the time of transfer and used in the financial statements to December 31, 1943." (Argo Oil Corp.)

(4) "The amount stated herein for fixed assets before deducting reserves is based, with minor exceptions, upon cost represented by cash expenditures and securities of the Corporation taken at amounts not in excess of principal amounts of bonds, par value of preferred stocks and quoted market prices of common stock, and upon amounts reflected by books of constituent and subsidiary companies at dates of acquisition by the Corporation, which amounts were based in part upon appraisals. All of the emergency Canadian facilities amounting to $764,765.55, are fully reserved at December 31, 1947." (Republic Steel Corp.)

(5) "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. Some of the buildings included in the amount shown for buildings, machinery and equipment are located on land leased principally from railroads under varying arrangements whereby the leases are renewed from time to time. 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." (Atlantic Co.)

Nash Kelvinator Corp. restored fully depreciated assets and the corresponding reserve accounts to the balance sheet during the year.

Land

1947	1946	
245	246	None shown separately
280	279	Shown separately from buildings and equipment
525	525	

Among those instances where land was shown separately in 1947, the following were included:

15 Land and improvements (See companies 69, 153, 157, 359, 374)
5 Land and water rights (International Shoe Corp.)
2 Land (including timber lands) (Mead Corp.)
2 Land, leases, easements, rights (Standard Oil Co.—N. J.)
1 Land, mineral deposits and timber (U. S. Gypsum Co.)
1 Plant sites and facilities (Byron Jackson Co.)
1 Land and railroad siding (Dixie Cup Co.)
1 Land and paving (Peden Iron & Steel Co.)
1 Lands & leases (Argo Oil Corp.)
1 Land and water and mineral rights (U. S. Potash Co.)
1 Land and timberlands including pulp leases, logging rail & truck roads and camps (Crown Zellerbach Corp.)
1 Mineral properties, land and water rights (Colorado Fuel & Iron Corp.)

Geo. E. Keith Company showed on its balance sheet:

"Land at cost less write down of $7,251.86 . . . $114,-635.74."

The Federal Machine and Welder Co. showed separate classifications for "land" and "land (subject to amortization)."

The Haskelite Manufacturing Corporation showed:

"Land—at cost, less amortization of $10,050.00 . . . $36,198.48."

Goodwill

While approximately 71% of the reports tabulated made no reference whatsoever to goodwill, 23% showed such an item at nominal valuation and the remaining 6% valued it in excess of cost. The nature or source of the "goodwill" on which the above percentages were based was not indicated. [See Accounting Research Bulletin No. 24, "Accounting for Intangible Assets."]

122 At nominal valuation
 38—Shown individually
 84—Grouped with other intangibles
32 Valued in excess of nominal
 6—Individually (see companies 88, 148, 166, 221, 394, 458)
 26—Grouped with other intangibles (e.g., companies 410, 184, 269)
371 Goodwill not mentioned
525

In addition to the above, 9 instances were noted in which the excess of a parent company's investment in a subsidiary over its equity in the net assets of such subsidiary at date of acquisition was shown separately as an asset. In these 9 instances the term "goodwill" was not used, the nature of the asset being clearly stated. (See companies 71, 127, 174, 177, 212, 306, 314, 322, 487.)

Both Chrysler Corp. and General Cable Corp. showed goodwill on their balance sheets at nominal valuation in 1946 but omitted it entirely in 1947.

The president of Wm. Wrigley Jr. Co. gave the following explanation for writing off goodwill:

"Goodwill has been carried at a value of $6,000,000 on the company's balance sheet since 1910. While the true value today to a going business is probably many times that figure, in the interest of sound and conservative accounting your board of directors has taken action to write this account down to a nominal value of $1, thus following the practice of many other companies with respect of this item." (A footnote indicated that "goodwill carried on balance sheet at $6,000,000 since 1910 has been written down to $1 in 1947 by charge of $1,840,424 against paid-in surplus and $4,159,575 against accumulated earnings.")

The following excerpts describe varying treatments of goodwill resulting from the consolidation of subsidiaries: (See last two sections of Accounting Research Bulletin No. 24)

(1) "Except for the change referred to in Note A to the financial statements which we approve, the accounting principles were applied on a basis consistent with that of the preceding year. (Accountant's report.)

"Goodwill which was purchased in connection with the acquisition of two groups of stores in 1946 and which was being amortized by charges to operations at a rate of 5% per annum was written off against earned surplus as at May 31, 1947 pursuant to a resolution adopted by the board of directors.

"This goodwill has substantial value, but since it reflected only a small part of the total goodwill of the corporation, and as it has not been the practice of the corporation to capitalize goodwill, it was felt that it should be written off." (United Cigar-Whelan Stores Corporation—footnote.)

(2) ". . . consistent with that of the preceding year except for the change in principle followed with respect to amortization of intangibles, as explained in Note 2 to the financial statements, which change we approve." (Accountant's report.)

"As indicated in the above summary, the policy of amortizing the 'premium' on investments in consolidated subsidiaries over a ten year period was discontinued as of September 30, 1947. The unamortized premium at such date of $1,308,865 together with $36,799 premium on a subsidiary acquired subsequent to September 30, 1947, was written off as a special charge against income in the year 1947 as shown in the accompanying statement of consolidated profit and loss. Had no change been made during 1947 in the accounting policy regarding amortization of such 'premiums', the net income for the year 1947 shown in the accompanying statement of consolidated profit and loss would have been greater by $1,304,816." (Koppers Company, Inc.)

(3) "Although this difference, representing primarily intangible assets of a permanent nature, is in the opinion of the management fully substantiated by present values, it has been written off in full in accordance with conservative accounting and financial practice." (Parenthetical note in surplus statement of Avco Manufacturing Corp.)

(4) "Goodwill, representing the excess of purchase price of companies over their net assets at the respective dates of acquisition, has heretofore been amortized at the rate of 10% per annum, which is now considered excessive and, at February 1, 1947, was reduced to 3% per annum. If the former rate had been continued, net income for the year would have been less by $94,000. . . . During the 26 week period ended August 2, 1947, the Corporation acquired the entire capital stock of John Taylor Dry Goods Company for a total purchase price of $2,670,818.81, which exceeded the value of the net assets of that company at January 31, 1947 by $1,039,816.44, which amount was added to 'leases, copyrights, trade-marks, goodwill, etc.' (Footnote.)

". . . in conformity with generally accepted accounting principles. Except for the change in method of amortizing goodwill referred to in Note 3, which we approve, such accounting principles have been applied on a basis consistent with that of the preceding year." (Accountant's report—R. H. Macy & Co., Inc.)

(5) "Goodwill is recognized only in connection with the acquisition of a going business, in which case it represents the difference between the purchase price and the value ascribed to the net tangible assets acquired. It is not the Corporation's general practice to amortize items carried in this account.

Goodwill as reported in the balance sheet is not intended to represent an appraisal, even in a minor degree, of the intangible value of an outstanding and highly specialized manufacturing and selling organization with its executive personnel, operating all over the world." (General Motors Corporation — president's letter.)

(6) "The accompanying statements have been prepared on the same basis of accounting as the corresponding statements for the period from reorganization, May 17, 1946 to April 30, 1947, with the exception that premium on acquisition of subsidiaries carried as a separate asset on the April 30, 1947 consolidated balance sheet, in the accompanying statements has been added to the land and buildings accounts of the respective subsidiaries on a pro-rata basis and depreciation has been computed on the increased asset value of buildings." (Sheraton Corporation of America—president's letter.)

(7) "Property, plant and equipment and trademarks, 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." (The Quaker Oats Company—footnote.)

(8) "The carrying value of buildings in the accompanying consolidated balance sheet includes an amount of $109,251.39 which represents the excess of cost of the capital stocks (acquired from non-affiliated persons) of two wholly-owned subsidiary companies over the underlying book value shown by such subsidiaries' books. On evidence satisfactory to the management, such excess is deemed to be a portion of the cost of

the buildings of such subsidiaries. Depreciation has been computed on such increased amount and charged to operations.

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

(9) "It is the company's regular practice to reflect in the balance sheet in a subsection under capital any difference between cost of an investment in the capital stock of a consolidated company and its underlying net assets at date of acquisition." (Footnote—Standard Oil Co. of N. J.)

Other comments with respect to treatment of intangibles follow:

(1) "Excess of redemption value of preferred stock of Janssen Dairy Corporation held publicly, over the consideration therefor—first preferred stock and cash (including estimated payments to dissenting stockholders)—appropriated in the elimination of the remaining net intangibles with respect to Janssen Dairy Corporation upon its merger into the company as of December 31, 1947 . . . $545,724.17"

(Shown in Paid-In Surplus Statement-final amount not extended—Philadelphia Dairy Products Co. Inc.)

(2) "In order to simplify the balance sheet, the unamortized intangible assets balance of $469,250 as of January 1, 1947, was charged to earned surplus. This account, amounting to $1,248,013 was placed on the books of the Company in 1922 and has been reduced by amortization. This write-off has no effect on the Company's assets or earning power but does eliminate the annual charge of $31,000 to amortize this account. (President's letter.)

"As of January 1, 1947, the Company charged against earned surplus the balance of intangible assets which, until December 31, 1946, it had been writing off to profit and loss at $31,000 per year.

"In our opinion . . . in conformity with generally accepted accounting principles applied (except for the change in policy explained in the preceding paragraph, which we approve) on a basis consistent with that of the preceding year." (Accountant's report—Maryland Drydock Co.)

(3) Trade-marks and goodwill, amounting to $34,382,420 acquired since the formation of the Company in 1933, have been reduced to a net carrying value of $13,000,000 at December 31, 1947 by applying thereto a reserve created by charges of $13,322,557 to capital surplus and contingency reserve and $8,059,863 to earned surplus." (Footnote—Sterling Drug Inc.)

(4) "In 1944, Western Carloading Co., Inc., a consolidated subsidiary, purchased the business and goodwill, together with certain furniture & fixtures, of Western Carloading Co., a partnership, for $350,000 and a share of the profits of Western Carloading Co. Inc. during the six years ending July 31, 1950.

Of the $350,000 mentioned above, $334,948 represented the cost of rights and goodwill and is being amortized over a period of five years from August 1, 1944. The portion of the purchase price based on the profits of the subsidiary increases the cost of such rights and good will and such increased cost for each year is being currently charged off as additional amortization." (Footnote—United States Freight Co.)

(5) "The decrease in the reserve for patents, copyrights and goodwill resulted from the fact that certain patents and patent rights carried at some $23,500,000 became fully amortized during the year and were charged against the reserve. (Footnote—Standard Oil Co. of N. J.)

(6) "The question of amortization of patents has been a controversial one with the Internal Revenue Department for many years. In an effort to get this settled in 1947 the Company instituted suit against the government, but before the case went to trial it was settled out of court, and a valuation of $1,250,000 allowed for the patents owned by subsidiaries liquidated and merged in December 1934. This settlement results in a reduction of our liabilities for federal taxes in the amount of $350,000, shown as an adjustment in our earned surplus account. This settlement will also result in a reduction of taxes in future years. On the balance sheet, it will be noted, we carry our patents and goodwill at $1 although in terms of actual cost and value they are one of the most important assets in the Company's possession." (McGraw Electric Company—president's letter.)

(7) ". . . consistent with that of the preceding year, except for the changes in the application of accounting principles explained in Note 1 of Notes to the Financial Statements, which changes have our approval." (Accountant's report.)

"Prior to the year 1947 it was the policy of the company to amortize the cost of non-producing leaseholds by proportionate charges to income over the terms of the respective leaseholds. Effective January 1,1947, this policy was changed to provide for the write-off of the cost of such leaseholds over their respective terms or over a period of five years, whichever shorter. The effect of such change is to decrease net income for the year approximately $1,325,000." (Shell Union Oil Corporation—footnote.)

(8) "The intangible assets described as circulation, press franchises, reference libraries, and goodwill are stated at valuations which in the case of the newspaper publishing subsidiaries acquired when the Company was formed in 1930, represent valuations made at or prior to that time, and, in the case of the properties subsequently acquired, represent the portion of the purchase price allocated to the intangibles, or (as to Illinois Publishing & Printing Co.) original cost." (Hearst Consolidated Publications Inc.—footnote.)

Miscellaneous Types of Assets or Transactions

The following tabulation is intended to provide reference to reports in which certain miscellaneous types of assets or transactions were separately disclosed or discussed. Where similar information was compiled in 1946, the corresponding number of instances are given for that year.

1947	1946	
58	53	Construction in progress
67	57	Leasehold improvements
		(49) As fixed assets (General Shoe Corp.—Pepsi Cola Co.)
		(11) As deferred charge (Follansbee Steel Co., Devoe & Raynolds Co., Inc.)
		(2) Sundry asset (National Cylinder Gas Co.)
		(3) Separate item (American Stores Co.)
		(1) At nominal value (Walgreen)
		(1) Split between fixed asset and deferred charge (J. J. Newberry Co.)
24	27	Property not used in operations (see companies 80, 518, 214, 40, 269)
11	5	Fully depreciated property (71, 80, 518)
9	..	Sale-and-lease arrangements (201, 279, 294, 431, 437, 450)
10	..	Standing timber (less depletion) (172, 257, 361, 434)
6	..	Employees housing (193, 196, 269)
4	..	Mineral deposits (347, 302, 248)
3	..	Leased machinery (145, 207, 494)
3	..	Exchange or trade memberships (241, 398)
1	..	Bottles and cases (Atlantic Co.)
1	..	Obligations of S. American countries payable in their currency (Lone Star Cement Corp.)
2	..	Growing crops (Libby McNeill & Libby)
1	..	Development expenses (Marathon Corp.)
1	..	Rental machines under lease and in construction (Excello Corporation)
1	..	Refinancing and recapitalization expenses (Drackett Co.)
1	..	Cost of option for purchase of stock (Miller Mfg. Co.)
2	..	Equity in joint theatre and realty ventures (United Artists Theatre Circuit Inc.)

The A. M. Byers Co. showed the estimated cost to complete construction in progress parenthetically on the balance sheet.

The Bausch & Lomb Optical Co. showed leasehold improvements as a deferred charge in 1946 and as a capital asset in 1947. This item was found most often in the balance sheets of retail establishments.

The president of Federated Department Stores Inc. gave the following explanation of a sale-and-lease arrangement:

> "Since we were able to negotiate for continued occupancy at low cost, we were motivated to sell these properties in order to free capital for use in the merchandising phases of our business, where it can earn a far greater return than is possible from the simple ownership of real estate."

Current Liabilities

(See Accounting Research Bulletin No. 30, paragraphs 7 and 8.)

Taxes

The following statistics indicate the manner in which the liability for federal income taxes was shown in the current liabilities section of the balance sheet. Many instances were noted wherein taxes other than income taxes were shown separately. [See Accounting Research Bulletin No. 23, page 192, paragraph on "Income Taxes in the Balance Sheet."]

1947	
288	Federal taxes shown separately
145	Federal and other income taxes combined
65	Income and other taxes combined
15	No federal tax provision shown
15	Federal taxes combined with non-tax items

Of those reports showing Series C tax notes as a separate item, approximately 85% showed them deducted from the tax liability shown in the current liabilities section. There was no method of determining how many balance sheets included tax notes as part of the item of marketable securities when they were not separately disclosed.

A large number of companies used the term "reserve" in the current liabilities section in connection with tax liabilities. (See Accounting Research Bulletin No. 34, page 273, on "Use of Term 'Reserve.' ") Practice was divided as between showing prior year income tax liabilities combined with the current provision or as a separate item in the current section.

Continental Baking Co. computed its prior years' tax liability to cover the estimated maximum liability, indicating that the provision would be substantially greater than required if the company's position was maintained with respect to the amount of excess profits credit to be used in computing the excess profits tax liability for certain prior years.

California Oregon Power Co. changed its tax accrual from the calendar year of assessment to the fiscal year of the taxing authority.

Spiegel, Inc., prepared its income account on an accrual basis but installment sales for tax purposes were on a cash collection basis. The tax due on the collection basis was included in current liabilities, the excess over this amount obtained by use of the accrual basis was shown as a reserve.

A number of companies combined tax provisions with estimated renegotiation refunds (e.g., 92, 222, 237, 255.)

Among the companies contesting disallowances and assessed deficiencies were Allegheny Ludlum Steel Corp., Samson United Corp., and Federal Machine & Welder Co. An interesting excerpt from a footnote in the steel company's report was as follows:

> "If all amounts accrued by the corporation and a subsidiary for such purposes should be disallowed, and such disallowances sustained, the additional federal income and excess profits taxes for which they would be liable are estimated to be approximately $3,970,000, plus interest thereon, but the allowance of such amounts as deductions from income in later years would be expected to result in the reduction of income tax liability in those years estimated upon the basis of present income tax rates at approximately $2,280,000."
>
> (No provision, other than the reserve for contingencies, was made for the possible liability.)

Some companies showed the amount of excess profits taxes withheld in prior years as a separate item (e.g., Fairmont Foods Co., Park & Tilford Inc., and Panhandle Producing and Refining Co.) while other reports mentioned taxes withheld without describing their nature (Belding Heminway Co., Pan American Petroleum & Transport Co.).

The Elastic Stop Nut Corp. of America, while showing no estimated federal tax liability, showed "interest on federal income and excess profits taxes —estimated" separately as an accrued current liability.

Taxes collected from customers were shown included with other accrued taxes by some oil companies and retail stores.

Examples where claims for refund of prior year taxes were deducted from the accrued liability for taxes were contained in the reports of Deere & Co., H. K. Porter Co. Inc., and Geo. A. Hormel & Co.

The Sperry Corp. and United Piece Dye Works added "and contingencies" to the current liability provision for federal taxes. American Writing Paper Corp. showed an amount provided for "tax contingencies" in addition to other federal tax provisions.

Continental Motors Corp. indicated parenthetically that the "federal taxes on income" item in the current liabilities was principally the unused provisions of prior years."

The federal tax provision was usually the final item in the current liabilities section. However, Harbison Walker Refractories Co. showed taxes as the first item. The report of Cessna Aircraft Corp. showed the tax item in an intermediate position.

Artloom Corp. indicated parenthetically on the balance sheet that total taxes were subject to adjustment under Section 722. All of the companies referring specifically to 722 claims indicated that such claims had not been given effect to in the financial statements.

Reserves

The following selected items (excluding tax provisions) found in the current liabilities section of 1947 reports were designated as "reserves." [See Accounting Research Bulletin No. 34 "Use of Term 'Reserve' " (p. 273).]:

- Renegotiation refund (Bendix Aviation Corp.; Willys Overland Motors Inc.)
- Contingencies (Park and Tilford Inc.—footnote refers to taxes; Bendix Aviation Corp.—part in non-current section)
- Wholesale discount, product warranty, etc. (Packard Motor Car Co.)
- Workmen's Compensation insurance (Borg-Warner Corp.)
- Operating reserves (Chrysler Corp.)
- Additional compensation plan (National Distillers Products Corp.)

Self Insurance (Pittston Co.—part in non-current)
Product guarantees (Flintkote Co.)
Employees retirement annuities (A. E. Staley Mfg. Co.)
Replacement of "Lifo" inventories (National Supply Co.)
Replacement cost of discarded patterns (McCall Corp.)
Loss on contracts in progress (North American Aviation Inc.)
Research & Development—less cash segregated in banks (A. O. Smith Corp.)
Lawsuit (Clyde Porcelain Steel Corp.)
Commitment losses (Archer Daniels Midland Co.)
Building alterations & repairs (Rice Stix Dry Goods Co.)

Miscellaneous

The following listing contains items or treatments deemed interesting or unusual which were classified as current liabilities in 1947 reports:

Use and occupancy payment by insurance company—pending final determination (United Merchants & Manufacturers Inc.)
Credit balances of factored clients (United Merchants & Mfrs. Inc.)
Advance payments on contracts (Dresser Industries Inc)—policy changed from a former year when item was shown deducted at the foot of the current assets section
Drafts in transit (U. S. Smelting, Refining & Mining Co.)
Foreign bank overdrafts (Goodyear Tire & Rubber Co.)
Accounts Payable—merchandise in transit (S. H. Kress & Co.)
Renegotiation Refund (Beech Aircraft Corp.—split between current and non-current)
Unredeemed merchandise coupons (Royal Typewriter Co.)
Unredeemed gift certificates (Adam Hat Stores Inc.)
Accident compensation (Inland Steel Co.—split between current and non-current)
Advances on uncompleted orders, less costs incurred on such orders deducted from inventories (Industrial Brownhoist Corp.)
Provision for returns and allowances (Standard Stoker Co. Inc.)
Unearned finance charges on customers notes (Autocar Co.)
Treatment charges unearned (American Smelting & Refining Co.)
Provision for unrealized exchange profit on intercompany financing (Electric Boat Co.)
Liability on trade paper pledged to banks (Super Cold Corp.)
Liability for replacement of customers dies (Doehler Jarvis Corp.)
Directors, officers and principal holders of equity securities other than affiliates (Anderson Clayton & Co.)
Provision for possible claims (American News Co.)
Provision for additional costs on contracts (The Babcock and Wilcox Co.)
Subscription to capital stock of subsidiary not consolidated (Fruehauf Trailer Co.)
Guarantee deposits payable (Adolph Gobel Inc.)
Acceptances payable secured by liens on raw materials (APW Products Inc.)
Higgins Industries in liquidation—A. J. Higgins, Personal (Higgins Inc.)
Deposits for containers (Monsanto Chemical Co.)

Non-Current Liabilities

The following list contains items deemed unusual or interesting which appeared in the section of the balance sheet between current liabilities and the capital stock section:

Remittances held in abeyance — representing collection on account of indebtedness owing by subsidiaries between dates of subsidiary closing of accounts and consolidated closing dates. (Radio Keith Orpheum Corp.—See also Warner Bros. Pictures Inc.).

Realty replacement fund—excess received over cost of realty sold to be applied against other realty purchases—fund shown separately (Parmalee Transportation Co.).

Provision for contingent liability under government contract warranty— (National Co. Inc.)

Assumed self insurance on risks formerly insured against— (Colorado Milling & Elevator Co.).

Liability for past service annuity premiums— (Continental Can Co. Inc.).

Employee stock plan credits—representing accrued earning credits applicable to employee stock options; less stock held by Trustee for issuance on exercise of options—(Libbey-Owens-Ford Glass Co.).

Contingent compensation of executives for past years—deferred— (Gimbel Bros.—Anderson Clayton).

Amount ascribed to 6,008 shares of common stock to be issued as compensation— (American La France Foamite Corp.)

Unclaimed dividends of predecessor companies— (Argo Oil Corp.).

Excess profits tax and interest (deferred under Section 722)— (Jantzen Knitting Mills Inc.).

Deferred accounts payable to participants, outside producers and others— (RKO).

Certificates of extra compensation— (Johnson & Johnson).

Deferred credits—discount on reacquired securities— (Hearst Consolidated Publications Inc.).

Premium on debentures— (Crown Cork & Seal Co. Inc.).

Tenant deposits and rents received in advance — (District Theatres Corp.).

Container deposits— (Columbia Brewing Co.).

Inventory Reserves—Classification

While no comparable analysis of inventory reserves was included in last year's study, only 59 reserves for "possible future price decline" were then noted. [See Accounting Research Bulletin No. 31, "Inventory Reserves."]

362	No reserves shown
73	Reserves providing specifically for future inventory price declines
43	Reserves with varying titles not providing specifically for possible future inventory price declines but, in most cases, probably intended for that purpose (See list of titles following this tabulation)
20	No indication of purpose of inventory reserve deducted on the asset side
13	Replacement of basic Lifo inventories (eight stated to be net of taxes)
8	Obsolescence—possible obsolete items
4	To reduce inventories to Lifo from either standard costs, lower of cost or market, or Fifo bases (Crane Co., Artloom Corp., Hercules Motors Corp., E. J. Brach & Sons)
4	Normal stock method (Endicott Johnson Corp., Corn Products Refining Co.)
1	To reduce inventories from cost to the lower of cost or market (United Fruit Co.)
1	For unrealized losses based on market valuations (California Packing Corp.)
1	Surplus reserve based on inventory overhead increase (Wagner Electric Corp.)
3	Unrealized intercompany profits (and discount) (Geo. E. Keith Co., Reynolds Metals Co., General Electric Co.)
1	Loss indicated on completed production not released (RKO)
1	Amortization of released production (Pathe Industries Inc.)
1	Purchase commitments (Jantzen Knitting Mills Inc.)
1	Estimated expenses of shipping from Cuba to U. S. (Cuban American Sugar Co.)
537	

The following list is intended to give the reader some idea of the variety of wording for inventory reserves found in the 43 reports grouped separately in the above tabulation [Numbers in parentheses refer to companies named in appendix]:

"Markdowns" (338); "contingencies" (purpose indicated elsewhere to be future price decline) (192); "inventory reserve" (356); "inventory price adjustment" (274); "inventory losses" (166); "shrinkage" (364); "general inventory reserve" (33); "fluctuations in price of metals" (276); "adjustments in materials and supplies" (490); "possible loss on realization of inventories" (122); "inventory price declines" (179); "unusual market conditions" (194); "reserve for inventory —arbitrary" (287); "reserves" (purpose indicated as possible future price decline in president's letter) (372); "possible inventory adjustments" (267); "valuation reserves" (220); "special reserve to reduce inventories below cost or market" (435); "inventory contingencies" (107); "replacement of inventories" (407).

In 1946 the Brown Shoe Co. showed a "reserve for contingencies." In the 1947 report a "reserve for inventory price decline" was shown in place thereof with no explanation of the change. However, the 1946 contingency provision was shown in the body of the income statement whereas in 1947 the inventory price decline provision was the last deduction in the income statement, with the amounts preceding and following the provision designated "profit before special charge" and "profit transferred to earned surplus."

The following footnote from the report of General Cigar Co. Inc. indicated a redesignation of the former reserve for contingencies:

"In accordance with a resolution of the board of directors on October 21, 1943, a contingencies reserve was provided by charges against income in the years 1943, 1944, and 1945, in anticipation of various war and postwar adjustments, including inventory adjustments arising from price declines. As a result of further action by the Board on December 18, 1947 this reserve has been redesignated an inventory adjustment reserve and is to be available in the discretion of the Board solely for absorption of inventory adjustments resulting from possible future price declines."

Niles Bement Pond Co. had the following comment to make on a reserve transfer to earned surplus:

"The reserve for inventory obsolescence which had been provided in prior years, amounting to $371,994 at 12/31/47, has been transferred to earned surplus reinvested in business in view of the restrictions, under generally accepted accounting principles, regarding its use."

The president's letter in the report of Autocar Co. stated as follows with regard to a reserve for future inventory price decline:

"A similar reserve has been omitted in 1947 as the SEC indicates that profits should be stated before such reserve."

A. E. Staley Inc. emphasized in the president's letter the fact that the reserve for future price adjustments was stated net of taxes:

"Since the reserve is computed on a net basis after taxes, the reserve is adequate to provide for total gross adjustments of about $4,000,000 at present tax rates."

National Dairy Products Corporation expressed its future policy with respect to the disposition of a reserve for possible future inventory price declines in a footnote:

"In 1946 provision was made for possible future inventory price declines by an appropriation from profit and loss of $5,000,000. This amount was added to the reserve of $10,000,000 set up prior to 1944 for possible future inventory losses and other contingencies. If there are any such losses they will be charged directly to profit and loss and the reserve will be reduced by an amount equal thereto (less applicable reduction in income taxes.) The credit arising from such reduction will be shown in the statement of profit and loss as a separate item below the net profit for the year."

Geo. E. Keith & Co. showed a reserve for discount deducted from raw materials and a reserve for unrealized inter-company profits and discounts deducted from finished goods.

Van Raalte Corp. used a reserve to reduce inventory at standard cost to a first-in, first-out basis.

While a number of companies provide reserves for the replacement of basic Lifo inventories, the following two excerpts indicate (1) an instance in which the reserve was not adjusted and (2) the policy followed by a corporation where no such reserve was provided prior to replacement:

(1) "The reserve for replacement of basic "last-in, first-out" inventory stocks has not been adjusted to cover charges which would be sustained if all the stocks involuntarily liquidated were replaced at prices in effect at November 1, 1947, since, in the opinion of the management, the reserve is adequate to cover the net additional cost of liquidated stocks expected to be replaced within the limited time provided under the relief provisions of the federal income tax laws.

"In our opinion, with the explanation in the preceding paragraph, . . ." (John Morrell & Co.—Accountant's report.)

(2) "Under section 22 (d) of the Internal Revenue Code pertaining to "last-in, first-out" inventory method, basic inventory valuation applicable to inventories which have been liquidated because of war conditions may be restored when such inventories are replaced. During the year ended February 29, 1948, certain inventories previously liquidated were replaced at costs in excess of basic inventory valuations; accordingly, the inventories have been reduced by $423,886 of which it is estimated that $349,777 will be refunded with respect to federal taxes on income paid for prior years in which such inventories were liquidated and the remainder $74,109, has been charged to earnings. Receivables for federal income tax refunds, with respect to inventories replaced in prior years, amount to approximately $1,583,000 of which approximately $938,000 has been approved by an examining revenue agent but is still subject to final review by the Treasury Department. (Note A.)

"Under the "last-in, first-out" inventory method, basic inventory valuations applicable to inventories which have been liquidated, because of war conditions, may be restored when such inventories are replaced and the attached financial statements have been adjusted accordingly (Note A). It is expected that other inventories which have been liquidated because of war conditions will be replaced and, accordingly, the earnings for the year in which the liquidation occurred will be subject to adjustment as permitted under section 22 (d) of the Internal Revenue Code." (Note F—California Packing Corp.)

Upon replacing Lifo inventories, International Shoe Corp. transferred a portion of a reserve provided for the excess cost of such replacement to income by means of a credit in the first section of a single step form of income statement.

Inventory Reserves—Where Shown

[See Accounting Research Bulletin No. 31 "Inventory Reserves."]

While the great majority of inventory reserves represented appropriations made after the "net income" item, they were usually shown on the balance sheet above the capital stock and surplus section. [This was also the position in which the majority of all reserves were shown.]

1947	
362	None shown
20	Deducted from asset—purpose not indicated
30	Deducted from asset—purpose indicated
112	Shown on liability side of balance sheet above capital and surplus section
9	Shown in capital and surplus section
4	Shown in current liabilities (all relating to replacement of basic Lifo inventories)
537	

A few instances were noted in which reserves for possible future price decline were deducted from the inventory item on the asset side. (E.g., Stewart Warner Co., American Window Glass Co.). Many of the reserves deducted on the asset side were not fully described or explained.

The auditors of the Eagle Picher Company noted in their report a practice inconsistent with the previous year involving a reserve for future decline in inventory value, as follows:

> "During the past several years, the companies followed the practice of providing, by appropriations of net income, reserves for future decline in inventory values. These reserves are not required under generally accepted accounting practice. In previous balance sheets, an approximately equivalent amount of U. S. Government obligations was transferred from current assets to reserve fund investments. As at November 30, 1947, the management discontinued the policy of segregating such securities, but a similar effect upon the current position shown in the balance sheet has been accomplished by restoring to current assets the securities formerly carried as reserve fund investments and deducting the reserves for future decline in inventory values from inventories of ores, metals and metal-bearing products.
>
> "In our opinion . . . in conformity with generally accepted accounting principles applied on a basis consistent (except as set forth in the preceding paragraph) with that of the preceding year."

The four reserves shown in current liabilities all involved the replacement of basic Lifo inventories. (National Supply Co., Armour & Co., Swift and Co., and Archer-Daniels-Midland Co.).

Reserves for Undisclosed Contingencies And Future Inventory Price Declines—Changes Therein During Year

The initial effects of Accounting Research Bulletins No. 28 "Accounting Treatment of General Purpose Contingency Reserves" (July 1947), and No. 31 "Inventory Reserves" (October 1947), are apparent in the decline in the number of instances in which provisions for general contingencies and for possible future inventory price declines were shown before "net income for the year" in 1947 as compared with 1946.

While the bulletins mentioned indicate that "Net income for the year" should be clearly designated, a number of 1947 reports were noted in which, while the provisions under discussion were shown as the last item of the income statement the wording of items and subtotals were not deemed to clearly designate "net income for the year." [The reader is referred to the previous section on "reporting of earnings per share in the president's letter when appropriation was shown as the last deduction in the income statement."]

It is to be noted that the great majority of appropriations for general contingencies and possible future inventory price declines were made after "net income for the year" rather than as charges to earned surplus, while unused appropriations were more often transferred directly to earned surplus than to the foot of the income statement.

In Bulletin No. 35 "Presentation of Income and Earned Surplus" (October 1948), the Committee on Accounting Procedure recommended that "net income for the period be shown henceforth without deductions or additions of items which are properly excluded from the determination of net income" in order to minimize the possibility of misconceptions "as to whether the earnings for the period were the amounts captioned as net income or were the final and more prominent amounts shown on the income statements after the deduction or addition of such charges and credits."

How Created or Increased During Year

1947	1946	
27	52	Charge against income prior to the determination of "net income for the year"
53	36	Charge after the determination of net income but prior to the de-

1947	1946	
		termination 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 was considered to be a charge against income or an appropriation after the net income was determined.
15	11	Charge made to earned surplus
4	15	Charge made to other reserve or liability account
26	14	Increase in contingency or inventory reserve apparent but no indication of surplus charge or appropriation of net income. (In 1947 ten of these increases were considered to be minor in amount)

How Decreased During Year

1947	1946	
20	30	Credits to cash, inventory or liability accounts with direct charges to reserves
5	5	Credits in the income statement appearing before the determination of net income for the year
7	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 made at end of income statement but with wording of items or subtotals either omitted or so vague that it is not clear whether the credit is before or after net income
32	20	Credits to earned surplus
7	8	Credits to other reserve accounts
2	9	Credits to income statement described or shown as offsetting specific expenses included therein
8	5	Decrease in contingency or inventory reserve apparent but no indication of where credited (in 1947 five of these decreases were considered minor in amount)
1	..	To "other accrued liabilities"
2	..	To current liability for additional prior year taxes

The term "contingency reserve" was generally used without any further description as to its nature or purpose. It was difficult to determine, on the basis of information presented in the statements, whether these reserves represented "general contingency reserves set up by management but which are not required at the time under generally accepted accounting principles and whose purposes are not specific" (the subject of Accounting Research Bulletin No. 28), or whether they represented reserves for a specific contingency which, for policy reasons, management did not wish to disclose. Since some instances were observed in which contingency reserves were clearly omnibus in nature, presumably some of the more generally described contingency reserves were also intended to serve a multiple purpose.

Some idea of the nature of the latter group mentioned above may be gained from the following descriptions:

"Additions to the reserve for contingencies in 1947 include provisions for possible loss on foreign investments, additional taxes, claims, loss on merchandise inventories, etc." (Footnote—Phillips Petroleum Co.)

"Reserves for postwar adjustment, contingencies, and industrial accident liability have not changed during the year, but have been combined in one amount under reserve for contingencies." (President's letter—J. I. Case Co.)

"The reserve for contingencies is to provide for possible inventory losses extraordinary items and machinery return charges." (President's letter—Geo. E. Keith Co.)

"Reserve for contingencies and extraordinary charges —For future contributions to the employees' retirement plan for service of participants rendered prior to the effective date of the plan, for future payments of pensions to employees retired outside the Plan and for possible additional expenses, losses or taxes which may be related to the war period but are not presently determinable." (Footnote—The Lambert Co.)

"The reserve for contingencies is considered sufficient to provide for (a) losses which may result from pending claims and litigation other than those specifically provided for; (b) possible excess cost of replacing inventories involuntarily liquidated; and (c) other general contingencies." ("Supplementary Financial Information"—Gulf Oil Co.)

The effects of Accounting Research Bulletin No. 28 are indicated by the following references to the treatment of general purpose contingency reserves:

"During the year 1947 the Company made a provision for contingencies in the amount of $3,000,000 by a charge against profits. This treatment follows the Company's accounting practice during the war period. A recent Accounting Research Bulletin recommends that provisions for general contingency reserves should not be included as charges in determining net profit. . . . We report that we have obtained all the information and explanations we have required, and that, in our opinion, except as indicated above, togther with the comments appearing in the financial section of the annual report, . . ." (The International Nickel Company of Canada, Ltd.—accountant's report.)

". . . in conformity with generally accepted accounting principles applied on a basis consistent with the basis (see note g) of the preceding year. (Accountant's report)

"In the report of a year ago, consolidated net income for the year 1946 was stated at $2,461,843.83, which was exclusive of a non-current tax credit of $338,000 carried directly to surplus. That income ($2,461,843.83) did not give effect to two charges as follows: (1) $108,433.39, a portion of retroactive wages charged to reserve for contingencies and (2) $55,162.00, a portion of the payment to the retirement trust fund charged to the reserve for contingencies which would have been chargeable to income if the method of accounting therefor adopted in 1947 had been used in 1946. Consolidated net income for 1946 restated to reflect these two charges was $2,298,248.44." (Brown & Sharpe Manufacturing Company—footnote.)

"The reserve for contingencies was increased to $500,000 by a charge to earned surplus of $400,000. No charge will be made to this reserve which will have the effect of relieving the statement of income for any year of losses or other adjustments properly applicable thereto. Any and all reductions in this reserve will be reflected in the statement of earned surplus as a direct credit." (Belding Heminway Company, Inc.—footnote.) (See also Botany Mills Inc., Champion Paper & Fibre Co., Kearny & Trecker.)

While companies such as The California Packing Co., Dictaphone Corporation, and Bendix Aviation showed surplus reserves or appropriations in the earned surplus section on the balance sheet, the great majority of surplus reserves were shown in the section between current liabilities and capital stock and surplus.

The following examples illustrate changes in the name and/or stated purpose of contingency reserves:

"The reserve for contingencies provided in prior years for unusual charges, such as deferred maintenance and replacements, possible adjustment of taxes and other extraordinary items, has now been redesignated and included in the reserve for federal income taxes." (General Baking Co.—president's letter.)

A change in purpose for the reserve for contingencies was indicated in a footnote by Food Machinery Corporation:

"The reserve for contingencies has been created by appropriations from net income in former years for possible future charges applicable to wartime production, postwar adjustments and development, patent litigation, etc. The management decided to carry forward this reserve as a provision for future inventory losses, obsolescence of leased equipment, patent litigation and other possible contingencies."

While the above change of purpose was accomplished without any accounting entries, Sunshine Biscuits Inc. transferred an "Appropriation for contingencies no longer required" to Earned Surplus and segregated therefrom an "appropriation for inventory decline" in an equal amount.

Associated Dry Goods Co. indicated a retroactive elimination of prior year contingency provisions:

"The reserve for contingencies which has been accumulated by charges against income in the fiscal years ended January 31, 1942 to 1945, inclusive, aggregating $1,187,162, was transferred to earned surplus during the fiscal year ended January 31, 1948. The accompanying financial statements for prior years reflect retroactive application of such transfer by elimination of the charges against income as previously reported."

Simmons Co. charged inventory losses incurred during the year to a reserve for possible decline in inventory values and other contingencies:

"During the year inventory losses of $350,000 were charged to the company's reserve for possible decline in inventory values and other contingencies. This resulted in a reduction of $133,000 in the provision for federal income tax and a corresponding increase in the consolidated net income for the year. The reserve for possible decline in inventory values and other contingencies was increased $250,000 by a charge of like amount against 1947 income." (footnote.)

The president of Link Belt Co. stated the following policy with respect to surplus reserves:

"The board of directors concluded that nothing is to be gained by deducting any specific amount from our substantial surplus and designating it as a reserve. This conclusion was reached since we cannot closely appraise a reserve requirement and as inventories are carefully priced."

During 1947 the Westinghouse Electric Corporation provided a special reserve of $8,101,000 "on account of the hazard existing due to the present extraordinary price levels, and the increase in the companies' volume of inventories." (Footnote.) This "provision for future inventory losses (reserve)" was shown as part of "total costs" deducted from "total income" to arrive at "net income—after provision for future inventory losses."

The related accountant's report stated in the opinion paragraph:

"In recognition of the hazard existing due to the present extraordinary price levels, and the increase in the companies' volume of inventories, it is the opinion of the management that a special provision of $8,101,000 for future inventory losses is necessary as a deduction from the net income in the current year. In our opinion, the accompanying consolidated statement of ownership of Westinghouse Electric Corporation and the related consolidated statements of operations and surplus, and the statement of ownership of Westinghouse Electric Supply Company, with the explanatory notes attached thereto, present fairly the positions of the companies at December 31, 1947 and the results of their operations for the year 1947 in conformity with generally accepted accounting principles applied on a basis consistent (apart from the 1947 special provision for future inventory losses) with that of the preceding year."

Types of Reserves Shown Below Current Liabilities Section of the Balance Sheet

(Excluding inventory reserves discussed separately.)

During 1947 there was a marked decline in the number of "war" and "postwar" reserves and general contingency reserves, with an increase in reserves related to plant replacement. In connection with the various types of reserves listed below, the reader is referred to the following Accounting Research Bulletins: No. 26, "Accounting for the Use of Special War Reserves"; No. 28, "Accounting Treatment of General Purpose Contingency Reserves"; No. 33, "Depreciation and High Costs"; No. 34, "Use of Term 'Reserve.' "

1947	1946	
228	272	"Contingency reserves" or "reserve for contingencies" shown separately (182 in 1947) or words "and other contingencies" added to other specific reserve (s) (46 in 1947)
142	143	Insurance reserves
11	50	War and postwar reserves
46	46	"General," "other," "sundry," "miscellaneous"
87	51	Reserves involving plant and equipment
31	26	Taxes
22	22	Warranties or guarantees
33	20	Foreign operations
68	12	Reserves for employee benefits (1947 classification changed)
48	110	Miscellaneous — unclassified (see 1947 list appended)

A breakdown of several of the 1947 classification shown above follows:

142 Insurance Reserves
- (44) Designated "insurance" — no description (National Supply Co.)
- (44) Workmen's compensation insurance (Cannon Mills Co.)
- (24) Self insurance (Lehigh Portland Cement Co.)
- (8) Employees liability insurance (Allis Chalmers Mfg. Co.)
- (7) Several insurable perils named (Crucible Steel Co. of America)
- (4) Fire losses (Godchaux Sugars Inc.)
- (2) Group life (Deere & Co.)
- (2) Accident compensation or indemnity (American Locomotive Co.)
- (1) Accident insurance and mutual indemnity — paritally funded (Mead Corp.)
- (1) Casualty (Elgin National Watch Co.)
- (1) Uninsured risks (W. T. Grant Co.)
- (1) Catastrophes (Penn Coal & Coke Corp.)
- (1) Hurricane Insurance & Tanker repairs (U. S. Industrial Chemicals Inc.)
- (1) Injuries & damages (Cities Service Co.)
- (1) Tornado insurance (Archer Daniels Midland Co.)

87 Reserves involving plant and equipment
- (29) Related to increased plant replacement costs (U. S. Steel Corp.)
- (11) Furnace relining, rebuilding and repair (Keystone Steel & Wire Co.)
- (7) Depreciation (United Fruit Co.)
- (3) Maintenance and repairs (Pittsburgh Plate Glass Co.)
- (4) Replacement of equipment (G. R. Kinney Co. Inc.)
- (2) Deferred maintenance (Gillette Safety Razor Co.)
- (2) Repairs & renewals (Wheeling Steel Corp.)
- (2) Building replacement — funded (Gaylord Container Corp.)
- (2) Loss or damage to leased equipment (Continental Motors Corp.)

(2) Retail store painting (Butler Bros.)
(2) Drums & containers (Harshaw Chemical Co.)
(2) Extraordinary obsolescence (Kimberly Clark Corp.)
(2) For abandonments & replacement of real estate, plant and equipment (General Refractories Co.)
(1) Plant dismantlement (General Box Co.)
(1) Expenses in revision of manufacturing program (Ingersoll Rand Co.)
(1) Development facility expenditures, plant relocation, etc. (United Aircraft Corp.)
(1) Revaluation of fixed assets (United Fruit Co.)
(1) Rebuilding and repairs (Alan Wood Steel Co.)
(1) Loss on future sales of plant and equipment (Time Inc.)
(1) Possible loss on rental property (Peoples Drug Stores Inc.)
(1) Future cost of improvements to leased properties (Walgreen Co.)
(1) Maintenance of plants (Sherwin Williams Co.)
(1) Rehabilitation of plant and equipment (W. F. Hall Printing Co.)
(1) Repairs and standby expenses (American Window Glass Co.)
(1) Capital expenditures (Chicago Railway Equipment Co.)
(1) Aircraft overhaul (Mid-Continent Airlines Inc.)
(1) Maintenance of tankers (Gulf Oil Corp.)
(1) Repairs to drilling equipment, etc. (Am. Republics Corp.)
(1) Possible loss as custodian of government properties (A. O. Smith Corp.)
(1) Percentage of income depletion (Alabama Fuel & Iron Co.)

33 Foreign Operations
(13) Foreign exchange fluctuations (Electric Storage Battery Co.)
(5) Foreign investments (International Harvester Co.)
(2) Foreign losses (Sharp & Dohme Inc.)
(3) Foreign contingencies (National Cash Register Corp.)
(2) Possible loss on foreign investments (Standard Oil Co. of N. J.)
(2) Statutory reserves of foreign subsidiaries (American Metal Co. Ltd.)
(1) Sundry reserves of foreign subsidiaries (Pepsi-Cola Co.)
(1) Rehabilitation of foreign business (Ingersoll Rand Co.)
(1) Loss from devaluation of foreign currencies (Johnson & Johnson)
(1) Unrealized earnings of consolidated subsidiary (Gillette Safety Razor Co.)
(1) Discount on Canadian exchange (Safeway Stores Inc.)
(1) Liability under foreign labor laws (National Paper & Type Co.)

68 Reserves for Employee Benefits
(20) Pensions
(11) Past service pension costs (Barber Asphalt Corp.)
(6) Employees benefit plan (s) (General Motors Corp.)
(6) Annuities (Continental Oil Co.)
(5) Retirement allowances (contra — International Nickel Co.)
(3) Possible payments in future years under retirement plan (Champion Paper & Fibre Co.)
(3) Employees death benefits (J. C. Penney Co.)
(2) Employees sick benefits (F. W. Woolworth Co.)
(1) Wage adjustments (E. Kahn's Sons Co.)
(1) Employment contracts (Allegheny Ludlum Steel Co.)
(1) Wage earners unemployment benefits (Armstrong Cork Co.)
(1) Special retirement benefits (Best Foods Inc.)
(1) Officers and employees profit sharing bonus (West Virginia Pulp & Paper Co.)
(1) Pensions and death and disability benefits (Deere & Co.)
(1) Widows & orphans of World War II veterans (IBM)
(1) General Company Welfare (IBM)

(1) Postwar reemployment adjustments (S. S. Kresge Co.)
(1) Employees annual wage plan (Spiegel Inc.)
(1) Special service benefits (Byron Jackson Co.)
(1) Employees service indemnities & dismissal assistance (American Metal Co. Ltd.)

48 Miscellaneous—unclassified
(11) "Operating" (Continental Steel Co.)
(3) (Research &) development (Nat'l Cylinder Gas Co.)
(2) Deferred Income (General Motors Corp.)
(2) Advertising & sales promotion (Libby Owens Ford Glass Co.)
(2) Collection of installment accounts sold (Sears Roebuck Co.)
(2) Retirement of preferred shares (Interchemical Co.)
(2) Investments and securities (Allied Chemical & Dye Corp.)
(1) Loss on unusual property disposals (Borden Co.)
(1) Unrealized profit on sale to foreign subsidiaries (Libby McNeill & Libby)
(1) "Special" (Liggett & Myers Tobacco Co.)
(1) Unexpired subscriptions (McGraw Hill Publishing Co. Inc.)
(1) Crop Hazards (Consolidated Cigar Corp.)
(1) Estimated allowances to customers payable later than one year (Blaw Knox Co.)
(1) Deferred credits and operating reserves (American Locomotive Co.)
(1) Probable future expenditures, losses on unknown liabilities applicable to operations prior to end of period (Westinghouse Electric Corp.)
(1) Fire loss replacement (Ralston Purina Co.)
(1) Manufacturing and other contingencies (Pullman Inc.)
(1) Contract adjustments and indeterminate expenses resulting from wartime conditions (Boeing Airplane Co.)
(1) Possible loss on Convair liner project (Consolidated Vultee Aircraft Corp.)
(1) Unrealized profit in customers balances on layaway merchandise sales (Diana Stores Inc.)
(1) Claims litigation (Philip Morris & Co. Ltd. Inc.)
(1) Redemption of trading stamps (City Stores Co.)
(1) Doubtful accounts and general contingencies (Art Metal Construction Co.)
(1) Dividends on common stock (American Car & Foundry Co.)
(1) Debenture retirement sinking fund (American Wringer Co. Inc.)
(1) Contributions for extensions—not refundable (Cities Service Co.)
(1) Pending litigation (Skelly Oil Co.)
(1) "Reserves" (Ohio Match Co.)
(1) Mine and new business investigations (American Smelting & Refining Co.)
(1) Contingent liabilities (Warner Bros. Pictures Inc.)
(1) Contractual risks (American Metal Co. Ltd.)

Anderson Clayton Co. and Johnson & Johnson were two companies which described reserves established to cover the estimated liability for taxes on undistributed earnings of subsidiaries. Standard Oil Company of California mentioned that no provisions for taxes on the distribution of foreign profits had been made, although such profits were included in consolidated statements. (Also see Simmons Co.)

Reynolds Metals Co. established a reserve "for unrealized intercompany profits in inventories of unconsolidated subsidiaries, etc."

City Stores Co., Emporium Capwell Co. and American Type Founders Inc. showed reserves for estimated income taxes on profits of installment sales which were deferred for tax purposes.

American Smelting & Refining Co., W. L. Maxson Corp., Ampco Metal, Inc., and Marmon Herrington Co. were four companies which showed reserves to cover the future nondeductibility for tax purposes of depreciation on fully amortized emergency facilities which had been restated in the companies' accounts.

The following excerpts relate to the disposition of reserves created during the war period [see Accounting Research Bulletin No. 26, paragraph 8]:

"During the period from 1943 to 1945 a reserve was provided by charges against income to cover contingencies which might arise from operations under conditions which prevailed during those years, including losses which might result from accelerated exploratory work undertaken by subsidiary companies in foreign countries in efforts to meet added requirements. Exploratory activities are continuing but results are indefinite; however, certain of such activities are not expected to lead to commercial production and $6,000,000 was transferred in 1947 from the reserve and applied as a reduction of investment in those subsidiary companies." (Standard Oil Company of California)

"Notwithstanding the company's action in 1942 and 1943 in setting up a reserve of $2,400,000 from current earnings during those years 'to cover such future charges as, due to the national emergency, may retroactively be applicable to the emergency period,' recent changes in generally accepted accounting principles do not permit these write-downs to be charged against the reserve previously provided therefor. In view of these facts, the company has restored a portion of the reserve for contingencies created in 1942 and 1943 in contemplation of such write-downs. This restoration in the amount of $500,000 represents a conservative portion of the inventory write-down resulting from wartime conditions." (U. S. Industrial Chemicals, Inc.)

"'The balance of $522,000 in the reserve for postwar contingencies which had been set up in 1944 to absorb deferred war period costs, was closed out to earnings employed in the business (surplus). This method of eliminating the remaining reserve was adopted as changed postwar economic conditions made it almost impossible to relate this reserve to the costs for which it was originally provided." (Ohio Oil Co.)

"During 1947 the several companies incurred charges and losses of the nature contemplated when reserves were provided from profits in 1944 and previous years for postwar rehabilitation; such charges and losses included abnormal personnel training expenses, preopening expenses of postwar store locations, losses in connection with store closings, rehabilitation. The amounts thereof have been shown separately in the consolidated statement of profit and loss and a special credit of $808,000 has been made to profit and loss by transfer from the reserves; it is estimated the balances of the reserves after such transfer will be exhausted in 1948." (Rexall Drugs, Inc.—footnote.)

Freeport Sulphur Co. provided for a reserve for research by a charge prior to net income.

Byron Jackson Co. showed a provision for special service benefits prior to net income but showed the reserve in the capital and surplus section on the balance sheet.

Capital Stock—How Shown

No significant trends were noted in the presentation of capital stock.

1947	
337	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
163	Neither par nor stated value per share shown—common stock
34	Neither par not stated value per share shown—preferred stock
5	Number of shares authorized and outstanding, but only combined amount outstanding shown
1	Preferred stock shown at liquidation value and common stock at remaining equity

Additional Features Indicated In Connection with Capital Stock

129	Redemption or call value of preferred stock
86	Preferences on liquidation of preferred stock
49	Reservation of common stock for conversion of other security issues of same company
38	Reservation of common stock for options, warrants and sale to officers and employees.
27	Stated value of capital stock expressed in the aggregate but not per share
18	Stock authorized but none issued to date
12	Stock splits
7	Common stock exchangeable for stock of other corporation

The balance sheets of National Steel Corporation and Melville Shoe Corporation showed capital stock and capital surplus combined in one item on their respective balance sheets, the composition of such items being indicated. The latter company stated that capital arising from conversion of preferred shares into common shares was included in common stock capital because of statutory requirements and resolution of the board of directors.

As indicated in "Capital Stock—How Shown," above, Godchaux Sugars Inc. showed preferred stock at liquidation value and allocated all surplus to the remaining two classes of common stock, with the following footnote:

"The total equity of stockholders is comprised of the liquidation value of the prior preferred stock, $2,847,-

600, the stated value of Class A and B stocks, $842,500 and surplus as set forth in the accompanying statement. The excess of the minimum liquidation value of the class A stock over the stated value thereof does not constitute a restriction on earned surplus." (See also Montgomery Ward Co.)

In an appended certified schedule, Caterpillar Tractor Co. showed the dates, purpose and amounts of the three common stock issues in its history.

Pacific Mills Inc. showed a stock dividend payable on the balance sheet (1946 comparative column) above the capital stock section and below a Contingency Reserve.

The Walgreen Co. showed on a balance sheet dated September 30, 1947 the reduction of authorized and outstanding preferred stock due to the redemption on November 10, 1947 of 3,000 shares. The amount redeemed after the balance sheet date was shown as a current liability on the balance sheet.

Reo Motors Inc. explained the treatment of stock sold to employees in a footnote as follows:

"During 1947, 1750 of the reserved shares were sold to employees. The excess of the quoted market value over the sales price of $1 a share, $41,125 was charged against income as additional compensation for services and credited to capital surplus."

Union Carbide Corp. and General American Transportation Co. showed the capital stock sections of their balance sheets as follows:

(1) "Capital Stock of Union Carbide & Carbon Corporation No par value—Not including 136,649 shares held by the corporation

9,278,163 shares (9,277,788 shares at Dec. 31, 1946)	$192,922,561
201,625 shares (88,700 shares at Dec. 31, 1946) issued under stock purchase plan for employees and held by the Corporation as collateral (See Note 5)	21,618,969
9,479,788 shares (9,366,488 shares at Dec. 31, 1946)	214,541,530
Less present amount of Agreements	21,480,171
	$193,061,359"

(2) "Common stock:

Authorized 1,500,000 shares, par value $5 per share: Issued and outstanding 1,044,575 shares	$5,222,875
Amounts paid by officers and employees on subscriptions for 32,817 shares of unissued common stock (unpaid balance $1,587,522.37	$65,634"

General Aniline & Film Corp. indicated that:

"As of 12/31/47, title to 475,707 of the 527,663.2 outstanding shares of Common A stock and all of the oustanding Common B stock was vested in the Attorney General of the U. S."

The Pittston Co. and the Budd Co. stated the excess of market over option price of option rights exercised during the year.

Stokely Van Camp, Inc. and American La France Foamite Co. used the wording "issued or to be issued" on the balance sheet, thereby giving effect to transactions not fully completed.

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

Link Belt Co. stated separately on its balance sheet the number of shares held in the treasury from the original issue and the number of unissued shares.

A number of companies disclosed in a footnote that in the opinion of their counsel the preference on liquidation of preferred stock was not a restriction on surplus. (See United Cigar Whelan Stores Corp., Interstate Bakeries Corp., Rayonier Inc., G. R. Kinney Co., Inc., Arden Farms Co.)

A few companies indicated the existence of outstanding warrants by showing the number thereof in the capital stock section of the balance sheet without assigning any value thereto. (E.g., Ward Baking Co., A. B. Farquahar Co.)

National Supply Co. deducted "shares acquired for sinking fund and not reissuable" from the "authorized and issued preferred stock."

Borg Warner presented scrip certificates as a separate item in the capital stock section of the balance sheet.

In a footnote Houdaille Hershey Corporation stated that:

"The minority interest in the net worth of Muskegon Motor Specialties Co. as of 12/31/47 if computed on a liquidation basis would have amounted to $1,383,182.72."

The Cuneo Press, Inc. showed the sinking fund requirement for the redemption of preferred shares deducted from the total of capital stock and surplus.

The following note on redemption of preferred stock appeared on the face of the balance sheet of American Viscose Corporation:

"$500,000 is to be paid to the purchase fund agent on or before May 1, 1948 for redemption of preferred stock."

A stock split which resulted in an increase of the aggregate par value of outstanding stock was described in a footnote to the report of the Beechnut Packing Company as follows:

"On March 27, 1947, a further Certificate of Amendment of the Certificate of Incorporation was filed which provided that the authorized capital stock of the company shall thenceforth consist of 1,650,000 shares of $10 par value common stock. The 437,524 shares of $20 par value common stock issued and outstanding (after the elimination of the 8,726 shares) were increased to a total of 1,531,334 shares of $10 par value common stock, by changing each share of $20 par value common stock into 3½ shares of $10 par value common stock. The aggregate increase in the par value of the issued and outstanding shares of $10 par value common stock over the aggregate par value of the issued and outstanding shares of $20 par value common stock amounting to $6,562,860 was credited to the capital stock account and charged against paid-in surplus then existing in the amount of $1,445,089.83. The balance of $5,117,770.17 was charged against earned surplus."

Treasury Stock—How Shown

The 1947 tabulations have been broadened to show the bases of valuation as well as the position in which treasury stock was shown on the balance sheet.

1947	1946	
127	127	Deducted from issued stock of same class
		(67) At par or stated value—aggregate dollar amount of treasury stock not stated
		(43) At par or stated value—aggregate amount stated
		(10) At cost (no par or stated value) (Allis Chalmers Mfg. Co.)
		(4) Par or stated not shown—aggregate amount not stated
		(2) Par or stated not shown—amount (aggregate) shown (Bethlehem Steel Co.)
		(1) Carried at no value (Continental Oil Co.)
85	72	Deducted from total of capital stock and surplus
		(69) At cost (Corn Products Refining Co.—preferred and common separate)
		(6) At par or stated value
		(6) Basis not stated (no par or nominal value stated)
		(2) Below cost—at cost less reserve (Harbison Walker Refractories Inc.—Quaker Oats Co.)
		(1) Quoted market (Consolidated Vultee Aircraft Corporation)
		(1) At reduced amount (First National Stores Inc.)
9	13	Deducted from earned surplus
		(5) At cost (General Baking Co.)
		(2) At par (American Bank Note Co.)
		(1) At book value (F. W. Woolworth Co.)
		(1) At stated value (Arundel Co.)
2	..	Deducted from total of capital surplus and earned surplus (Glidden Co.)
5	..	Parenthetical reference on the balance sheet to treasury stock with some indication of direct charge to earned surplus. (See below)
2	1	Deducted from "capital in excess of stated amount" (U. S. Steel Corp.)
1	..	Deducted from total of preferred & common stock (Assoc. Dry Goods Corp.)
1	..	Deducted from total of capital stock & capital surplus (Sinclair Oil Co.)
7	7	Shown as asset—reason stated
6	4	Shown as an asset—reason not stated

In a few instances two different treatments were used on one balance sheet. For example, General Aniline & Film Corporation showed two types of common stock in the treasury. Class A (no par, stated value $25) was deducted at cost and Class B (par value $1) was deducted at par from the total of capital stock and surplus.

The Atlantic Refining Company deducted treasury stock at par from the amount of stock issued, while the excess of cost over par was deducted separately from the total of capital and earned surplus.

Hearst Consolidated Publications Inc. indicated separately the number of shares of the parent company owned by a subsidiary and the amount of treasury stock held by the parent. Park & Tilford Inc. and Rexall Drug, Inc. both deducted capital stock purchased and held by a subsidiary from the total of capital stock and surplus on the consolidated balance sheet.

Curtiss Wright Corp. purchased Class A stock for retirement. Pending approval at the forthcoming stockholders' meeting, the following treatment was adopted:

> "The balance sheet at December 31, 1947 states the capital position of the company as if the formal retirement of the redeemed Class A stock had been effected."

Bigelow Sanford Carpet Company deducted treasury stock from authorized and outstanding stock but showed as a separate item "capital surplus applied against stock held in the treasury," referring to the following footnote:

> "4,500 shares of common stock are held in the treasury subject to an option granted to the president of the company in November, 1944 at $48.50 per share (average cost to the company was $48.15 per share) and exercisable by him on or before January 2, 1955."

While the treatment of treasury stock was presumably affected by applicable State laws in most, if not all, cases, the Superior Oil Company specifically stated that the cost of treasury stock was charged to earned surplus in accordance with California corporation law.

Attention is invited to the treatment of treasury stock by the Union Carbide & Carbon Corporation as shown in the capital stock section of the balance sheet reproduced in the preceding discussion on capital stock.

The American Hawaiian Steamship Company changed its treatment of treasury stock during 1947 so as to show the item at cost whereas formerly the excess of cost over par had been charged to earned surplus.

The following references are made to treatments which seem to indicate direct charges to earned surplus for the cost of treasury stock, rather than the showing of such item separately deducted therefrom on the balance sheet.

Packard Motor Car Co. stated parenthetically on the balance sheet immediately after the showing of the number of shares of issued common stock:

> " (Including 8,660 shares issued to trustee for account of company, not carried as an asset)".

Weston Electrical Instrument Company stated on its balance sheet with respect to treasury stock:

> "Outstanding 160,583 shares after deducting 3,417 shares held in treasury, the cost of which has been charged to earned surplus................$2,050,000."

(See also Time Incorporated)

In contrast to the former statement was the following from the balance sheet of McGraw Hill Publishing Co.:

> "Capital stock—common
> Authorized 750,000 shares—no par value —stated value $5.00 per share. Issued 600,000 Shares—including 31,600 shares held in Treasury ....$3,000,000"

(The earned surplus analysis showed the cost of treasury stock purchased during the year charged thereto)

(See also Hercules Motors Corporation)

Section 3: INCOME STATEMENT

Title of Certified Income Statement

Last year's statistics indicated that "statement of profit and loss" [or "profit and loss statement"] was the most generally used single title, but that there were more titles in which the word "income" appeared than those in which the term "profit and loss" was used.

As a result of two trends mentioned below, the title "income statement" or "statement of income" became the most widely used single title in the 1947 reports tabulated. The two trends were:

(1) An increased use of the title "income statement" and an even more noticeable decline in use of the title "profit and loss statement." (E.g., see companies 78, 117, 90, 234, 326).

(2) A relatively minor increase in the use of terms other than the two mentioned previously, principally titles containing the words "earnings" or "operations."

In the table below the word "consolidated," which appeared in conjunction with many of the titles, has been omitted.

1947	1946	
130	160	Statement of profit and loss or profit and loss statement
138	127	Income statement or statement of income
69	62	Statement of income and (earned) surplus including title variations for "earned surplus" (Pepsi-Cola Co., National Cash Register Co.)
35	51	Statement of profit and loss and (earned) surplus (Harbison Walker Refractories Co.)
29	33	Income account (Borg-Warner Corp.)
12	13	Summary of income (General Motors Corp.)
4	7	Income and (earned) surplus account (Florsheim Shoe Co.)
9	6	Summary of income and (earned) surplus (Copperweld Steel Co.)
14	6	Statement of earnings or earnings statements (Commercial Solvents Corp.)
7	4	Statement of operations (Blaw Knox Co.)
3	4	Income and profit and loss (Raybestos-Manhattan, Inc.)
7	4	Summary of profit and loss (Marathon Corp.)
7	6	No income statement presented
5	..	(Consolidated) income (and surplus) (U. S. Rubber Co.)
5	..	(Condensed) statement of income and profit and loss (Drackett Co.)
11	..	Profit and loss account (Allied Mills Inc.)
2	..	Earnings (Johns-Manville Corp.)
4	..	Statement of net earnings (Chrysler Corp.)
4	..	Statement of net income (The Borden Co.)
2	..	Summary of earnings (Gaylord Container Corp.)
1	..	Income account and earned surplus (Corn Products Refining Co.)
3	..	Income and expense account (Curtis Publishing Co.)
4	..	Results of operations (Caterpillar Tractor Co.)
1	..	Statement of loss (Glenn L. Martin Co.)

1	..	Income, costs, and changes in earned surplus (A. E. Staley Mfg. Co.)
1	..	Statement of profits and losses on liquidation and expenses (Brewster Aeronautical Corp.)
10	..	Profit and loss (20th Century-Fox Film Corp.)
1	..	Summary of profit (Briggs & Stratton Corp.)
1	..	Summary of profit and loss statement (Geo. A. Hormel & Co.)
2	..	Summary of net income (MacFadden Publications Inc.)
1	..	Statement of income and expenses (Standard Oil Co. of Ohio)
1	..	Statement of income accounts (The Texas Co.)
1	..	Condensed statement of gross profit and net earnings (Clearing Machine Corp.)
..	42	Unclassified variations
525	525	

Form of Certified Income Statement

While the multiple step form of income statement was followed in the majority of reports examined, a trend was noted during the year toward the single step form, and variations thereof. (For examples of companies making the change during the year see 36, 284, 509, 522, 374.)

1947	
363	Multiple step form
78	Single step form
44	Single step form with exception of income tax provision or credit deducted or added separately
14	Single step form with exception of income tax provision and other item (s) deducted or added separately (McCall Corp.)
7	Single step form with exception of items other than income tax provision (exclusive of appropriations) (International Paper Co.)
12	Abbreviated — beginning after "gross profit" item—not classified
7	No income statement
525	

Adoption of the single step form was often noted in conjunction with efforts to make the income statement more meaningful to employees and the general public, efforts such as the substitution of non-technical terminology or the showing of labor costs as a separate item in the income statement.

Volume of Business

All companies which had disclosed the sales figure in the previous year continued to do so in their 1947 reports. Seven companies which did not disclose the amount of their sales in 1946 changed their policy and disclosed their sales in 1947. (See companies 92, 136, 522, 168, 97, 140, 310.)

Omission from the income statement of the amount of sales was more prevalent in the reports of companies which did not have to file registration statements with the Securities and Exchange Commission than in the reports of companies registered with that agency.

1947	1946	
46	53	Sales or revenues not reported
7	6	No separate income statement
351	..	Sales or revenues reported—net
30	..	" " " " —gross
81	..	" " " " —net or gross not indicated
10	..	Sales or revenues reported—both gross and net
525		

A number of companies indicated that certain types of taxes were excluded from the net sales figure. For example, Standard Oil Company of Kentucky disclosed in the president's letter that "Net sales for the year do not include $43,000,000 which the company collected as product taxes and paid to the proper federal, state, and municipal authorities," and in the related profit and loss statement the first item is designated "Net sales—after deducting gasoline, oil, and miscellaneous sales taxes."

The B. F. Goodrich Company indicated parenthetically that "discounts, transportation, and excise tax" were deducted from the sales figure shown (see also U. S. Rubber Co. and Amalgamated Sugar Co.); while the Universal Match Corporation showed "Excise and sales taxes, freight, discounts, and returns" deducted separately on the income statement from "gross sales."

United Merchants and Manufacturers, Inc. showed intercompany sales deducted as a separate item from "total sales-net." (See also Ely & Walker Dry Goods Co., G. R. Kinney Co. Inc., International Shoe Corp., and Melville Shoe Co.)

Companies which mentioned that outfreight was deducted from the sales figure included Colorado Milling & Elevator Co. and Sharon Steel Corp.

The Great Western Sugar Co. presented the initial item of its income account as follows:

> "Net sugar sales (after deducting processing tax and marketing expenses) and railroad Revenues . . ."

"Discounts" were sometimes indicated parenthetically to have been deducted before arriving at the stated net sales amount. Seldom, if at all, was any description of such discounts given.

Gamble Skogmo, Inc., Western Auto Supply Co., and Sonotone Corp. stated that their policy was to recognize the profit on installment sales at the time of sale. On the other hand, Novadel Agene Corp. stated that profit on installment sales was calculated on the basis of cash collections in accordance with the installment sales method used for federal income tax purposes. Gamble Skogmo Inc. further stated that the finance charges were taken into income over the period of installment payments.

A note to the income statement in the report of Standard Brands, Inc., disclosed the following treatment of sales of raw materials:

> "Sales of raw materials have been excluded from the net sales for 1947 and the amount reported for 1946 has been adjusted so as to be comparable. Profit or loss on such sales for the respective years is reflected in gross profit for both years."

U. S. Potash Co. reflected a change in sales policy in a footnote as follows:

> "Effective June 1, 1947 the company's products were almost entirely sold f.o.b. Carlsbad. Previously a large portion of sales were on a delivered basis. This change results in a decrease in gross sales and in freight on sales."

The following excerpts disclose various policies with regard to accruing profits on contract work:

> "Sales of metals and of manufactured products are included in income as billed and delivered to customers. Undelivered sales contracts and purchase commitments are not given effect to in the consolidated income accounts." (Footnote—Anaconda Copper Mining Co.)

> "It is the company's policy not to take up in the income account any profit on incompleted contracts. At 12/31/47 amounts billed on such contracts aggregated $82,609.71 against which costs (not including any general and administrative expenses) approximating $33,485 had been accumulated in work in process." (Footnote—Finch TeleCommunications Inc.)

> "Net sales, including fees accrued and costs incurred under cost plus a fixed fee contracts, after deducting allowance of $400,000 for possible inability to obtain payment of all items." (Income statement—Douglas Aircraft Corp.)

> "The contracts performed by the company during the current year were based principally on cost plus a percentage, or a fixed fee computed on estimated predetermined costs. The cost of these contracts may include both expenditures made by the company and by the parties for whom the contracts were performed. Therefore, the gross value of the contract work performed is not stated in these accounts." (Footnote—The Foundation Co.)

R. H. Macy & Co. Inc., the May Department Stores Co., and Federated Department Stores Inc. indicated parenthetically on the income statement that net sales included sales of leased departments.

While most companies presented only a single figure for sales or revenue, several companies presented analyses in the income account by either classifying the customers as domestic and foreign (Corn Products Refining Co.), by types of products sold (Atlantic Co.), or by operations performed (Newport News Shipbuilding and Drydock Co.). When sales were so classified the same classification was usually reflected in cost of sales.

The auditors' certificate noted and approved a change in the method of recording sales of metals adopted by Miami Copper Co. and described in the following footnote:

> "As at January 1, 1947 Miami Copper Company and its subsidiary, Castle Dome Copper Co. Inc., changed their method of recording sales of metals produced so as to include such sales in the accounts when the metal is delivered to customer instead of, as previously, when sales contract was executed . . ."

Gross Profit

About 68% of the income statements examined contained no gross profit figure. The two main reasons for the absence of the gross profit item were (1) the use of the single step form thereby eliminating the showing of a balance after the "cost of sales" item, and (2) the combining of cost of sales with selling, general and administrative expenses.

1947	1946	
350	337	Not Shown:
		(230) Single step form used for cost of sales and expense items (In 19 instances in 1947 term "cost of sales" not used)
		(68) Cost of sales combined with other expenses in one amount (usually selling and general and administrative)
		(34) Term "cost of sales" not used—other expense groupings and titles used.
		(18) Abbreviated Income Statements omitted sales, cost of sales, and gross profit
161	176	Shown:
		(140) As the difference between sales and cost of sales (In 24 instances in 1947 not designated as gross profit)
		(21) As the initial figure in the income statement
7	6	No Income Statements Presented
7	6	Variations of the above mentioned classifications
525	525	

The term "cost of sales" was not used when the income statement presented employment costs and material costs separately. Some companies, particularly those in extractive industries, used variations of the phrases "operating costs" or "operating charges" (e.g., Alpha Portland Cement Co., Curtis Publishing Co., Kennecott Copper Co., and Atlantic Refining Co.). Other companies used the term "manufacturing expenses" (National Cash Register Co.).

Provision for Depreciation—Where Shown

Emphasis in this year's tabulation on where the depreciation charge was shown indicated that when the charge was shown or indicated, about 73% of the reports referred to depreciation in the body of the income statement in contrast to 26% which made only a footnote reference thereto.

1947	
349	In Income Statement:
	(185) As a separate deduction
	(50) Combined in one amount with amortization
	(41) Combined in one amount with depletion, retirements, replacements (or combinations thereof)
	(54) Shown parenthetically in income statement, indicated to be in cost of sales (18) or not clear as to how apportioned (36)
	(12) Indicated to be split between cost of sale and other expense (s)
	(7) Combined in one amount with various other expenses
125	In a footnote. (In 113 instances there was no indication of where specifically charged in the income statement)
45	Not shown (including 7 reports where no income statement was presented)
5	Shown only in president's letter
1	Shown only in accountant's certificate
525	

A few companies used the following terminology to express the depreciation concept:

"Portion of cost of buildings, machinery, and equipment allocated to operations as depreciation (or similar)" (The Budd Company, Caterpillar Tractor Co., A. E. Staley Mfg. Co.)

"Wear of facilities (depreciation and amortization)" (Westinghouse Electric Co.)

"Wear and exhaustion of plants and equipment" (Blaw Knox Co.)

The report of Consolidated Edison Company indicated in the accountant's opinion that the Public Service Commission had questioned the adequacy of the reserve for depreciation.

Foremost Dairies Inc. and Eastern Stainless Steel Company decreased their depreciation charges during the year, the former company using "rates which are believed to be adequate under peacetime conditions" and the latter upon estimates by independent engineers who reported normal lives for depreciable properties greater than those previously used by the corporation.

The following discussion on the practice of not showing a charge for depletion in the income statement was included as a separate paragraph in the auditor's report:

"The practice of showing depletion as a separate deduction in the surplus account rather than as a deduction in the income account and, accordingly, of showing in the Income Account net income before depletion, has been followed by the Company for many years. While it is recognized that charges made for the amortization of cost of fixed assets are generally shown as deductions in income accounts, the difficulty of determining the extent of ore reserves and of allocating the depletion charges between cost and appreciation, the variance in the amount of the charge during the different periods depending upon the particular properties operated, and other uncertainties and variables, have caused the company to follow consistently the practice above mentioned with respect to depletion." [Phelps Dodge Corporation]

Increased Depreciation Charges

Accounting Research Bulletin No. 33, "Depreciation and High Costs," (December 1947), stated that:

"The committee disapproves immediate writedowns of plant cost by charges against current income in amounts believed to represent excessive or abnormal cost occasioned by current price levels. However, the committee calls attention to the fact that plants expected to have less than normal useful life can properly be depreciated on a systematic basis related to economic usefulness."

The fact that only eleven auditor's reports stated that their clients had deviated from generally accepted accounting principles gives some indication of the extent to which the above mentioned bulletin was followed in the reports tabulated.

1947	
474	No increased charge shown
17	Charge made prior to "net income"
19	Charge made as an appropriation of "net income"
3	Charge made at foot of income statement but "net income" not considered to be clearly designated
5	Charge made directly to earned surplus
7	No income statement presented
525	

The pertinent portions of the eleven certificates in which exceptions were taken to increased depreciation charges prior to "net income" are appended at the end of this section. (Also see section on accountant's report for general discussion of wording of exceptions.)

In connection with the six reports indicating increased charges made prior to the determination of net income with no exception taken in the opinion paragraph of the related accountant's certificate, one certificate discussed a change in depreciation policy in terms of consistency with the preceding year:

"The accounting policies of the corporation are consistent with those of the preceding year except for certain changes in depreciation policies to which we do not take exception. The major change is the adoption or a policy of accelerated depreciation of postwar additions to facilities by the short-term amortization of the estimated excess cost thereof above the prewar price level. As a result of all changes the depreciation provision for the year is $5,166,125.61 more than would have been made under policies of the preceding year." (Chrysler Corp.)

The other five certificates did not mention depreciation policy. The manner in which an additional charge was indicated by these five companies is shown below:

(1) Artloom Corporation showed as a separate item in its statement of profit and loss,

"Provision for Special Depreciation Allowance —$35,000" (A charge in the same amount was similarly shown in the 1946 report.)

(2) Two companies indicated additional charges parenthetically in the income statement as follows:

"Provision for depreciation and obsolescence (including $500,000 depreciation on account of excessive construction cost of 1947 plant additions)...$1,924,935.66"
(R. J. Reynolds Co.)
and
"Depreciation of real estate, plants and equipment (including $11,781,664 in 1947 for extraordinary obsolescence of buildings)....................$84,139,360"
(General Motors Corp.)

A footnote to the General Motors Report referred to the President's letter where the following explanation of the extra charge was given:

"Since the end of the war General Motors has been engaged in carrying out a far-reaching postwar construction program which has included the addition of new manufacturing and assembly plants and other physical facilities. Conditions during the war years did not permit normal construction and replacement of peacetime facilities. Because of construction programs deferred during the war years as well as the urgent need for expansion of facilities to meet postwar demand and provide improved facilities for engineering, distribution, and research as well as better integrated operations, it has been necessary to carry out a postwar building program over a relatively short period of time. The unusual expansion of facilities in such a short period materially increased the risk of greater obsolescence in later years arising from economic or technological factors which would reduce the useful life of the facilities. With respect to buildings, it has not, of course, been possible to identify potential extraordinary obsolescence with any particular building or buildings. However, since increased risks of obsolescence are the result of the program undertaken to meet the postwar demand for General Motors products, the policy has been adopted of making annual provisions for such additional potential obsolescence based on a percentage of the gross value of postwar building additions. As mentioned in the Third Quarter Report to Stockholders beginning as of January 1, 1947 provision has been made for extraordinary obsolescence of buildings. For the year 1947, the first year of substantial production with the new facilities, this provision amounted to $11,781,664.

With respect to machinery and equipment, it has been decided to reinstate, as of January 1, 1947, the practice in effect prior to January 1, 1945, of accruing depreciation on machinery and equipment regardless of whether the age of any individual unit in service exceeds the estimated average useful life upon which the group rate of depreciation is based. This practice is in accordance with the average group-rate concept of depreciation which provides that losses on disposals charged to the depreciation reserve will be recovered over the further life of the remaining machinery and equipment in the group. The effect of reverting to the practice of continuing depreciation accruals on all machinery and equipment in service has been to increase the provision for depreciation by $10,544,124 in the year 1947. In the opinion of the management this additional provision is required because the large increase in the machinery and equipment account in the relatively short period since the end of hostilities has created additional uncertainties as to the remaining useful life of such assets and the adequacy of the reserve for depreciation."

(3) In the other two of the five reports, there was no indication in either the income statements or the footnotes of increased depreciation charges but the president's letter contained the following remarks:

"Depreciation, Reserves:

The amount charged against income for depreciation and amortization was $23,814,014 compared with $12,642,590 last year.

The Company policy of depreciating fixed assets at rates in excess of those allowed for federal income tax purposes was continued during the year. We estimate $10,400,000 excess depreciation was charged this year due primarily to today's greatly increased costs for replacement of facilities. There remains $37,900,000 on January 31, 1948 of the excess charged off over many years to be allowed as expense in determining Federal income taxes in future years." (Sears, Roebuck and Co.)

"Depreciation policies with respect to new plants are set to recover today's excess cost over a comparatively short period of time—so that in three, four or five years, not even these plants will become a burden in time of recession." (International Shoe Co.)

The following reference to Accounting Research Bulletin No. 33 was found in the president's letter of the Tide Water Associated Oil Co. report:

"The year 1947 has been an exceptional and eventful year for industry in general and for the petroleum industry in particular. Sales and resulting net earnings for most petroleum companies exceeded those of any year in the history of the industry. In explanation of the high earnings it is being stated that in the main they resulted first, from the sale of products manufactured from crude oil produced from properties acquired in years when the costs of discovering and developing crude oil were less than one-half of current costs, and secondly, from the fact that earnings are unduly benefited by relatively low depreciation charges on plant and machinery installed or acquired in pre-war years at comparatively low costs, whereas their replacement cost at the present time may be more than double their original cost. For these reasons much thought has been given to the appropriateness of making special provisions for the great increase in replacement costs due to inflation. Some contend that an arbitrary amount estimated to represent the increase in "replacement costs" should be charged against earnings, thus reducing the latter to an amount which, in their opinion, would more accurately represent the net earnings for the year. However, the American Institute of Accountants is opposed to a special profit and loss charge providing for replacement costs and thus apparently reducing the net earnings to be reported, although it offers no serious objection to a deduction of such charge from net income for the period determined in accordance with recognized methods of accounting, provided the final figure indicates clearly that it is not the entire net income."

The policy followed by Colorado Fuel and Iron Co. with respect to providing for increased replacement costs was discussed in the narrative section of their report:

"In our interim report for the second and third quarters of this fiscal year, we showed a reserve for increased replacement costs. This was done to cover the increased costs for the replacement of buildings, machinery and equipment. The amount set up was 30% of the current depreciation month by month and was deducted from current income. As this practice has come more and more into use in the industry, a controversy arose as to its propriety from an accounting point of view. Your board, after giving considerable study to the question, decided to rescind this practice. The operating statement submitted herewith, therefore, adheres to the form used in prior years and does not show the deduction for these reserves made in the interim second and third quarterly reports."

Below are reproduced the final sections of three income statements in which net income for the year was not considered to be clearly designated (See Accounting Research Bulletin No. 35.):

(1)

"Income before federal income taxes and appropriations to reserves..	xxxx
Provision for federal income taxes	xxxx

Net income before appropriations	xxxx
Appropriations to reserves:	
For plant and equipment replacements	xxxx
For future decline in inventory commodity price	xxxx
Net income carried to surplus	xxxx

(2)

"Other charges	xxxx
Provision for federal and foreign taxes on income	xxxx
(Undesignated amount)	xxxx
Deduct—Appropriated for possible inventory price declines, inflated cost of property additions and replacements, foreign losses and other contingencies	xxxx
Balance of income to surplus account	xxxx

(3)

Net income—before provision for replacement of fixed assets	xxxx
Provision for replacement of fixed assets	xxxx
Income transferred to surplus	xxxx

The following 11 excerpts are from the accountants' reports wherein exception was taken to changes in depreciation policy:

(1) "Addition of $10,000,000 has been made to the reserve for general contingencies in recognition of excessive construction and replacement costs and other costs considered applicable to the year. The reserve provision has been deducted in arriving at the net income for the year.

In our opinion, the accompanying consolidated general balance sheet and related statements of income and surplus present fairly the position of the Allied Chemical & Dye Corporation and its subsidiary companies at December 31, 1947, and the results of their operations for the calendar year, subject to the deduction of contingency reserve provision in arriving at net income and not as an appropriation thereof, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Allied Chemical & Dye Corporation)

(2) "The net income for the year 1947, as shown by the statement of income, is after 'provision for excess of anticipated replacement cost over actual cost of present plant and equipment.'

In our opinion, subject to the exception that the 'provision for excess of anticipated replacement cost over actual cost of present plant and equipment' was charged to income instead of being an appropriation of surplus, the accompanying balance sheet. . . ." (American Asphalt Roof Corporation)

(3) "Based upon estimates of cash requirements in future years for renewals and major repairs of plant facilities (see Note 4) the Corporation has included $5,000,000 in 1947 costs in addition to depreciation computed in accordance with generally accepted accounting principles on cost of the facilities.

In our opinion, the accompanying financial statements except as stated in the preceding paragraph. . . . The accounting principles applied during the year were consistent with those of the preceding year except with respect to . . . depreciation as mentioned above.

Note 4—Depreciation—The provision of $13,088,036 for depreciation in 1947 included $5,000,000 in partial recognition of plant impairment incurred in 1947 and prior years which will require cash outlay for major repairs and renewals in excess of the amount otherwise provided from income by depreciation—see page 4 of the accompanying report to the stockholders. This additional charge was not considered in providing for federal and state taxes on income." (American Viscose Corporation.)

(4) "In addition to the usual provision for depreciation, the Corporation has appropriated from earnings for the year $1,250,000 to cover a portion of the estimated increase in cost during the year of future replacements of plant and equipment (Note D). This appropriation is a departure from the generally accepted principle of accounting heretofore consistently followed of providing for depreciation based on cost.

Except as set forth in the preceding paragraph, in our opinion, . . ." (California Packing Corporation)

(5) "In accordance with a procedure instituted by the company early in 1947, and reflected in its published interim statements during 1947, the company has made provision for excessive construction costs in the amount of $20,900,000 and has deducted such provision from net operating and other income in arriving at net income for 1947. In the latter part of 1947, the American Institute of Accountants' committee on accounting procedure published a statement in which it said 'the committee disapproves immediate write-downs of plant cost by charges against current income in amounts believed to represent excessive or abnormal costs occasioned by current price levels.'

Except as indicated in the preceding paragraph, in our opinion, . . ." (E. I. duPont deNemours & Co.)

(6) "The company included in its provision for depreciation and amortization and in the reserve for depreciation the amount of $1,321,633 to cover 1947 construction costs deemed excessive. The normal provision for depreciation and amortization was accordingly computed on the resulting reduced depreciable base. Had the company adhered to the generally accepted concept of cost on which depreciation is based, the provision for depreciation and amortization for the year and the reserve for depreciation would have been

decreased and net income and earned surplus increased by $1,300,734.

In our opinion, subject to the exception noted in the preceding paragraph, . . ." (Hercules Powder Company)

(7) "During the year, a reserve for property replacement and/or excessive cost of new facilities was provided by a charge to operations of $2,000,000. While provision for such reserves by charges to income has not yet been recognized as technically conforming to accepted accounting principles, we, nevertheless, believe the charge to be justified in view of the company's relatively large plant investment and the economic conditions existing during the year 1947.

In our opinion, subject to the comments in the preceding paragraph. . ." (Libbey-Owens-Ford Glass Company)

(8) "The Corporation included in its cost and expenses, and as a deduction in determining net income for the year 1947, a special provision for depreciation of $3,500,000 based on greatly increased construction and property replacement costs, this being in addition to the amount computed on the basis of cost in accordance with generally accepted accounting principles on which the provisions for depreciation have heretofore been made. This additional provision which, under existing tax laws and regulations is not deductible in computing taxable net income, has been included in the reserve for depreciation in the balance sheet.

In our opinion, subject to the exception noted in the preceding paragraph, . . ." (National Steel Corporation)

(9) "The Corporation has included in its costs and expenses and as a deduction in determining net income for the year, the amount of $4,000,000.00 as a provision for excess cost of property replacements. The resulting reserve has been deducted from the property accounts in the balance sheet. It is our opinion that such treatment of this item is not in accordance with generally accepted accounting principles but we recognize that companies in the steel industry, as well as those in other industries where relatively large plant investments are required, face a serious problem in this connection and if construction costs remain approximately at the present level, they will be required to retain large amounts from net income or from special charges of this nature to finance replacements necessary to maintain their relative position. It, therefore, follows that, while it is necessary under present accounting procedures for us to take the exception indicated, from all other viewpoints it appears to us that the treatment accorded the item is fully justified and proper.

In our opinion, subject to the comments in the preceding paragraph. . . ." (Republic Steel Corporation)

(10) "In addition to the usual provision for depreciation computed in accordance with generally accepted accounting principles on the cost basis as heretofore, a special provision in the amount of $1,250,000 has been included in costs and expenses, and as deduction in determining net income for the year, to provide a reserve for the increased replacement cost of plant facilities. The additional provision has been included in the balance sheet under the caption of reserves and is not deductible in computing taxable net income.

In our opinion subject to the exception noted in the preceding paragraph, . . ." (The Timken Roller Bearing Company)

(11) "During the year 1947, in partial recognition of the increased replacement cost of long-term facilities which are being worn out or exhausted in production, the corporation has included in costs additional depreciation of $26,300,000 (as indicated in the notes to the accounts) in excess of the amount determined in accordance with the generally accepted accounting principle heretofore followed of making provision for depreciation on the original cost of facilities.

In our opinion, except as set forth in the preceding paragraph, . . ." (United States Steel Corporation)

Cost of Past Service Pension Credits

Accounting Research Bulletin No. 36 "Pensions Plans—Accounting for Annuity Costs Based on Past Services" (November 1948) recommended that costs of past service annuities should be allocated to current and future periods and not charged to surplus. General practice as revealed in the reports surveyed for the past two years was in accordance with the above recommendation.

1947	1946	
43	35	Charge shown or indicated in income statement
		(22) Not separately shown but indicated in the footnotes or president's letters to be included therein.
		(11) Combined with current pension cost, total thereof shown as a separate amount.
		(6) Shown separately as an opererating expense (Pet Milk Co.)
		(2) Remaining cost provided for in full by provision in income statement (Champion Paper & Fibre Co., International Paper Co.).
		(1) Shown as last item in income statement after tax provision but before "net profit." (Endicott Johnson Corp.)
		(1) Included in income statement as pensions are paid. (Hooker Electrochemical Corp.)

8		Charged to pension reserve (Brown & Sharpe Mfg. Co.)
1	16	Transfer from contingency reserve to income statement in respect of past service cost (The Lambert Co.)
9		Charged to earned surplus (Revere Copper & Brass, Inc.).
61	51	

The treatment of past service annuities by the California Oregon Power Company was reflected as follows in the related accountant's report:

"As explained in Note F with respect to the employee retirement plan, operating expenses for 1946 include both the amounts paid in 1946 and 1947 for past service annuities. We take no exception to this procedure in view of the approval by State regulatory authorities."

The president's letter of the American Brake Shoe Company gave the following information on tax deductions claimed in prior years with respect to past service benefits:

"The Bureau of Internal Revenue has indicated its intention of disallowing as deductions for income tax purposes for the years 1943, 1944, and 1945 payments of approximately $700,000 made to our employees' retirement system for past service benefits, claiming that deductions for contributions made to fund our past service liability should be allowed over a period of not less than ten years. The additional taxes which would be involved amount to approximately $570,000. We have been advised by counsel that the deductions taken in the years in question, in their opinion, were proper under the law. The controversy with the government on this matter is still pending."

Provisions of a pension plan whereby a past service payment may be omitted were described in a footnote by the Champion Paper & Fibre Company:

"Under the provisions of the retirement income plan, as amended effective May 1, 1947 to include hourly employees as well as salaried employees, the Company is required to make payments for the past services of the covered employees until the past service program is completed. Payments on account of such liability are required on or before April 15 of each year in amounts not less than $100,000, except that the Company may omit a past service payment on any due date provided a past service payment was made on the preceding date. Although the company has reserved the right to modify or discontinue the plan at any time in the future, a reserve has been provided in an amount which is deemed to be adequate to cover the Company's remaining liability under the past service portion of the program."

Wages and Salaries

While the number of tabulated reports in which the certified income statements showed employment costs as a separate item was relatively minor (18 in 1947, 10 in 1946), there was a relatively large increase during the year. (For names of companies adopting this practice in 1947 see companies 36, 195, 89, 514, 234, 326, 333, 496.)

Presentation of similar information on payments made to employees was more widespread in the narrative and supplementary uncertified material accompanying the financial statements, usually in the form of supplementary income statements, pie charts or graphs.

1947	1946	
331	391	Not shown
174	122	Shown as supplementary information by means of uncertified statements, pie charts or graphs, or mentioned elsewhere in the president's letter
18	10	Shown as a separate amount in the certified income statements
2	2	Shown parenthetically in the certified income statement
525	525	

Employment costs were usually described in the 18 certified statements mentioned as wages and salaries, social security payments, and group insurance, practice varying as to whether these three items were shown separately or combined. All but two companies (105, 116) showed the material cost element as one item, the two other treatments involving a presentation of opening and closing inventories, and purchases.

The U. S. Gypsum Company's statement showed "plant wages and salaries" as a separate cost item, in addition thereto showing another item "selling, general and administrative."

Two companies presented parenthetically after "cost of sales" the amount of wages and salaries for the year.

Very few reports disclosed the amount of officers' salaries. However, the Nunn-Bush Shoe Company listed individually the remuneration of four officers showing the aggregate amounts each received and the approximate amount thereof retainable after income tax payments. Following disclosure of the above information, a rather unusual policy was expressed: "Workers after serving two years with the company as employees have the privilege of becoming 'associates,' men and women who have elected to work for a share of production rather than an hourly wage." The Belden Manufacturing Company also quoted the four highest salaries paid in 1947 in conjunction with the estimated tax thereon.

The E. I. duPont de Nemours & Company presented in the president's letter a table showing the total number of employees classified as to the range of annual salary or wage, with the estimated tax applicable to each group also shown.

A pie chart compared the direct selling payroll, operating payroll, and manufacturing wages of Munsingwear, Inc.

A supplementary statement showed separately "compensation paid to officers" and "wages, salaries, social security taxes, and insurance paid for employees." (Howell Electric Motors Co.)

Income Taxes

While the statistics below relate solely to income taxes, attention is invited to the fact that an item "taxes other than (federal) income taxes" was often shown as a separate item in the income statement. Accounting Research Bulletin No. 23 should be read in conjunction with this and the following section.

1947	
224	Federal income tax provision shown separately—no other income tax provision mentioned.
61	Federal and state provisions shown separately
49	Federal and state provisions combined
49	Federal and foreign income tax provisions combined
13	Federal and foreign income tax provisions each shown separately
10	Federal provision and carry back estimate shown separately
6	Federal provision and carry back estimate combined
16	Federal tax provision combined with two or more of items mentioned previously
8	Federal tax provision shown separately from two or more items mentioned previously
24	No federal tax provision—carry back refund claim shown
8	No federal tax provision—no carry back refund claim shown
6	Federal and state taxes combined as "U. S. taxes"—foreign shown separately
14	Federal and "other income taxes" shown separately
12	Federal shown separately, state and foreign combined
12	"Provision for income taxes" or "federal and other income taxes" shown in one amount
7	No income statement presented
1	Federal separate, state income and franchise taxes combined
1	Federal and foreign combined, carry back claim separate.
1	Federal and Dominion combined—state and provincial combined—two separate amounts
1	Federal, social security, and other—three separate amounts
1	Income taxes—other federal, state and local—two separate amounts
1	Federal shown separately—other taxes—carry back claim of subsidiary—three amounts separately shown.
525	

A footnote to the 1947 report of Johns Manville Corporation revealed that in 1946 the practice was adopted of making annual provision for estimated federal income taxes expected to be payable on the portion of the earnings of the Canadian subsidiary for the year not declared as dividends to the parent ($475,000 in 1947).

Hawley Pulp & Paper Company showed federal excise taxes as a separate item next to the federal income tax provision.

Koppers Company showed the following tax provisions in the income statement:

"Federal Income Taxes. . . .
State Income Taxes. . . .
Tax Contingencies. . . ."

The income statement of the Atlantic Refining Company was unusual in that the provision for "taxes" (including income taxes) was shown in the "operating" section of the income statement, with a separate supporting schedule.

Republic Aviation Corporation indicated in a footnote that no provision had been made for the carry forward of the portion of the operating loss for 1947 which could not be availed of under the carry back provisions.

The accountants' reports for United Merchants and Manufacturers Inc. and Belding Hemingway Inc., both indicated that the statements were subject to final determination of tax liabilities. (See also Eastern Stainless Steel Corporation.)

In a footnote Amalgamated Sugar Company indicated that tax liability had been computed only on the parent company's income, pending determination as to whether a consolidated return could be filed with a subsidiary in process of liquidation.

Allocation of Income Taxes

The following schedule attempts to describe variations in the methods of tax allocation noted in 1947 reports. It is followed by examples of explanations given in cases where no tax allocation was made.

The recommendations in Accounting Research Bulletin No. 23, "Accounting for Income Taxes" (December 1944), with respect to the treatment of tax allocations, specified that charges or credits in the income statement as the result of such allocations should be "specifically disclosed and appropriately described." In a great many of the 1947 reports, the only indication that a tax allocation affected the income account was found in the description accompanying a charge or credit to the surplus account.

Charges to Reserve, Net of Tax Effect

5 Item charged in the income statement and a portion of the reserve, equal in amount to the excess of such item over the related tax reduction, transferred to the income statement as a credit (Motor Wheel Corporation)

4 Provision for income taxes shown as if charge were not deductible for tax purposes, the total amount of tax estimated to be legally due for the year or the tax effect of the special charge being indicated in a footnote (Marshall Field & Company)

2 Amount equal to tax reduction charged separately in the income statement (McCall Corp.)

1 President's letter contained only reference to reduction in income taxes occasioned by charge to reserve, tax provision being shown as if charge were not deductible for tax purposes (American Stores Co.)

1 No mention of tax effect other than indication of net charge to reserve (minor amount)

Credits to Reserve, Net of Tax Effect

1 "The tax liability for the year 1947 as shown on the balance sheet exceeds the amount charged against income in the statement of income principally because the tax payable on profits from sales of securities has been charged to the general reserve since such profits are credited to this reserve." (Footnote—General Electric Co.)

Charges to Surplus, Net of Tax Effect

10 Provision for income taxes shown as if charges were not deductible for tax purposes but amount of tax legally due not indicated either in the income statements or in footnotes (Air Reduction Co. Inc.)

4 Separate charge included in the income statement equal to the tax reduction (Rexall Drugs Inc.)

2 Provision for taxes shown in income statement as if charge were not deductible for tax purposes, but total amount of tax estimated to be legally due for the year indicated in footnote (The May Department Stores Company)

Credits to Surplus, Net of Tax Effect

5 Provision for taxes shown in income statement as if surplus credit were not taxable, and amount of tax legally due not indicated either in the income statement or in footnotes. (In two of these cases, however, the specific amount of the tax offset was stated in describing the surplus credit.) (Continental Steel Corporation)

3 Provision for taxes shown in income statement as if surplus credit were not taxable, but total amount of tax estimated to be legally due for the year indicated in footnote (West Virginia Pulp & Paper Co.)

Other Allocations

10 Extraordinary or non-operating costs or profits net of related tax effect shown in the income statement before "net income," usually following the provision for federal income taxes, the latter being shown as if the extraordinary item were not deductible for tax purposes (Libby, McNeill & Libby—Schenley Distillers Corp.)

1 Provision for possible future inventory price declines charged in cost of sales net of applicable tax effects (Stewart Warner Corp.)

1 Provision for past service pension costs less related tax effect shown before net income, with amount equal to tax effect thereof shown separately and added to the provi-

sion for federal taxes on income (Endicott Johnson Corp.)

1 Adjustment of depreciation reserves, less resultant adjustment of taxes and renegotiation shown as charge in income statement prior to net income (Hayes Manufacturing Co.)

1 Reduction in current income taxes, resulting from payments for past service annuities previously charged to surplus reserves, treated as a general expense in the income statement and added to surplus (S. S. Kresge Co.)

2 Portion of reserve, created in prior year in amount equal to estimated additional taxes payable as a result of the future non-deductibility for tax purposes of depreciation on fully amortized emergency facilities, transferred to the income statement (The W. L. Maxson Corporation)

The footnote below from the report of Revere Copper and Brass Co. presented an interesting method of offsetting the future tax deductibility of past service payment costs paid in full during the year 1947, against the current non-deductibility for tax purposes of depreciation on fully amortized emergency facilities which have been restated in the books of account.

"The Company adopted a retirement plan for salaried employees, effective September 1, 1947, which provides for (a) future service benefits which are paid for currently, in part by the Company and in part by the participants in the plan, and (b) past service benefits, the total cost of which $3,280,559.52, was paid by the Company in 1947. Of such total cost, $183,756.62, the portion applicable to the eight months ended August 31, 1947, was charged against income for 1947 and the balance of $3,096,802.90, applicable to years prior to 1947, was charged to earned surplus. Since 10% of the total cost of past service benefits is deductible for federal income tax purposes in each of the ten years beginning with 1947, a deferred charge of $1,176,785.10 being 38% of the cost applicable to years prior to 1947, has been set up and deducted from the above mentioned charge to earned surplus, and will be applied against the tax savings as realized.

"The balance of this deferred charge as at December 31, 1947, $1,121,951.35, and $1,018,930.39, the balance of the deferred portion of reduction in federal income taxes resulting from accelerated amortization of emergency facilities, which was explained in the report for 1946, are shown on the balance sheet as a net amount of $103,020.96 under the title deferred adjustments for federal taxes. In 1948 and subsequent years the applicable portion of these adjustments will be taken in the accounts for the year."

The auditor's report accompanying the statement of Caterpillar Tractor Co. contained the following remarks with reference to the fact that the Lifo method, adopted during the year, was not used for tax purposes:

"The new basis has not been adopted for federal income tax purposes and the tax of $2,156,897 applicable to the difference in taxable profit is included with 'taxes, insurance, etc.—cost allocable to future operations.' "

The DuPont Co. allocated its tax provision between two sections on its income statement, "operating income" and "other income."

While the previous classifications dealt with those instances in which tax allocations were disclosed, a number of large companies preferred to comment on the reasons for differences between taxable and book income in a footnote, showing the tax provision at the estimated legal amount. Some of these comments follow:

"Intangible development costs incurred prior to January 1, 1931, were charged to expense. Such costs incurred since that date have been capitalized on the books (and amortized on the basis of underground reserves determined by the company's geologists) but have been claimed as expense for income tax purposes. The amount of unamortized intangible development cost carried on the books but deducted for tax purposes, less the amount of amortization of domestic nonproducing leases charged to income on the books but not deducted for tax purposes, was approximately $21,000,000 at December 31, 1947 and 1946." (Atlantic Refining Co.)

"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, 1948, was computed to be more than the corporate income before taxes, as was also the case in the preceding taxable year." (General Mills, Inc.)

"Numerous differences exist between taxable income and book income, including fluctuations in the 'normal stock' reserves, percentage depletion and the following payments for purchases of past service annuities in the respective years, each deductible for tax purposes but charged on the books to reserve for pensions: 1947, $1,063,306; 1946, $1,056,082." (National Lead Co.)

"General Motors has followed the practice of making provision currently for income and excess profits taxes by charging income with the amounts estimated to be payable under the applicable tax laws. Because net income subject to income taxes is determined on the basis of tax law, there are necessarily differences which may be substantial in some years between such income and the amount of income reported in the income statement. Over a period of years these differences tend to offset. During 1947, as in other years, the amounts provided in the corporation's accounts for depreciation were in excess of the amounts which it is expected will be allowed by the taxing authorities as deductions for the current year. Furthermore, since the amount provided for employees bonus in 1947 was not distributed in that year, it is not an allowable deduction for tax purposes in 1947. With respect to the first installment of bonus a deduction is allowed in the year in which it is paid. Subsequent installments are deductible in the respective years in which they are earned out by the employees. Finally, in accordance with usual practice, reserves were provided to cover anticipated losses and expenses which are properly chargeable against the current year's income. These provisions are not allowable deductions for tax purposes in 1947 since the losses and expenses will not be actually realized and determinable until later years, at which time they will become allowable deductions for tax purposes." (General Motors Corporation)

"The amount charged against income for depreciation and amortization was $23,814,014 compared with $12,642,590 last year.

"The company policy of depreciating fixed assets at rates in excess of those allowed for federal income tax purposes was continued during the year. We estimate $10,400,000 excess depreciation was charged this year due primarily to today's greatly increased costs for replacement of facilities. There remains $37,900,000 on January 31, 1948 of the excess charged off over many years to be allowed as expense in determining Federal income taxes in future years." (Sears, Roebuck and Co.)

"The total of accumulated provisions for depreciation claimed by the Corporation in federal income tax returns exceeds by a substantial amount the aggregate used for general accounting purposes. It is impracticable to estimate the effect of this depreciation difference on the earnings of future periods." (General American Transportation Corp.)

Section 4: SURPLUS

Terms Used to Replace "Earned Surplus"

During the past year a pronounced trend was evident toward the substitution of new terminology for the term "earned surplus." While not included in the statistics below, a few companies used the term "earned surplus" but added a new description parenthetically thereafter (e.g., Standard Oil Company of Kentucky.)

1947	1946	
9	1	(Net) earnings retained (for use) in the business (Chrysler Corp., Bohn Aluminum & Brass Co.)
7	4	(Net) income retained (for use) in the business (The American Rolling Mill Co., Westinghouse Electric Co.)
1	..	Profits retained in the business less amounts transferred to capital stock account (A. E. Staley Mfg. Co.)
1	..	Profits retained in the business (Iron Fireman Mfg. Co.)
1	..	Accumulated earnings retained for use in the business (Wm. Wrigley, Jr., Co.)
1	..	Other capital and income retained in the business (Jones & Laughlin Steel Co.)
1	..	Earnings retained and used in the business (Scovill Mfg. Co.)
1	..	Income retained and invested in the business (John Morrell & Co.)
3	..	Earnings retained and invested in the business (W. F. Hall Printing Co.)
1	..	Earnings reinvested or retained in the business (Philip Morris & Co., Ltd.)
1	..	Earnings retained and employed in the business (National Cash Register Co.)
1	1	Earnings accumulated since inception, retained and invested in the conduct of the business (J. I. Case Co.)
1	1	Income accumulated and retained in the enterprise (Blaw-Knox Co.)
6	1	Accumulated earnings (Budd Co.)
3	..	Earnings employed in the business (Gulf Oil Corp.)
1	1	Net income employed in the business (Standard Oil Co. of Ohio)
1	2	Profit employed in the business (Caterpillar Tractor Co.)
1	1	Earnings reinvested and employed (Standard Oil Co. of New Jersey)
2	2	Income reinvested in the business (U. S. Steel Corp.)
1	2	Earnings reinvested in the business (Marmon Herrington Co.)
1	1	Earnings reinvested (Johns Manville Co.)
1	1	Earnings reinvested or retained in the business (W. Virginia Pulp & Paper Co.)
2	1	Income invested in the business (Briggs Mfg. Co.)
1	..	Earnings invested in plant facilities and working capital (Gaylord Container Corp.)
1	..	Earnings invested for use in the business (Garlock Packing Co.)

1	..	Undivided profits (Curtis Publishing Co.)
1	..	Earnings used in the business (W. T. Grant Co.)
52	19	

Scott Paper Company used the following method of showing earned surplus:

"Income reinvested in the business, excluding the effect of writing off in 1945 the goodwill acquired with the Cut-Rite assets ....
Deduct—goodwill referred to above ....
Balance per income statement on following page.."

Hormel & Company referred to "surplus (including earned surplus of predecessor corporation)" in a footnote which stated that the opening balance included a credit for tax reduction segregated in the company's accounts pending review of claims for relief under provision of the Internal Revenue Code.

Chicago Pneumatic Tool Company showed two divisions under the heading of Earned Surplus on the balance sheet as follows:

"Earned Surplus:
At 12/31/36, the date as of which the plan of recapitalization is deemed, for purposes of the surplus account, to have been consummated.............
Since 1/1/37................................"

Universal-Cyclops Steel Company used a somewhat similar presentation:

"Earned Surplus (including $382,182 earned surplus of constituent companies accumulated prior to merger September 30, 1936)..............................."

The Curtis Publishing Company used the following form of balance sheet presentation for surplus items:

"Stated capital..................................
Capital surplus.................................
Contingent reserve (earned) and undivided Profits to December 31, 1940.............................
Undivided Profits after December 31, 1940........."

Scovill Manufacturing Company did not show "earned" and "paid in" surplus separately on the balance sheet but combined them under the title:

"Additional capital, consisting of further amounts paid in by stockholders and earnings retained and used in the business"

A footnote to the above report stated:

"The additional capital at December 31, 1947 was in part supplied by stockholders during the years 1937 and 1946 by the purchase of stock for $2,113,123 in excess of its par value, and partly from earnings retained for use in the business."

(See also Alpha Portland Cement Company, Phelps Dodge Corporation.)

Armour & Company showed "earnings employed in the business" classified as "appropriated" and "unappropriated." Inventory and contingency reserves were shown under the heading "appropriated."

The Super-Cold Corporation presented adjustments to earned surplus, December 31, 1946 in a footnote to the 1947 report stating the balance after such adjustments in a combined income and surplus statement.

In its 1946 report the W. F. Hall Company described surplus as "Earned Since April 1, 1936." In 1947 this item was described as "earnings retained and invested in the business" with the 1936 reference omitted.

Consolidated Vultee Aircraft Corporation showed "earned surplus segregated for possible loss on Convairliner project" as a separate balance sheet item.

The earned surplus account of International Silver Company included a small amount of capital surplus, no separate account being shown for the latter item, information thereon being supplied in a footnote.

While deficits were rare in the reports tabulated, the preferred wording was "earned surplus (deficit)."

Designations For Other Than "Earned" Surplus

The trend previously mentioned towards substituting more descriptive phrases for the term "earned surplus," was accompanied during the year by a tendency towards the use of words which indicated the nature or source of other types of surplus.

1947	1946	
146	129	None shown
271	300	"Capital surplus"
66	82	"Paid-in surplus"
2	5	"Capital in excess of stated amount" (U. S. Steel Corp.)
4	4	"Capital surplus—paid in" (Mack Trucks Inc.)
5	3	Surplus arising from revaluation of property (appraisal or appreciation surplus) (Godchaux Sugars Inc.)
1	2	"Capital paid for common stock in excess of par value" (Gaylord Container Corp.)

4	2	Combined with capital stock ("stated capital") (Melville Shoe Co.)
1	1	"Capital paid-in, in addition to capital stock" (Industrial Brownhoist Corp.)
1	1	"Initial and capital surplus" (Lily-Tulip Corp.)
1	1	"Further surplus" (Allied Chemical & Dye Corp.)
3	1	(Capital) surplus arising from retirement of stock (Alpha Portland Cement Co.)
1	1	"Special capital reserve accumulated pursuant to requirements of charter" (General Cigar Co.)
1	1	"Initial surplus" (earned surplus also shown) (Allied Mills Inc.)
1	1	"Surplus arising from acquisition of certain wholly owned subsidiaries" (Ely & Walker Dry Goods Co.)
1	..	Other capital (and income retained in the business) (Jones & Laughlin Steel Corp.)
2	..	"Additional paid-in capital (capital surplus)" (Chrysler Corp.)
2	..	Excess of net capital invested by stockholders over par value of outstanding capital stock (paid in surplus) (Copperweld Steel Co.)
3	..	Paid-in and capital surplus (Borg-Warner Corp.)
1	..	Surplus reserves of subsidiaries in South America (statutory) (Lone Star Cement Co.)
2	..	Capital contributed (by stockholders) in excess of par value of securities (J. I. Case Co.)
1	..	Other capital (excess of stated capital over net assets in 1939 plus subsequent additions) (Blaw-Knox Co.)
1	..	Paid-in surplus—excess of proceeds from common stock issued in 1947 over par value thereof (Wagner Electric Corp.)
1	..	Amount paid the company for capital stock in excess of par value (Westinghouse Electric Co.)
2	..	Surplus-capital—arising from reduction of capital (Weston Electric Instrument Corp.)
1	..	Capital (paid-in) surplus (Aviation Corp.)
2	..	Capital paid-in (by stockholders) in excess of par value of capital stock (American Rolling Mill Co.)
1	..	Capital (principally paid-in) in excess of amounts shown for capital stock above (York Corp.)
1	..	Surplus from conversion of preferred stock (Anderson Prichard Oil Co.)
1	..	Surplus arising from conversion of bonds (Clyde Porcelain Steel Corp.)
1	..	Excess of amounts received over stated capital (Iron Fireman Mfg. Co.)
1	..	Paid-in and capital surplus (McGraw Electric Co.)
4	..	Amount in excess of par value (W. F. Hall Printing Co.)
1	..	Surplus paid in by stockholders (in excess of par value of capital stocks, less financing expenses) (P. Morris Co., Ltd. Inc.)
1	..	Capital — donated and paid in (Parkersburg Rig & Reel Co.)
1	..	Surplus available except for dividends on common stock (Moxie Co.)
1	..	Amount received in excess of par value of capital stock (capital surplus) (Gulf Oil Corp.)
1	..	Stockholders investment in excess of par value of common stock (Garlock Packing Co.)
1	..	Capital in excess of par value of stock issued (Standard Oil Co. of Ohio)
1	..	Premium on sale of common shares (Union Oil Co. of California)
1	..	Exchange adjustments in consolidation in suspense (International Nickel Co. of Canada)
1	..	Surplus arising from transfer of nickel properties in Finland (International Nickel Co. of Canada)
1	..	Surplus applied against stock held in treasury (Revere Copper & Brass Co.)
546	534	

The Hoover Co. showed capital surplus as "common share capital in excess of par value." The related section heading on the balance sheet was titled "capital and income employed in the business."

Anderson Clayton Co. mentioned legal reserves required by foreign countries as follows:

> "Included in earned surplus (consolidated) at December 31, 1947 are legal reserves, aggregating $808,065.72 required by the laws of certain of the countries in which the foreign subsidiaries are situated. These reserves are not available for payment of dividends by the foreign subsidiaries."

Scott Paper Co. valued outstanding common stock at the amount of stated capital plus $3,350,000 paid in surplus in its 1947 balance-sheet.

As with "earned surplus" some reports followed the term "capital surplus" with explanations of the nature or composition of such term. For example, Emerson Radio & Phonograph Corporation presented the item as follows:

> "Surplus:
> Capital (representing excess of par value over cost of capital stock reacquired, and par value of capital stock donated) (no change during the year) ...."
> (See also Houdaille Hershey Corp.)

Clyde Porcelain Steel Co. showed surplus arising from the conversion of bonds separately from capital surplus.

Buffalo Bolt Company, Craddock Terry Shoe Corp. and Woodward Iron Co. had no change in the amount of capital surplus during the year. However, they presented historical statements showing the previous changes therein. American Car and Foundry Company explained in its capital surplus statement that the opening balance represented:

> "The excess of acquired equities over capital stock costs upon consolidation of Shippers' Car Line Corporation and its subsidiaries."

Earned Surplus Charges and Credits

(See *Accounting Research Bulletin No. 32*)

In the 1947 reports examined there were more reports in which no charge or credits (other than for net income and dividends paid) were made to earned surplus than there were in the previous year (1947—264, 1946—239).

Earned Surplus Charges

1947	1946	
60	65	Prior year adjustments
60	62	Capital stock transactions
39	27	To reserves
31	32	Write off of intangibles
3	8	Bond discount—write off
4	7	Recapitalization expenses
9	6	Consolidation and merger expenses
40	17	Miscellaneous
2	3	Unusual losses
248	227	

A detailed breakdown of the above classifications for 1947 follows:

(60) Prior Year Adjustments

22 Taxes (Buffalo Bolt Company)
8 Renegotiation and contract termination (Beech Aircraft Corporation)
3 Depreciation and amortization (Lima Hamilton Corp.)
2 Inventories—Lifo adjustments (Commercial Solvents Corp.—Federated Department Stores Inc.)
9 Past service pension cost (Revere Copper & Brass, Inc.)
1 Restatement of refinery plants accounts to cost (American Sugar Refining Co.)
1 Restatement of non-operating properties to estimated net sales value (American Sugar Refining Co.)
3 Not specified
1 Extension of normal stock method (Endicott Johnson Corp.)
1 Write off of remaining appreciation arising in 1927 reorganization (Pullman Inc.)
1 Accrued mill vacation shutdown costs applicable to prior year (American Writing Paper Corp.)
1 Provision for 1946 vacation wages accrued under union contract, less tax (Camden Forge Co.)
1 Prior year income and tax adjustments (Cessna Aircraft Co.)
1 Transfer from capital stock account of expenses incident to stock sale in 1946, in accordance with accounting requirements of CAB (Chicago & Southern Air-lines, Inc.)
1 Additional amortization of bond discount and expense (Roberts & Oake, Inc.)
1 Additional customer credits (Moxie Co.)
1 Depletion, royalties and miscellaneous adjustments (Argo Oil Corp.)
1 Adjustments to reserves for depreciation, depletion and bad debts (Panhandle Producing & Refining Co.)

1 Adjustment pertaining to exchange of stock (Colorado Fuel & Iron Corp.)

(60) Capital Stock Transactions

19 Premium on stock retirement charged in total to earned surplus (Crane Co.)
5 Expense of stock issue charged in total to earned surplus (Willys Overland Motors, Inc.)
13 Premium on purchase of treasury stock charged in total to earned surplus (Cuban American Sugar Co.)
7 Adjustments re purchase sale or retirement resulting in a charge to both earned and capital surplus (Interstate Bakeries Co.)
1 Adjustment of stated value of preferred stock to call or liquidation value (The B. F. Goodrich Co.)
3 Premium on stock retirement in excess of amount charged to capital surplus (Cuneo Press, Inc.)
2 Cost of treasury stock purchased during year (McGraw Hill Publishing Co. Inc.)
1 Book value of treasury stock less amount previously charged to surplus (F. W. Woolworth Co.)
1 Expense of stock issue in excess of premium received (remainder to capital surplus)— (American Cyanamid Co.)
1 Discount on preferred stock acquired for sinking fund resulted in charge to earned surplus and credit to capital surplus (National Supply Co.)
1 Excess of expenses incurred over proceeds in excess of par value upon issuance of preferred stock (Container Corp. of America)
1 Purchase of 25 shares of preferred stock of predecessor company at $13.20 per share. (A. S. Campbell Co., Inc.)
1 Dividends payable upon redemption of preferred stock (Craddock Terry Shoe Corp.)
1 Earned surplus allocable to treasury stock sold by subsidiary (Pittston Co.)
1 Discount and expense on original issue of preferred stock of subsidiary written off (Cities Service Co.)
2 Expenses incurred in connection with issuance of new common stock (Kimberly Clark Corp.)

(39) To Reserves

10 Future inventory losses (Quaker Oats Co.)
1 Special reserves for obsolescence (deducted from fixed assets) (American Sugar Refining Co.)
2 Pension fund reserve (American Car & Foundry Co.)
4 Contingencies (Belding Hemingway Co., Inc.)
2 Appropriation to statutory reserves of South American subsidiary (Lone Star Cement Corp.)
1 Specific reserves for bottles & cases (net) (Jacob Ruppert)
1 Unexpired subscriptions (McGraw-Hill Publishing Co.)
1 Abandonments and replacements of real estate, plant and equipment (General Refractories Co.)
1 Possible loss on foreign subsidiary (equal to reinstated cost of investment)—Corn Products Refining Co.)
1 Special addition to reserve for depreciation (Baldwin Locomotive Works)
1 Replacement of fixed assets at higher than original costs (American Optical Co.)
1 Shown in surplus—segregated to provide for possible loss on project (Consolidated Vultee Aircraft Corp.)
1 Employees' sick benefits (F. W. Woolworth Co.)
1 Reserve for federal income taxes and tax refunds for prior years (Federal Machine & Welder Co.)
1 Capital expenditures (Chicago Railway Equipment Co.)
1 Reinstatement of reserves for repossession losses and doubtful accounts (Super Cold Corp.)
1 Reserve for debenture retirement sinking fund (American Wringer Co., Inc.)
1 Possible inventory decline (deducted both in income and surplus) (United Stove Co.)
1 Appropriation as sinking fund for preferred stock (United Artists Theatre Circuit Inc.)
1 Appropriation as reserve for sinking fund (shown in surplus)— (Billings & Spencer Co.)
1 Development (U. S. Smelting, Refining & Mining Co.)
1 Increase in surplus reserve (The Amalgamated Sugar Co.)
1 Addition to metal inventory reserve (American Metal Co., Ltd.)

1 Appropriation to reserve for contractual risks (American Metal Co.)
1 "Other" reserves (Quaker Oats Co.)

(31) Write Off of Intangibles

2 Goodwill (nature not described) (Wm. Wrigley Co. exhausted capital surplus first)
17 Difference between cost of investment and book value of investment at time of acquisition (Owens Illinois Glass Co.)
2 Goodwill of acquired companies written off during the year (Arden Farms Co.)
2 Goodwill purchased during year (Borden Co.)
1 Excess cost of assets acquired over book value thereof (Bristol Myers Co.)
1 Write off of remaining excess cost of investment in subsidiary over net book value of assets at date of acquisition (Pullman Inc.)
1 Patents, rights, processes and goodwill written off (American Cyanamid Co.)
1 Patents, trademarks and goodwill (Dixie Cup Co.)
1 Patent value adjustment (Buckeye Steel Castings Co.)
1 Formulae and patents (American Asphalt Roof Co.)
1 Goodwill, patents, trademarks (Avon Allied Products Inc.)
1 Amount written off cost of properties to give effect to appraised or book values thereof (Continental Can Co.)

(4) Recapitalization Expenses

1 Refinancing and recapitalization expenses (Drackett Co.)
1 Premium and dividends on preferred stock redeemed—and cost of recapitalization (The Moxie Company)
1 Recapitalization charges (George E. Keith Co.)
1 Excess of principal amount of debentures issued in exchange for preferred stock (Cities Service Co.)

(9) Consolidation and Merger Adjustments

1 Adjustments in connection with merger (Standard Stoker Co. Inc.)
1 Acquisition of minority interests in stocks of subsidiaries (United Merchants & Manufacturers, Inc.)
1 Net change in surplus of foreign subsidiary during period not consolidated (McGraw Hill Publishing Co.)
2 Amount included in respect of Canadian subsidiaries now omitted from consolidation (Safeway Stores Inc.)
1 Increase of minority interest in earned surplus of subsidiary (Alaska Pacific Salmon Co.)
1 Adjustment of provision for minority interests in subsidiary company (Bay Petroleum Corp.)
1 Surplus of subsidiary no longer consolidated (Associated Dry Goods Corp.)
1 Balance of earned surplus (undistributed profits) of companies in which 50% interest was sold (Reynolds Metals Co.)

(40) Miscellaneous

4 Transfer to capital surplus (Interstate Bakeries Corp.)
2 Premium on bond retirement (Armour & Co.)
4 Exchange adjustment (Swift & Co.)
1 Wisconsin privilege dividend tax paid for stockholders (Nash Kelvinator Corp.)
4 Transfer to capital stock because of increase in aggregate par value after stock split (Beechnut Packing Co.)
1 Write off of deferred research and experimental expenses upon change in policy (Celanese Corp. of America)
1 Write down of investment in non-consolidated subsidiary (United Merchants & Manufacturers Inc.)
1 Change from cash to accrual—vacation pay (Owens Illinois Glass Co.)
4 Decrease in market value of marketable securities (Union Carbide & Carbon Co.)
1 Write off of organization expenses (Kimberly Clark Corp.)
1 Write off of bookplates (McGraw Hill Publishing Co.)
2 Transfer to capital stock by board of directors (International Harvester Co.)
2 Quoted price of stock issued as stock dividend (Pacific Mills)
2 Income statement charges (taxes and depreciation) repeated in earned surplus account (Diamond Match Co.)
4 Minor—unclassified
1 Adjustment of inventory values upon exclusion of labor and overhead items in findings of Commissioner of Internal Revenue audit (The Super Cold Corp.)
1 Settlement of claims with former subsidiary involving transfer thereto of note

and stock and cancellation of receivable (W. L. Maxson Corp.)

1 Charges in connection with the annuity plan (Standard Oil Co. of California)

1 Investment in National Tunnel & Mines Co. written off, less tax credits (Anaconda Copper Mining Co.)

1 Depletion (Phelps Dodge Corp.)

1 Transfer to capital stock upon conversion of no par to par stock (part to capital surplus) (Dow Chemical Co.)

(2) Unusual Losses

1 Loss on sale of assets (Consolidated Vultee Aircraft Corp.)

1 Adjustments resulting from sale of stock of former subsidiary (Universal Match Corp.)

Earned Surplus Credits

1947	1946	
98	92	From reserves
53	69	Prior year adjustments
17	18	Unusual gains
8	17	Consolidation and merger adjustments
5	5	Adjustment of investments in subsidiaries
4	4	Capital stock transactions
..	2	Negative goodwill
22	19	Miscellaneous
207	226	

A detailed breakdown of the above classifications for 1947 follows:

(98) From Reserves

28 Contingencies (The Rath Packing Co.)

20 "War" and "postwar" reserves

2 Deferred maintenance (Swift & Co.)

2 Coke oven rebuilding (Jones & Laughlin Steel Corp.)

2 Operating reserves (Westinghouse Electric Co.)

1 Investments and advances to foreign subsidiaries (1947) earnings thereof (Armstrong Cork Co.)

1 Depreciation (Hygrade Food Products Corp.)

1 Sundry reserves for insurance and contingencies (American Sugar Refining Co.)

1 Reserve for valuation of "other" property (previously created from surplus) (Jacob Ruppert)

2 N. Y. State workmens compensation insurance (West Virginia Pulp and Paper Co.)

7 Reduction of tax accrual or reserve of prior years (Deere & Co.)

3 Inventory price declines and other contingencies (Link Belt Co.)

2 Adjustments under cost-plus-fixed-fee contracts (Douglas Aircraft Co. Inc.)

1 Marketable securities (Diamond Match Co.)

3 Taxes and contingencies (American Writing Paper Co.)

1 Not named (Anderson Clayton Co.)

1 Valuation of investment real estate (Camden Forge Co.)

1 Pensions (A. S. Campbell Co. Inc.)

1 Redemption of preferred stock (A. S. Campbell Co. Inc.)

1 Deferred research and development expense (Dixie Cup Co.)

2 Renegotiation refund (Giddings & Lewis Machine Tool Co.)

1 Accident insurance (Lima Hamilton Corp).

1 Replacement of equipment (American Box Board Co.)

1 Decline in value of investments of a subsidiary (City Stores Corp.)

1 Cancellation of reserve for pensions (Craddock Terry Shoe Corp.)

1 Restoration of amount reserved for payment of dividend on redeemed preferred stock (Geo. E. Keith Co.)

1 Plant dismantlement (General Box Co.)

1 Inventory obsolescence (Niles Bement Pond Co.)

1 Loss on notes receivable (Cannon Mills)

1 General reserve for inventories (General Cable Corp.)

2 Possible loss as custodian of government properties (A. O. Smith Corp.)

1 Advertising and market development (A. O. Smith Corp.)

1 Renegotiation of government contracts (current liability) (A. O. Smith Corp.)

1 Repairs (American Metal Co. Ltd.)

1 Exploration (American Metal Co. Ltd.)

(53) Prior Year Adjustments

27 Taxes (S. S. Kresge)

7 Depreciation and amortization to tax basis (ExCello Corp.)

5 Renegotiation and contract termination (Beech-Northrop-Dresser-Hayes)

1 Correction of 1946 charge for dividends not paid (Monsanto Chemical Co.)
1 Deferred rental income (ExCello Corp.)
1 Arbitration award for prior years (Sharp & Dohme, Inc.)
1 Adjustment of 1946 write-off of excess subsidiary costs over net assets (Aviation Corp.)
3 Adjustment applicable to prior years as result of re-establishing Lifo basis (Gimbel Bros. Inc.)
1 Amounts capitalized by Bureau of Internal Revenue (Buffalo Bolt Co.)
1 Adjustment of net assets acquired in 1946 liquidation of subsidiary (Byron Jackson Co.)
1 Adjustment of emergency facilities to normal depreciation (part to capital surplus) (Miller Manufacturing Co.)
1 Not specified (Jantzen Knitting Mills Inc.)
1 Royalties and miscellaneous adjustments (Argo Oil Corp.)
1 Reversal of dividend liability (Struthers Wells Corp.)
1 Proportion of 1946 overhead expenses chargeable to R.F.C. (Higgins Inc.)

(17) Unusual Gains

2 Liquidation of subsidiary or investment therein (Republic Steel Co.)
5 Sale of plant, property, or equipment—net of related taxes (Continental Steel Corp.)
1 Sale of marketable securities—net profit on (less tax applicable) (Mead Corp.)
2 Proceeds from life insurance, excess over cash surrender value (Universal Cyclops Steel Corp.)
1 Excess of equity in net assets over cash and securities given therefor (Aviation Corp.)
2 Corporate life insurance (credit in 1947, charge in 1946) (Clyde Porcelain Steel Corp.)
2 Profit on sale of stock of former subsidiary (W. L. Maxson Corp.)
1 Profit on sale of land and investments (Koppers Co. Inc.)
1 Settlement of claim for damages (net of tax) (Cities Service Co.)

(8) Consolidation and Merger Adjustments

2 Surplus of subsidiary upon consolidation (Bond Stores Inc.)
1 Surplus upon merger (Columbia Brewing Co.)
2 Accumulated earnings of wholly owned non-consolidated subsidiary liquidated (Texas Co.)
1 Equity in earnings of subsidiaries (now wholly owned and consolidated) during period of partial ownership (Ely & Walker Dry Goods Co.)
1 Credit arising through acquisition of minority held stock (Panhandle Producing & Refining Co.)
1 Adjustment of minority interest in other company (U. S. Finishing Co.)

(5) Adjustment of Investment in Subsidiaries

1 Revaluation of investments in affiliates for differences between net income or losses and dividends paid (General Electric Co.)
2 Undistributed net profits for 1946 of wholly owned subsidiaries located in England, Australia, and South Africa (Bristol Myers Co.)
1 Dividend received from Canadian subsidiary from earnings subsequent to 1/1/37 (Chicago Pneumatic Tool Co.)
1 Dividends received from Canadian subsidiary paid out of prior year earnings (Safeway Stores Inc.)

(4) Capital Stock Transactions

1 Premium received on preferred stock issue offset against expense thereof (Food Machinery Corp.)
1 Recovery of cost of treasury stock sold (previously charged in full to earned surplus) (Time Inc.)
1 Refund of expenses in connection with preferred stock issue (Champion Paper & Fibre Co.)
1 Restoration of amount previously charged to earned surplus upon conversion of preferred stock (Colorado Milling & Elevator Co.)

(22) Miscellaneous

1 Accrual for wage inequities in excess of requirements less additional federal income taxes (Jones & Laughlin Steel Corp.)
1 Amount contributed by community transferred from capital surplus on completion of contract (Brown Shoe Co. Inc.)

2 Reinstatement at cost of investment in foreign subsidiary (International Harvester Company)
1 Reduction of liability to Defense Plant Corp. on purchase of Plancor 557, less depreciation adjustment for prior year (Beech Aircraft Corp.)
1 Transfer of amount improperly credited to capital surplus in prior year (Lima Hamilton Corp.)
1 Restoration of values previously written off (Cuban American Sugar Co.)
4 Transfer from appreciation surplus (American Republics Corp.)
1 Unrealized foreign exchange gain from conversion of foreign net assets to dollars (Gruen Watch Co.)
2 Discount on reacquired debentures (Cities Service Co.)
1 Recovery, net of taxes, of foreign investments written off in war (Socony Vacuum Oil Co. Inc.)
1 Restricted earning from pipe line operations (Standard Oil Co. New Jersey)
1 Sundry items (net) (Wright Aeronautical Corp.)
1 From capital surplus — unexplained (Adolph Gobel Inc.)
4 Unclassified—minor amounts

Material Charges or Credits Shown Separately Before "Net Income"

(Excluding charges and appropriations in connection with contingency, future inventory price decline, and plant replacement reserves, and all items not in excess of 5% of net income)

The following compilation is intended to provide a contrast with the earned surplus charges and credits classified in the previous section. Attention is invited to the "recommended criteria for use in identifying material extraordinary charges and credits which may or should be excluded from the determination of net income" contained in Accounting Research Bulletin No. 32 "Income and Earned Surplus" (December 1947). The arbitrary exclusion from the tabulation of items which were not in excess of 5% of net income was made on the basis that such items were immaterial. Instances in which net income was not considered to be clearly designated are illustrated following the tabulations.

35 Profit or loss on disposal of assets
1 Transfer of excess reserve (6 companies transferred such reserves after net income, and 3 other companies did not clearly designate "net income")
9 Prior year tax adjustments (2 other companies showed such adjustments after "net income" while 2 additional reports did not clearly designate "net income")
9 Transfers from reserves to offset special costs incurred during the year (in 2 other instances net income was not clearly designated)
10 Employees participation in profits
4 Past service pension costs (in 2 additional instances such charges were after "net income")
5 Prior year adjustments other than taxes (in 1 additional instance net income was not clearly designated)
4 Provision for loss on investments in and advances to subsidiaries
2 Payments in 1947 for vacations earned in 1946 (1 company showed such charge after "net income")
3 Write-off of goodwill purchased in acquisition of other companies (1 company showed such item after "net income")
2 Excess cost of inventory replacements (Lifo)
2 Provision to reduce inventories to Lifo basis
3 Loss on inventory disposal or project abandonment
3 Pension plan provisions
5 Write down of inventories
1 Income from termination of contracts
1 Expenses preparatory to production—west coast
1 Additional provision for anticipated loss to complete shipbuilding contract
1 Abatements and recoveries of government rentals, utility charges and state taxes
1 Write off of equity in undistributed earnings to 12/31/39 of controlled foreign manufacturing company
1 "Prior year adjustments" (in cost of sales)
1 Probable future expenditures applicable to current operations
1 Purchase commitment cancellation cost
1 Loss on dissolution of subsidiary
1 Undistributed net profits of foreign subsidiaries
1 Refund of foreign excess profits taxes

2 Fixed asset expenditures—formerly charged to expense, now capitalized to conform with revenue agent's findings
1 Office and plant moving and rearrangement expenses
1 Liquidating dividend of subsidiary—profits of prior years
1 Expenses, other than cost of growing crops, incurred during period of rehabilitation and deferred by subsidiary
1 Provision for contractual commitment payable
1 Provision for building alterations and repairs
1 Excess of market over option price to officers
1 Securities registration expenses
1 Proceeds of life insurance policies
1 Loss on repurchase of prior year sales to war agencies
1 Provision for loss on future sales of printing equipment and paper coating mill
1 Provision for estimated loss on completed productions, not released
1 Loss on investments in productions
1 Provision (net of tax) for anticipated replacement of inventories
1 Provision for repairs and standby expenses
1 Transfer of amount appropriated in prior year to plant restoration program (net income not clearly indicated)
1 Renegotiation refund for 1945, net of taxes
1 Loss on foreign exchange
1 Proportion of undistributed net profits less proportion of net loss of affiliates partly owned
1 Provision for loss on exploratory activities in foreign countries
1 Transfer to reserve for tax contingencies
1 Extraordinary expense of pilot plant operations
1 Expense of facilities held for disposal
1 Special dividend from subsidiary prior to sale thereof
1 Severance payments
1 Storm damage

The following terminology was used to describe the balances before and after special charges and credits shown separately at the foot of the income statement. Because it was felt that "net income" was not clearly designated in these instances, these particular charges and credits were excluded from the tabulation above.

(a) "Profit before special items shown hereunder"
(Prior years' tax adjustment)
"Profit for the year transferred to earned surplus"

(b) "Net income before extraordinary items shown below"
(Prior years' tax adjustment)
"Net income transferred to earned surplus"

(c) "Net income before extraordinary reserve adjustments"
(Transfer of reserve no longer needed)
"Net income after extraordinary reserve adjustments"

(d) "Net income from operations for the year"
(Transfer of reserve no longer needed)
"Net profit added to surplus"

(e) "Income for the year — American companies"
(Dividends representing prior years' profits of foreign subsidiaries)
Undesignated amount— (referred to as net income by president)

(f) "Net income for the year, before eliminating costs of readjustment—See special credit below"
(Restoration of postwar reserve to offset costs of readjustment)
"Net income, including special credit"

(g) "Provision for federal taxes on income"
(Undesignated amount)
"Balance of amount appropriated in prior year for plant restoration program restored to income"
"Profit, exclusive of net gain on sale of property and inventories" (shown in surplus section)

(h) (Undesignated amount)
"Transfer of balance of war time and post war contingencies"
"Profit transferred to surplus"

The following footnote referred to Accounting Research Bulletin No. 32:

"The accompanying statements of consolidated income for the years ended November 30, 1947 and November 30, 1946 have been prepared in accordance with a recommendation made in December 1947 by the Committee on Accounting Procedure, American Institute of Accountants, that extraordinary profits on securities be included in surplus instead of in income. As a result, the net income previously reported for the year ended November 30, 1946 has been reduced by $12,721,245 representing the profit on sale of American Airlines, Inc. common stock less applicable federal income tax." (Avco Mfg. Corp.)

Capital Surplus Charges and Credits

In 1947-48 there were 350 companies of the 525 tabulated which showed no charges or credits to capital surplus during the year as compared with 328 in 1946-47.

Capital Surplus Charges

1947	1946	
46	51	Resulting from purchase and sale of stock
5	18	Transfers to capital stock
11	15	Write-offs of goodwill
8	6	Transfers to earned surplus
3	3	Appropriations
6	5	Consolidation, merger, and recapitalization entries
7	3	Miscellaneous
86	101	

A detailed breakdown of the above classifications for 1947 follows:

(46) Resulting From Purchase and Sale of Stock

7 Expenses in connection with sale of stock (Arden Farms Co.)
6 Premium on treasury stock purchased (American Writing Paper Corp.)
11 Premium on retirement of stock (Interstate Bakeries Corp.)
2 Adjustments incident to transactions in own capital stock (Crucible Steel Co. of America)
1 Adjustment of excess of proceeds from disposition of treasury stock in prior year over cost thereof (Arden Farms)
5 Premium on retirement of stock in part to earned surplus (Cuneo Press Inc.)
1 Cost of preferred stock purchased (20th Century Fox Film)
1 Excess of book value of subsidiary's securities acquired over stated value of parent stock issued in exchange therefor, or cash paid (including prior year adjustments) (Federated Dept. Stores Inc.)
1 Reversal, upon exercise of cancellation privileges, of paid-in surplus recorded on sale of stock to executives (Goldblatt Bros. Inc.)
1 Cash settlement to holders of preferred stock upon surrender for conversion in lieu of issuing fractional common shares (Harshaw Chemical Co.)
1 Treasury stock retired (Cleveland Builders Supply Co.)
1 Capital surplus allocable to shares of Treasury Stock sold by subsidiary (Pittston Co.)
1 Redemption of old Gold Certificates for cash and common stock (Griess Pfleger Tanning Co.)
1 Net amount resulting from purchase and conversion of preferred stock (American Hide & Leather Co.)
6 Capital stock transactions with charges split between earned surplus and capital surplus (Beechnut Packing Co.)

(5) Transfers to Capital Stock

2 Stock split-up (Food Machinery Corp.)
1 Stock split-up—capital surplus exhausted, remainder to earned surplus (Clark Equipment Corp.)
2 Recapitalization—increase in number and par value of shares (in part to earned surplus) (Clearing Machine Corp.)

(11) Write-Offs of Goodwill [See Accounting Research Bulletin No. 24, Page 200]

3 Goodwill (nature not described) (Bucyrus Erie Co.)
2 Excess of subsidiary cost over book value—to extent of capital surplus, remainder to income (Central Soya Co. Inc.)
2 Excess of carrying value or purchase price of investment in subsidiary over underlying book equity at date of acquisition, as subsequently adjusted (Eastern Stainless Steel Corp.)
2 Excess of cost over book amount of minority interests acquired (City Ice & Fuel Co.)
1 Excess of book value after providing suitable reserves, at date of acquisition, over cost
1 Excess of cost to subsidiary over book equity of company acquired less excess of net worth of subsidiary over purchase price to parent company (Pittston Co.)

(8) Transfers to Earned Surplus

4 Transfer from appreciation surplus (American Republics Corp.)
2 Correction entries
1 Transfer of donated surplus (Brown Shoe Co.)
1 Unexplained

(3) Appropriations

1 Provision for retirement of preferred shares ($100,000) less amount restored to capital surplus ($50,000) shown as charge, with an equalizing credit of $50,000 (Interchemical Co.)
2 Appropriation for preferred stock retirement fund (20th Century Fox Film Corp.)

(6) Consolidation, Merger, and Recapitalization Entries

1 Stated value of preferred stock issued in conversion of other preferred stock (Interstate Bakeries Corp.)
2 Recapitalization expense (Interstate Bakeries Corp.)
1 Issuance of Treasury Stock at par in exchange for stock of merged corporation (Eastern Malleable Iron Co.)
1 Deficiency in federal income taxes of merged corporation assumed under merger agreement (Eastern Malleable Iron Co.)
1 Cost of stock purchased and reissued in exchange for stock of predecessor (Struthers Wells Corp.)

(7) Miscellaneous

1 Additional organization expenses (Roberts & Mander Corp.)
1 Dividends (in part to earned surplus) (Polaroid Corp.)
1 Amortization of appreciation (Universal Match Co.)
1 Additional assessment of prior year taxes due by predecessor (Adolph Gobel Inc.)
3 Minor adjustments

Capital Surplus Credits

1947	1946	
48	79	Premium on issuance of capital stock
17	26	Conversion of capital stock into another issue of same company
4	13	Exchange of capital stock for that of other company
27	26	Treasury stock — purchase and retirement (and issuance in 1946)
14	..	Treasury stock—sale and distribution
12	20	Stock options and warrants
6	11	Restoration or realization of assets previously written off
8	10	Merger and consolidation adjustments
6	7	Transferred from reserves
8	6	Negative goodwill
8	5	Stock dividends
2	5	Change in equity in unconsolidated subsidiary
3	3	Transfers from earned surplus
18	8	Miscellaneous
181	219	

A detailed breakdown of the above classifications for 1947 follows:

(48) Premium on Issuance of Capital Stock

32 Excess of sales price over par or stated value (Dow Chemical Co.)
4 Excess of net assets of subsidiary over par value of stock issued therefor (Allied Stores Corp.)
1 Excess over par of stock issued for property (U. S. Rubber Co.)
4 Excess of assigned value (market quotations) over par of stock issued (for net assets and business) (Owens Illinois Glass Co.)
1 Excess of the amount at which the company recorded its original investment in capital stock over the par value of parent stock issued therefor (Hayes Mfg. Co.)
2 Excess of market over par— (Phila. Dairy Products Co. Inc.)
1 Excess of purchase price of net assets over par value of stock issued therefor (Fruehauf Trailer Co.)
1 Credit with respect to warrants exercised (Federated Dept. Stores Inc.)
1 Excess of issue price over par—in part payment for net assets (Foremost Dairies Inc.)
1 Excess of estimated fair market value of properties acquired over par of preferred stock (Stokely Van Camp, Inc.)

(17) Conversion of Capital Stock Into Another Issue Of Same Company

9 Excess of par (stated) of one class over par (stated) of another class (Monsanto Chemical Corp.)
1 Excess of face amount of debentures over par of stock issued therefor (Follansbee Steel Corp.)

1 Capital from conversion in prior years of preferred into common shares, transferred to surplus as now authorized by stockholders (Federated Dept. Stores Inc.)
5 Surplus arising from conversion of preferred stock to common (American Cyanamid Co.)
1 Surplus arising from conversion of funded debt into capital stock (APW Products)

(27) Treasury Stock—Purchase and Retirement

10 Excess of book, par, or stated value over cost of shares acquired
6 Excess of par or stated value reacquired and retired over cost
5 Discount (excess of par over cost) on stock purchased (Anchor Hocking Glass Co.)
4 Arising from retirement of treasury shares (20th Century Fox Film Corp.)
1 Discount on preferred stock acquired for sinking fund resulting in credit to capital surplus and charge to earned surplus (National Supply Co.)
1 Amount arising from acquisition of treasury stock (Brockway Motor Co. Inc.)

(14) Treasury Stock—Sale and Distribution

8 Excess of proceeds from disposition of treasury stock over cost thereof
2 Excess of proceeds from sale of treasury stock over stated (or par) value (General Shoe Corp.)
1 Difference between cost and value placed on treasury stock transferred to bonus account (E. I. duPont de Nemours & Co.)
1 Excess of sales price over book value (Stewart Warner Corp.)
1 Excess of market over cost of treasury stock distributed to employees (Johnson & Johnson)
1 Excess over cost of treasury stock issued for acquisition of minority interest (Burlington Mills)

(12) Stock Options and Warrants

5 Excess of proceeds received from sales of common stock under option agreements over the par value (Barber Asphalt Corp.)
1 Excess of proceeds over par (stated) value of common stock issued for warrants (Ward Baking Co.)
2 Excess of market over par (stated)—stock issued under option plan (Brown Shoe Co. Inc.)
1 Net addition in connection with disposition of capital stock reserved for options (National Steel Corp.)
1 Excess of consideration over average cost-options (United Rexall Drug Co.)
1 Excess of consideration received (including services $6600) over cost of 1200 shares of treasury stock issued to officer under option agreement (American Bakeries Co.)
1 Capital surplus arising from sale of shares of common stock in accordance with option agreements (Bendix Home Appliances, Inc.)

(6) Restoration or Realization of Assets Previously Written Off

1 Proceeds from disposal of unessential properties previously written off against capital surplus, and fair operating values ascribed to other such properties adapted to some operating use (The Borden Co.)
1 Realization from disposal of airport facilities in excess of written-down amounts (Curtiss-Wright Corp.)
1 Portion of adjustment to emergency facilities placed on normal depreciation basis related to subsidiary prior to acqusition (Miller Mfg. Co.)
1 Miscellaneous recovery (Penn Coal & Coke Corp.)
1 Appraisal writedown recovered through sale of shipyard properties and other assets (American Republics Corp.)
1 Proceeds from disposition of idle properties (Booth Fisheries Corp.)

(8) Merger and Consolidation Adjustments

1 Cancellation of balance of reserve on books of subsidiary at date of acquisition (Allied Stores Corp.)
1 Paid-in surplus of merged company at date of merger less amount transferred to capital stock (Columbia Brewing Co.)
1 Adjustment of operating reserve provided by a predecessor company (Koppers Co. Inc.)
1 Surplus arising from acquisition of additional interest in subsidiary (Bay Petroleum Corp.)

2 Adjustments (net) arising from changes in ownership of various companies consolidated (Standard Oil Co. of N. J.)
1 Adjustment of subsidiaries prior year taxes affecting net book value at acquisition (H. K. Porter Co. Inc.)
1 Reserve transfer, recoveries of bad debts, and taxes recovered relating to predecessor company (Adolf Gobel Inc.)

(6) Transferred From Reserves

2 "General" contingencies (Pepsi-Cola Co.)
1 Recoveries during year from reserves created out of capital surplus (Gillette Safety Razor Co.)
1 Transfer from "capital surplus applied against stock held in treasury" (Bigelow Sanford Carpet Co.)
1 Restoration of reserve for contingencies appropriated in 1930 from capital surplus (American Cyanamid Co.)
1 Rebuilding coke ovens—as of date of reorganization (Colorado Fuel & Iron Corp.)

(8) Negative Goodwill

3 Excess of net assets over par, stated value or cost of stock issued therefor (Interchemical Corp.)
1 Excess of net worth at date of acquisition over amount recorded as investment (Hayes Mfg. Co.)
1 Excess of book amount over cost of net assets acquired by subsidiary (City Ice & Fuel Co.)
2 Excess of book equities applicable to shares of stock purchased over amounts paid therefor (Pittston Co.)
1 Excess of net assets of subsidiary over cost or common stock consideration (Burlington Mills)

(8) Stock Dividends

4 Excess of market over stated or par (Worthington Pump & Machinery Corp.)
1 Reversal of charge previously made for excess of cost over par of treasury stock reissued as stock dividend (National Cylinder Gas Co.)
2 Dollar credit per share stated (Regal Shoe Co.)
1 Capitalization of stock dividend—excess over par (Remington Rand Inc.)

(3) Transfers From Earned Surplus

3 (E.g., see Armour & Co.)

(18) Miscellaneous

1 Reduction in stated value of common stock (United Merchants and Manufacturers Inc.)
7 Capital adjustments (minor)
1 Proceeds from sale of warrants (Follansbee Steel Corp.)
1 Amount restored in connection with preferred stock retirement (Interchemical Corp.)
1 Prior year correction entry (Worthington Pump & Machinery Corp.)
1 Adjustment of net book value of property to cost per appraisal (Hayes Mfg. Co.)
1 Realization of postwar refund of foreign excess profits taxes restricted by foreign statute (Gillette Safety Razor Corp.)
1 Amount received under Section 16 (b) of the Securities and Exchange Act of 1934 (Park & Tilford Inc.)
1 Tax refund of subsidiary for prior years less expenses (Foremost Dairies Inc.)
1 Expiration of preferred scrip (Autocar Co.)
1 Liquidation of subsidiary (Regal Shoe Co.)
1 Release of escrow funds upon sale of subsidiary (Universal Match Corp.)

Dividends—Where Charged

The practice of charging dividends to earned surplus continued to be followed by 95% of those companies paying or declaring dividends.

1947	1946	
469	468	"Earned surplus," "surplus" or equivalent
31	37	None paid or declared
23	19	Charged at foot of income statement (including in 1947, eight shown after "net income" in combined income and surplus statement but before "earned surplus" opening balance)
2	1	Divided between capital surplus and earned surplus (Polaroid Corp.—Johnson & Johnson)
525	525	

The Coca-Cola Company showed dividends on treasury stock deducted from total dividends in the earned surplus statement. (See also Allied Chemical & Dye Corp.)

Gaylord Container Corp. used the term "payments to owners (dividends)" in its financial statements.

In a few instances preferred dividends were deducted from net income for the year in order to show the amount available to common stockholders. However, such preferred dividends were also deducted separately from earned surplus. (See General Motors Corporation.)

Earned Surplus Restrictions

While disclosure of most types of earned surplus restrictions was generally found in footnotes, the restrictions resulting because of the purchase of treasury stock were most often indicated on the balance sheet by means of a parenthetical comment in conjunction with the surplus item. Restrictions established by preferred stock agreements on the other hand were indicated in a footnote in the majority of cases but a few companies were noted which favored parenthetical notation on the balance sheet (e.g., Butler Bros.).

The needs of corporations for additional cash were reflected in the increased number of loan agreements; banks and insurance companies being the two principal sources of new funds.

1947	1946	
143	110	Bond indenture or loan agreement (Champion Paper & Fibre Co.—R. J. Reynolds Tobacco Co.)
40	41	Preferred stock (Willys Overland Motors Inc.)
17	19	Purchase of treasury stock (Houdaille Hershey Corp.)
11	11	Oil company pipe line earnings restricted by Elkins Act (Gulf Oil Co.)
10	..	Restrictions established by certificate of incorporation
5	..	Indicated but nature not disclosed (International Paper Co.)
1	..	Trust indenture (Cities Service Co.)
1	..	Reserves required under by-laws of foreign companies (American Smelting & Refining Co.)
1	..	Reserved by board of directors for working capital (Cannon Mills Co.)

The Moxie Company showed an item "surplus available except for dividends on common stock" on the balance sheet in addition to separately designated amounts for "capital surplus" and "earned surplus."

Section 5: ACCOUNTANT'S REPORT

Accountant's Report—General

"Short Form"

The standard short form of report recommended by the American Institute of Accountants in Statements on Auditing Procedure No. 5 was widely used in the published reports examined.

While Statements on Auditing Procedure No. 24 (October 1948) had not been published at the date these annual reports were issued, paragraph 3 (c) thereof, which recommended correction of "the inconsistent expression relating to auditing standards applicable in the circumstances," had been previously recommended in the "Tentative Statement of Auditing Standards" issued by the committee on auditing procedure in 1947.

Fifty-five per cent of the non-registered companies and 67 per cent of the registered companies used auditors' reports which referred to "auditing procedures . . . applicable in the circumstances" rather than to "auditing standards applicable in the circumstances." (These percentages make no allowance for auditors' reports issued prior to the publication of "Tentative Statement of Auditing Standards.")

"Long Form"

While many reports contained material descriptive of auditing procedures followed, only six of the 524 tabulated (one annual report contained no auditor's certificate) were arbitrarily classified as "long-form" because they mentioned audit procedures with respect to a large number of items. (See companies 166, 220, 293, 297, 391, 494.)

Client's Responsibility

The presidents of most corporations reported that the financial statements presented were "certified" by public accountants. While the financial statements are legally the client's representation, a few clients indicated (see examples below) that their accountants had prepared the statements. Preferable language in these cases perhaps would have been to refer to the accountant as auditing or expressing an opinion on the statements.

"Your management submits the annexed statements—consolidated balance sheet, income account, statement of earned surplus (prepared and certified, as usual by independent auditors)"

"The financial reports, prepared by our auditors, . . . are enclosed."

"The balance sheet, the profit and loss statement and the report of the auditors, have all been prepared by . . . certified public accountants."

"In reviewing our financial operations reported for the year, as supported by the figures of our Auditors, . . ."

In other instances the wording of footnotes, although ordinarily considered to be the client's representation, was written in the first person by the accountant, who included therein references to his audit procedures. Such references should ordinarily appear in the scope paragraph of an auditor's report. Note the following footnote disclosure:

"The inventory at December 31, 1947 of $2,980,753.41 represents an inventory determined by the use of the physical inventory as at August 31, 1947 and the costing of sales, by months, for the four months ended December 31, 1947. The physical inventory was taken as at August 31, 1947 by Company employees. Inventories were priced at the lower of cost or market value. Cost represented average cost. We made a thorough test of the physical quantities and a substantial test of the pricing and extensions." (A. B. Farquhar Company) (See also Mergenthaler Linotype Co.)

Variations in Form

The following note appeared immediately below the accountant's report accompanying the financial statements of Reynolds Metals Co.:

"Our certificate or report upon an audit or examination is delivered to client with the distinct understanding that any advertisement, publication, or copy thereof, in full or in part, of such certificate or report, shall be in the form approved by us. As a preventive against fraud, attention is directed to the fact that all pages in this report should bear our watermark."

While the location of the auditor's certificate in the annual reports varied considerably, it was usually in juxtaposition to the certified statements. In a few cases it was separated therefrom.

While footnotes were cited as an integral part of the financial statements in the opinion paragraph of about 10% of the auditors' reports examined, a more unusual treatment was the inclusion of a reference to footnotes in the opening paragraph as follows:

"We have examined the balance sheet and the consolidated statements of income and surplus for the year then ended, together with the accompanying notes which form an integral part of such statements . . . ." (American Box Board Co.)

The auditor's certificate accompanying the report of Maremont Automotive Products Inc. used a section heading for the "opinion" paragraph.

The signature of the auditor(s) was usually shown in the firm name only. In the American Wringer Co. report, an individual CPA signed for the management engineering and accounting firm.

Several instances were noted in which one accounting firm used a variation of the standard wording of the short form report as follows:

"We have made an examination of the accounts of . . . for the year ended . . . We submit a condensed report on this examination; our complete report was submitted under date of February 17, 1948.

"Our examination was directed primarily to the verification of the financial condition of the company on . . . , and included a general review of the income and expense accounts, but without a detailed audit of the transactions for the year; . . ." (Motorola, Inc.)

The president's letter in the report of the Lawrence Warehouse Co. stated that the accounts had been audited and the statements prepared by a CPA, but no certificate accompanied the statements.

Beneath the footnotes in the report of Pure Oil Co. the following notation appeared:

"The audit certificate of . . . appears herewith and it is the intention of the Directors to continue the services of these accountants for the year 1948."

Topics Referred to in Accountants' Short Form Reports

1947	1946	
63	61	Subsidiaries — audit by other accountants
57	54	Inventories
50	54	Incorporation in the opinion paragraph of reference to footnotes as an integral part of the financial statements
33	56	Impracticability of confirming receivables from the U. S. Government—other auditing procedures followed
24	..	Reference to examinations made in previous years (Link Belt Co.)
23	10	Fixed assets and depreciation policy
26	25	Receivables—other than from the U. S. Government and agencies thereof.
14	9	Foreign subsidiaries and branches
12	12	Taxes (279)
9	..	Certificate covers two or more years (215, 359, 38)
8	5	Subsidiaries—consolidation policy
..	7	Adequacy of reserves
4	4	Accounts payable
3	..	Amortization of goodwill
3	..	Reference to footnotes in scope paragraph (Belding Heminway Co., Inc.)
3	..	Research and development expenses
3	..	Vacation payments—change to accrual basis
2	4	Cash (288, 395)
1	4	Emergency facilities (Miller Mfg. Co.)
2	3	Depletion (49, 395)
..	3	Portal to portal suits
3	..	Pensions
1	..	Legal suit (Granite City Steel Co.)
1	..	Anti-trust legislation (United Artists Theatre Circuit Inc.)
2	..	Insurance recovery (347, 434)
1	..	Renegotiation (The Electric Auto Lite Co.)

1 .. Minority interest in subsidiary (McGraw-Hill Publishing Co.)
3 .. Contingency reserves and provisions (100, 163, 273)
1 .. Costing rates (Westinghouse Electric Corp.)
1 .. Selling expenses (The Glenn L. Martin Co.)
2 .. Exchange rates (314, 519)
1 .. Letters of credit (Spencer Kellogg & Sons Inc.)
1 .. Charge for rental of owned properties (S. H. Kress & Co.)
1 .. Adjustment of 1946 statement (S. H. Kress & Co.)
1 .. Marketable securities (Standard Oil Co. of Ky.)
1 .. Mail rate determination (Chicago & Southern Airlines, Inc.)
1 .. Minor subsidiary not audited (Art Metal Construction Co.)
1 .. Investments (Bryndun Co.)
1 .. Change of state of incorporation
1 .. Engineering costs (American Car & Foundry Co.)
1 .. Surplus accounts (Argo Oil Co.)
1 .. Closing of plant (Columbia Brewing Co.)
1 .. Capital transactions (Craddock Terry Shoe Corp.)
1 .. New plant (Craddock Terry Shoe Corp.)
1 .. Excess of plant replacement cost over actual cost (American Asphalt Roof Corp.)
1 .. Non-producing leaseholds (Shell Union Oil Corp.)
1 .. Accrual of undistributed profits of affiliates (United Artists Theatre Circuit, Inc.)
1 .. Accounting for sales (Kennecott Copper Co.)
1 .. Intangible development costs (The Superior Oil Co.)
1 .. Accrual of income on production (U. S. Smelting, Refining & Mining Co.)
1 .. Amortization of released productions (Pathe Industries, Inc.)
1 .. Allocation of sugar processing costs between fiscal years (The Amalgamated Sugar Co.)

Inventories—Auditing Procedures Followed and Omitted

"Extensions of Auditing Procedure" stated that "if [the auditor] considers it in the interest of clear disclosure of material fact to include explanations of procedures followed, he is free to do so. If on the other hand, such disclosures are made by reason of any reservation or desire to qualify the opinion, they become exceptions and should be expressly stated as such in the opinion paragraph of the auditor's report."

Twenty-two auditors' reports of 524 examined contained references to the auditing procedures followed by the accountant in verifying the inventory. These references were related to tests and checks of the inventory accounts and records, observation of the methods of inventory-taking, and physical tests thereof and were in the nature of explanations rather than exceptions. (See companies 387, 24, 328, 422, 236, 27, 61, 14, 248, 129, 417, 378, 283, 155, 383, 461, 288, 395, 293, 494, 391, 166.)

Two excerpts of the type mentioned above are quoted as examples:

"The inventory quantities at June 30, 1948 were based upon continuous book records verified from time to time by physical inventories taken by employees of the companies. We have reviewed the book records and the related inventory procedures and have satisfied ourselves that the methods of inventory taking were satisfactory and that they were carried out effectively. We also made by inspection substantial test checks of the inventory quantities. The basis of pricing and the clerical accuracy of the inventories were thoroughly tested by us and, in addition, the quantities and condition of the inventories were certified to us by responsible officials of the companies. We also communicated with a majority of the companies' customers having open balances at June 30, 1948, and received replies confirming about 85% of the total of receivables as of that date." (American Hide and Leather Company)

"Inventories located at the companies' local warehouses were verified by physical count at the close of the year; inventories located at the companies' out-of-town distillery warehouses were taken by us in the latter part of the year and reconciled with the inventories at the close thereof; and inventories located in outside public warehouses were confirmed to us by the warehouses. Inventories were certified by the management as to quantities and condition, and the clerical accuracy and evaluation thereof have been checked by us." (Park & Tilford, Inc.)

Certain inventories of the American Seating Company were stated as certified by The American Appraisal Company. The auditors explained that they did not deem it "reasonable or practicable to observe the procedures followed in the actual taking and determination of physical quantities of these inventories, in view of the independent determination in this respect by The American Appraisal Co." (See Crown Central Petroleum Corp. for similar situation.) [The reader is referred to Statements on Auditing Procedure No. 12 where disclosure was recommended in all cases when extended procedures set forth in "Extensions of Auditing Procedure" are not carried out.]

In the auditors' opinion in connection with the report of A. Hollander & Sons "practicability" was also mentioned. It was explained that the auditors "made a test of the merchandise records showing customers' merchandise held by the companies for processing, by communicating directly with a selected number of customers. Replies were received from approximately 45% of the customers with whom we communicated. However, it was not practical to make physical test checks of the actual merchandise held by the company for the respective customers."

The following three excerpts are from opinions in which omitted inventory auditing procedures were mentioned as well as other substitute procedures which satisfied the auditor; no exception having been taken in any of the related opinion paragraphs:

"During the year physical inventories were taken of approximately seven per cent of the Company's inventories, but all other inventories are based on book records. The transactions recorded in the inventory accounts since the date of the last complete physical inventory in 1946 have been subjected to comprehensive test checks. We have reviewed the Company's procedures and, although our test checks of quantities were confined to the physical inventories taken, we have, so far as practicable, satisfied ourselves that the book inventories are reasonably stated at December 31, 1947, on the basis described hereunder." (Caterpillar Tractor Company)

"Physical inventories were taken during the latter half of the year at seventeen of the twenty-six manufacturing plants and such inventories were adjusted for interim transactions from the respective inventory date to the end of the year. We were in attendance during taking of the inventories and made test checks of quantities and computations. The book inventories at the plants at which no physical inventories were taken since December 31, 1946 due to pressure of year-end manufacturing schedules constituted 35% of the total inventory and at these plants certain portions of the inventories were proved by physical count at the end of the year and such small differences as developed were adjusted. Based upon a comprehensive examination of the entries entering into the book inventory accounts of the plants at which complete physical inventories were not available, we satisfied ourselves that such inventories are carried at conservative values." (Electric Auto-Lite Company)

"With the exception that we made no physical tests of the quantities comprising the work in process inventory (no inventory having been taken) as to which we have satisfied ourselves by other means, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary." (American Transformer Company)

In contrast to the three excerpts above, the following three excerpts indicate instances in which the opinion paragraph was qualified because of the omission of certain inventory audit procedures:

"Because of demand for the product and in the absence of car model changes, the corporation did not shut down production during 1947 for the purpose of taking a complete physical inventory. While inventories aggregating about 40% of the total were taken at locations involving little interference with production, physical inventories were not taken in the major car producing units, and our examination therefore could not include the usual observation of inventory taking and testing of quantities at such units. Our work did include extensive tests of the records and of the accounting procedures at these units. These tests and the record of accuracy of book inventories in previous years indicate that the reserve should be adequate to provide for any shrinkage which may be disclosed when inventories are taken.

"In our opinion, based however on the inventory determination as discussed in a preceding paragraph . . ." (Chrysler Corp.)

"Our examination was made in accordance with generally accepted auditing standards, except as explained in the next succeeding paragraph, . . .

The inventories of finished products, work in process, materials and supplies are based on book inventories which were only partially confirmed during the year by physical checks of quantities made by employees of the companies. We reviewed the procedures and methods followed by the companies in maintaining the records relative to the inventories but we did not attend at the plants on the dates when physical checks of quantities were made.

In our opinion, with the explanation regarding the limitation of the scope of our examination of inventories . . . as explained in the foregoing paragraphs, the accompanying financial statements . . ." (Chicago Railway Equipment Company)

"Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary except that the scope of our examination did not include verification of inventory quantities and values; such quantities and values are as stated by the companies.

"In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and surplus, subject to the limitation of the scope of our examination, present fairly . . ." (George E. Keith Company) (See also Warner Company)

The accountant's report in connection with the statements of Argo Oil Corporation stated the following with respect to inventories which were relatively minor:

"We did not verify the inventories by count of physical quantities . . . Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and includes all procedures we considered necessary, . . ."

The opinion paragraph read as follows:

"In our opinion, the accompanying . . . and the comments contained in our detailed audit report under date of February 20, 1948, present fairly . . ."

The reference to "detailed audit report" was apparently intended for those persons to whom such report was available, no such detailed report being included with the published statements.

Instead of incorporating explanations of inventory audit procedures in the scope section of the auditors' report, they were included in a footnote in the report of United Merchants and Manufacturers Inc. (See also McKesson & Robbins, Inc., and Burlington Mills Corp., for similar footnote disclosure.)

A parenthetical note on the balance sheet of the Parmalee Transportation Company under the heading "inventories" was stated as follows:

"Materials & Supplies (at cost or market)
— (Certified by the management as to quantities, condition and valuations)"

Statements such as the last parenthetical note above, when used, were usually found in the accountant's report (see companies 236, 395) along with descriptions of other inventory auditing procedures followed.

Accounts Receivable—Auditing Procedures Followed and Omitted

There were twenty-six references to trade accounts receivable in the 524 auditors' reports tabulated. Fifteen involved descriptions of specific audit procedures followed, (including six "long form" reports) while eleven indicated omission of direct confirmations. (See Statements on Auditing Procedure No. 12.) Excerpts illustrating both types of references follow:

(1) ". . . and included all procedures which we considered necessary, including tests of trade receivables at representative locations by communications with debtors and observation of procedures followed in ascertaining inventory quantities at the principal locations." (Atlantic Co.)

(2) "Our examination included tests of accounts receivable by direct communication with a selected number of customers." (City Stores Co.)

(3) "More than ninety-one (91%) per cent of the trade receivables are not yet due for payment, and less than $2,000 are more than sixty days past due. Direct confirmation of more than twenty-five (25%) per cent of the accounts revealed no major differences." (Craddock Terry Shoe Corp.) (See also companies 24, 27, 288, 236, 417, 220, 461, 166, 494, 293, 391, 297.)

(4) "Our examination was made in accordance with generally accepted auditing standards except that owing to special conditions no confirmations were obtained from customers in certain foreign countries; however, our test check of the records supporting these balances indicated that they were properly stated. The examination included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary in the circumstances." (American Bank Note Co.)

(5) "We did not confirm trade accounts receivable of Avon Products, Inc., a subsidiary, by correspondence with the individual debtors of that company. These accounts, aggregating approximately 98% of the total consolidated trade accounts receivable, consisted of a large number of small balances due from sales representatives, and it was not considered practicable or reasonable to verify balances by direct correspondence. However, we satisfied ourselves by other auditing procedures as to their substantial correctness." (Avon Allied Products, Inc.)

(6) "With respect to receivables and payables not directly confirmed, we satisfied ourselves by means of other auditing procedures." (H. K. Porter Company, Inc.)

(7) "Confirmation of accounts receivable was not obtained by direct correspondence with the debtors but we satisfied ourselves by other means as to these items." (Alabama Fuel & Iron Co.)

In addition to 33 references to the impracticability of confirming receivables from the U. S. Government and agencies thereof, the impracticability of confirming other receivables was sometimes mentioned in conjunction therewith.

Brewster Aeronautical Corporation referred in the manner indicated above to "certain other debtors," Mid-Continent Airlines, Inc. to "connecting airlines," Archer-Daniels-Midland Co. to "certain foreign accounts," Chicago Pneumatic Tool Co. to "certain foreign governments," Adams-Millis Corporation to "certain chain stores"; and The Budd Company stated "certain important customers have not replied to requests for confirmation of their accounts but we satisfied ourselves as to these receivables by other means."

Other Audit Procedures Either Omitted Or Performed by Other Accountants

References to the audit of subsidiary companies by other accountants (63 reports) and to the inability to confirm receivables from the U. S. Government (33 reports) constituted the two major items included under this heading. (See Statements on Auditing Procedure No. 18.)

There appeared to be little change in the number of references to audits of subsidiaries by other accountants but there was a substantial decline in the number of references to the inability to confirm government receivables.

In mentioning the audit work done by other public accountants and their reports thereon, there seemed to be a difference of opinion as to whether a modifying phrase with regard thereto should be used in the opinion paragraph of the report submitted by the auditor of the parent company. Excerpts from reports in which the opinion paragraph contained the qualifying phrases follow:

(1) "We were furnished with the report of the practicing accountants who examined the statements of American Brewing Company.

"In our opinion, based upon such examination and upon such report . . ." (City Ice & Fuel Co.)

(2) "As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary amount to approximately 7% of the consolidated total, and its gross profit on sales and net income for the year are approximately 5% and 3%, respectively, of the consolidated totals.

"In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned . . ." (Pepsi-Cola Co.)

(3) "Statements of foreign subsidiaries consolidated herein were furnished us as certified by other independent auditors.

"In our opinion, based upon our examination, and the statements of foreign subsidiaries consolidated, above referred to, . . ." (The Coca-Cola Co.)

(4) "In the case of the foreign subsidiaries and the two domestic subsidiaries whose accounts were not examined by us, we were furnished with financial statements certified by other independent auditors."

"In our opinion, based upon our examination and upon the certificates of the other independent auditors referred to above . . ." (International Paper Co.)

While the reports quoted above referred in the opinion paragraph to the audit by other accountants, other reports omitted any reference thereto from the opinion paragraph:

"The financial statements of American Cigarette & Cigar Co., a consolidated subsidiary, were examined by other independent public accountants. With the exception of that subsidiary, we reviewed the system . . ." (The American Tobacco Co.) (See also Time Inc., American Safety Razor Corp., Goodyear Tire & Rubber Co.)

The certificate accompanying the annual report of The May Department Stores Co. definitely disclaimed any responsibility for the financial statements of a subsidiary audited by another accountant:

"Messrs. . . . have made a similar examination of the financial statements of The Wm. Taylor, Son & Company, a majority owned subsidiary, as of January 31, 1948, and for the year then ended, the assets of which represent approximately 5% of the consolidated assets as of January 31, 1948.

"Based upon the examinations made by us and upon the opinion expressed in the report of Messrs. . . . with respect to the financial statements of The Wm. Taylor, Son & Company not examined by us and as to which we are not in a position to assume responsibility, the accompanying . . ."

Attention is invited to the reference in the H. K. Porter Co., Inc. certificate, quoted previously in the section on the audit of accounts receivable, indicating that payables were not confirmed. (See also Curtiss Wright Co. and Argo Oil Co.)

Five reports referred to the omission of examination of unconsolidated foreign subsidiaries. Several excerpts from these reports follow:

(1) "We have not examined the accounts of the subsidiary companies operating in Germany and Poland. The assets and related liabilities and reserves of these companies and all other foreign subsidiary companies operating in Allied-occupied and Liberated countries have not been consolidated, but the investments in these companies have been segregated in the consolidated balance sheet." (Gillette Safety Razor Co.)

(2) "We have also examined the financial statements as at December 31, 1946, of subsidiary companies, not consolidated, in Europe and North Africa, with the exception of those in Great Britain, which were examined by other independent accountants, and those in

Germany, Italy, and the Balkans. Examinations are being made of the financial statements of these subsidiary companies, other than those in Germany, Italy and the Balkans, for the year 1947, conditions in these countries having precluded the completion of this work to date." (Standard Oil Co. of New Jersey)

(3) "We accepted, after review, the report of independent auditors on the accounts of the Canadian subsidiary and the available financial statements, mainly the company's own statements supplemented by cabled information, on the accounts of non-consolidated foreign subsidiaries and branches. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary." (International Business Machines Corporation)

Wording of Exceptions

A number of different methods of qualifying the auditor's opinion were observed in 1947 reports. Such methods involved the use of various phrases inserted in the opinion paragraph.

Exceptions were most commonly taken by inserting the words "except for ——" or "with the exception of" after the words "in our opinion . . ." in the final paragraph of the certificate.

Where the words "except" or "exception" were not used, it was difficult in some cases to tell whether or not the auditor intended to take an exception.

While the exceptions mentioned above were described by inserting phrases after the words "in our opinion," the auditors' opinion on the statements of United Artists Theatre Circuit Inc. showed the exception wording in a different position:

"In our opinion, . . . in conformity with generally accepted accounting principles and practices (except with respect to accruing undistributed profits of affiliated companies)"

Below are excerpts from the opinion paragraphs of twenty auditors' reports showing the nature of and variations in modifying phrases which do not include the word "except" or "exception" or which refer to some future contingency or uncertainty.

(1) "In our opinion, with the explanation in the preceding paragraph, . . . " (John Morrell & Co.—reference to non-adjustment of reserve for replacement of basic "last-in first-out" inventory stocks—See section on Inventory Reserves—Purpose)

(2) "In our opinion, subject to the remarks in the two paragraphs next preceding, . . ."

The two paragraphs referred to above, follow:

"In accordance with the plan of accounting previously followed by the companies and as explained on pages 7 and 8, profits on sales of metals in the amount of $1,117,414.17 during 1947 were credited to contingent reserve for metal price fluctuations, and inventories of unsold metals have been valued consistently at market prices prevailing at time of production or at the end of the year, whichever are lower. As explained on page 8, shutdown expenses of gold mining properties to the extent of $246,971.25 were excluded from profit and loss and charged against contingent reserve that had been provided for that purpose from consolidated earned surplus in 1942.

"The companies' methods of accounting with respect to profits from metal price fluctuations and the shutdown expenses of gold properties are, in our opinion, acceptable, although under alternative practice such items might be included in profit and loss." (U. S. Smelting Refining and Mining Company)

(3) "Subject to our inability to express an opinion as to the adequacy of (1) amortization of released productions, (2) amortization of deferred advertising costs, and (3) provision for possible loss on advance to producers, all of which are based on estimates of future income, the accompanying consolidated balance sheet and the related consolidated statements of income and surplus, with notes thereto, in our opinion, . . ." (Pathe Industries Inc.)

(4) "In our opinion, subject to the possibility of additional federal income taxes for the years 1938 to 1942, . . ." (Air Reduction Co., Inc.)

(5) "In our opinion, subject to the effect thereon of insurance recoveries and final adjustment of the accounts relating to the Texas City, Texas plant referred to in Note 1 to the balance sheet, . . ." (Monsanto Chemical Co.)

(6) "In our opinion, with reservation as to the effect of the settlement of the suit referred to in the preceding paragraph, . . ." (Granite City Steel Co.)

(7) "In our opinion, subject to the possible adjustment of the future estimated loss on the Convair-Line Project, as explained in Note 3 to the financial statements, . . ." (Consolidated Vultee Aircraft Corp.)

(8) "Subject to the determination of a final mail rate as set forth in Note 1 to the financial statements, in our opinion, . . ." (Chicago & Southern Airlines Inc.)

(9) "Except for the possible effect on financial statements of the foregoing matters, in our opinion, . . ."

The paragraph preceding the above follows:

"On November 28, 1947 the board of directors authorized the closing of the East St. Louis plant, the sale of beer on hand in said plant and the sale of the plant as a going concern or otherwise. As of December 31, 1947 the East St. Louis plant was carried at $264,881 being cost after deducting depreciation reserve, and the inventories of beer and ale at said plant were carried at $76,957. The management represents that in their opinion said plant and inventories can be disposed of without loss although factors not now known which may arise in the future may change this opinion." (Columbia Brewing Company)

(10) "In our opinion, subject to the effect upon the accounts of the settlement of federal income tax matters referred to in Note 1, . . ." (Eastern Stainless Steel Corp.)

(11) "In my opinion, subject to such adjustments as may result from final determination of taxes on income, . . ." (O'Sullivan Rubber Corp.)

(12) "In our opinion, except for adjustments, if any, which may be occasioned by settlement of the contingency referred to in Note 1 of Notes to Financial Statements, . . ." [taxes] (Samson United Corp.)

(13) "In our opinion, except as to the effect of the final determination of federal income taxes and renegotiation as explained in Note E to the financial statements, . . ." (H. K. Porter Co., Inc.)

(14) "In our opinion, subject to the adequacy of the reserve for and final determination of income and excess profits tax liabilities as explained in the foregoing paragraphs, . . ." (Chicago Railway Equipment Co.)

(15) "In our opinion, subject to possible adjustments incident to final settlement of federal taxes on income for prior years (See Note B to the balance sheet), . . ." (Cleveland Builders Supply Co.)

(16) "In our opinion, subject to final determination of income taxes for the years 1946 and 1947, . . ." (Eastern Malleable Iron Co.)

(17) "In our opinion, subject to any adjustment arising from final settlement of the liability for federal income and excess profits taxes as explained in Note 2, . . ." (W. L. Maxson Corp.)

(18) "In our opinion, subject to the effect of the government's anti-trust litigation mentioned in Note F to the consolidated balance sheet, . . ." (United Artists Theatre Circuit Inc.)

(19) "In our opinion, except for such additional provision, if any, for federal taxes on income as may be required upon final determination of the companies' tax liability (See Note 4), . . ." (Stokely Van Camp Inc.)

(20) "In our opinion, subject to the effect of renegotiation proceedings for the year 1945 and to the realization of Federal income taxes refundable amounting to $2,094,220 (see Notes E, and A, respectively, to financial statements), . . ." (The Glenn L. Martin Co.)

Treatments to Which the Auditor Took Exception

Excerpts from the eleven certificates in which the auditor took exception to increased depreciation charges are reproduced in the section headed "Increased Depreciation Charges."

The exception taken to the accruing of undistributed profits of affiliated companies by United Artists Theatre Circuit Inc. is reproduced in the section "Unconsolidated Subsidiaries."

A deviation in 1946 in the application of the "normal stock" principle was reflected in a 1947 auditor's certificate as follows:

"As explained in Note 1 to the consolidated financial statements, inventory reserves at December 31, 1946 are approximately $2,000,000 less, net income for 1946 is approximately $1,938,000 more and net income for 1947 is approximately $1,938,000 less than would have been the case if the company had not deviated in the application of the "normal stock" principle for the year 1946.

"Except as mentioned in the preceding paragraph, in our opinion, . . ." (National Lead Company)

Exception to a provision for contingencies charged before net income shown in the report of The International Nickel Co. of Canada is reproduced in the discussion of "Reserves for Undisclosed Contingencies and Future Inventory Price Declines."

Exception was taken by the accountant to the lack of a provision for renegotiation on the balance sheet of Bohn Aluminum and Brass Corporation as follows:

"In our opinion, except that no provision for renegotiation for the year 1945 has been made in the balance sheet, as explained in Note A thereto, . . ."

Note A stated as follows:

"Renegotiation proceedings for the year 1945 are continuing, but no final determination as to the amount of the refund has yet been made. Although the price adjustment board may request a substantial refund, it is the position of the Corporation that no refund should be required for the year 1945 after taking into consideration the extensive costs of discontinuing war production, and accordingly no provision has been made therefor in the financial statements." (Bohn Aluminum & Brass Corporation)

Inconsistencies With Prior Year's Treatments Mentioned in Accountants' Reports With No Disapproval Being Indicated

In an anlysis of 524 accountants' reports (one annual report was uncertified), fifty-seven changes in treatment were noted in connection with the following subjects:

24 Inventories

20 of these references were to the adoption or extension of the Lifo method of costing inventories (see previous discussion thereon),

2 involved provisions for possible future inventory losses (Westinghouse Electric Co. and Cudahy Packing Co.), 1 mentioned a change from Lifo to Fifo for valuing labor and overhead in work in process (Clearing Machine Co.), while the remaining company excluded certain items from inventory in accordance with findings of an audit by the Commissioner of Internal Revenue (The Super Cold Corp.).

7 Fixed Asset and Depreciation Adjustments

These changes involved (1) adjustments of assets and reserves in accordance with appraisals or studies to determine actual cost (see American Sugar Refining Co., Hayes Mfg. Co., and Eastern Stainless Steel Co.), (2) depreciation rate changes to reflect variations in activity (Bigelow Sanford Carpet Co.), (3) accelerated depreciation (Chrysler Corp.), and (4) adjustments to bring depreciation rates into agreement with those used for federal income tax purposes (Libby, McNeill & Libby).

6 Consolidation Policy

Excerpts illustrating these changes are reproduced in the previous sections on "Consolidation Policy" and "Investments in Unconsolidated Subsidiaries." (See companies 225, 259, 98, 510, 60, 431).

3 Research and Development Expenses

Celanese Corporation of America adopted the policy of charging research and experimental expenses to income in the year incurred rather than amortizing over a four-year period.

Champion Paper and Fibre Company included research expenses in selling, general, research, and administrative expenses rather than in cost of goods sold.

Giddings & Lewis Machine Tool Company capitalized development and tooling costs, formerly having charged such costs to income, planning in the future to amortize them in accordance with treatment required by the U. S. Treasury Department.

3 Write Off of Goodwill

Koppers Company wrote off the unamortized "premium" on investments in consolidated subsidiaries as a special charge against income, discontinuing a former policy of amortization over a ten-year period.

United Cigar-Whelan Stores Corporation wrote off against earned surplus the goodwill purchased in 1946 in connection with the acquisition of two groups of stores. This goodwill was previously being amortized by charges to operations at a rate of 5% per annum.

R. H. Macy & Company, Inc. indicated that goodwill, representing the excess of purchase price of companies over their net assets at the respective dates of acquisition, was now amortized at 3% per annum, the former rate of 10% per annum being considered excessive. (See also Maryland Drydock Co. for write off to Surplus of remaining intangibles.)

3 Pensions

Pittsburgh Plate Glass Co. created a reserve for a voluntary pensions and relief plan computing the amount on an actuarial basis, and charging income with the required increase in such reserve.

Doehler-Jarvis Corp. included in income a credit representing an adjustment of prior year accrual of retirement plan expense due to a change in accounting policy.

West Virginia Pulp and Paper Co. charged the unamortized balance of past service annuity cost to "prior years income reinvested or retained in the business."

3 Vacation Payments

Owens Illinois Glass Co., Inland Steel Co., and Shell Union Oil Co., provided for the estimated amount of vacation pay accrued at December 31, 1947, apparently having used a "payment" basis in preceding years.

1 Charges made to a contingency reserve in 1946 would have been charged to income if 1947 method had been used (Brown & Sharpe Mfg. Co.)

1 Pacific Mills inaugurated the policy of providing a reserve for doubtful accounts on the basis of a fixed percentage of net sales.

1 Shell Union Oil Co. changed its policy so that the cost of non-producing leaseholds was written off over the terms of the respective leaseholds or a period of five years, whichever shorter. Formerly, the leaseholds had been written off over their respective terms.

1 The Miller Manufacturing Co. restated its fully amortized emergency facilities.

1 Operating revenue of Kennecott Copper Co. in 1947 included only sales which were shipped by that company. Former policy was to recognize certain sales before delivery.

1 S. H. Kress & Co. in 1947 discontinued its practice of including in its financial statements a charge for rental of owned properties with an offsetting credit to other income.

1 Commercial selling expenses previously included in overhead charges to work in process were charged off in 1947 in determining the results of operations by the Glenn L. Martin Co.

1 As the result of a change in cost accounting methods, certain engineering costs, which in prior years were considered as general and administrative expenses, were treated as direct charges to production costs. [American Car and Foundry Co.]

APPENDIX

List of 525 Corporations on Which Tabulations Were Based

1. Adam Hat Stores, Inc.
2. Adams-Millis Corp.
3. Addressograph-Multigraph Corp.
4. Ainsworth Manufacturing Corp.
5. Air Reduction Co., Inc.
6. Alabama Fuel & Iron Co.
7. Alan Wood Steel Co.
8. Alaska Pacific Salmon Co.
9. Allegheny Ludlum Steel Corp.
10. Allied Chemical & Dye Corp.
11. Allied Mills, Inc.
12. Allied Stores Corp.
13. Allis-Chalmers Mfg. Co.
14. Alpha Portland Cement Co.
15. The Amalgamated Sugar Co.
16. The American Agricultural Chemical Co.
17. American Asphalt Roof Corp.
18. American Bakeries Co.
19. American Bank Note Co.
20. American Box Board Co.
21. American Can Co.
22. American Car & Foundry Co.
23. American Chain & Cable Co., Inc.
24. American Colortype Co.
25. American Cyanamid Co.
26. The American Hardware Corp.
27. American Hide & Leather Co.
28. American-LaFrance-Foamite Corp.
29. American Locomotive Co.
30. American Maize-Products Co.
31. The American Metal Co., Ltd.
32. American Metal Products Co.
33. American Optical Co.
34. American Radiator & S. S. Corp.
35. American Republics Corp.
36. The American Rolling Mill Co.
37. American Safety Razor Corp.
38. American Smelting & Refining Co.
39. American Stores Co.
40. The American Sugar Refining Co.
41. The American Tobacco Co.
42. American Transformer Co.
43. American Viscose Corp.
44. American Window Glass Co.
45. American Woolen Co.
46. American Writing Paper Corp.
47. American Wringer Co., Inc.
48. Ampco Metal, Inc.
49. Anaconda Copper Mining Co.
50. Anchor Hocking Glass Corp.
51. Anderson-Prichard Oil Corp.
52. Archer-Daniels-Midland Co.
53. Arden Farms Co.
54. Argo Oil Corp.
55. Armour & Co.
56. Armstrong Cork Co.
57. Artloom Corp.
58. Art Metal Construction Co.
59. The Arundel Corp.
60. Associated Dry Goods Corp.
61. Atlantic Company
62. The Atlantic Refining Co.
63. Atlas Powder Co.
64. The Autocar Co.
65. The Aviation Corp.
66. Avon Allied Products, Inc.
67. The Babcock & Wilcox Co.
68. The Baldwin Locomotive Works
69. Barber Asphalt Corp.
70. Barker Bros. Corp.
71. Bath Iron Works Corp.
72. Bausch & Lomb Optical Co.
73. The Bay Petroleum Corp.
74. Bayuk Cigars, Inc.
75. Beatrice Foods Co.
76. Beech Aircraft Corp.
77. Beech-Nut Packing Co.
78. Belding Heminway Co.
79. Bell Aircraft Corp.
80. Bendix Aviation Corp.
81. Bendix Home Appliances, Inc.
82. The Best Foods, Inc.
83. Bethlehem Steel Corp.
84. Bigelow-Sanford Carpet Co., Inc.
85. The Billings & Spencer Co.
86. Blaw-Knox Co.
87. Boeing Airplane Co.
88. Bohn Aluminum & Brass Corp.
89. Booth Fisheries Corp.
90. Bond Stores, Inc.
91. The Borden Co.
92. Borg-Warner Corp.
93. E. J. Brach & Sons
94. Brewster Aeronautical Corp.
95. Bridgeport Brass Co.
96. Briggs Mfg. Co.
97. Briggs & Stratton Corp.
98. Bristol-Myers Co.
99. Brockway Motor Co., Inc.
100. Brown & Sharpe Mfg. Co.
101. Brown Shoe Co. Inc.
102. The Brunswick-Balke-Collender Co.
103. The Buckeye Steel Castings Co.
104. Bucyrus-Erie Co.
105. The Budd Company
106. Buffalo Bolt Co.
107. Burlington Mills Corp.
108. Butler Bros.
109. Byron Jackson Co.
110. The Byrndun Corp.
111. California Packing Corp.
112. Camden Forge Co.
113. A. S. Campbell Co., Inc.
114. Cannon Mills Co.
115. J. I. Case Co.
116. Caterpillar Tractor Co.
117. Celanese Corp. of America
118. Central Soya Co., Inc.
119. Century Electric Co.
120. The Cessna Aircraft Co.
121. The Champion Paper & Fibre Co.
122. Chicago Pneumatic Tool Co.
123. Chicago Railway Equipment Co.
124. Chicago & Southern Air Lines, Inc.
125. Chile Copper Co.
126. Chrysler Corp.
127. Cities Service Co.
128. The City Ice & Fuel Co.
129. City Stores Co.
130. Clark Equipment Co.
131. Clearing Machine Corp.
132. The Cleveland Builders Supply Co.
133. Clyde Porcelain Steel Corp.
134. The Coca-Cola Co.
135. Colgate-Palmolive-Peet Co.
136. Collins & Aikman Corp.
137. Colonial Stores Inc.
138. The Colorado Fuel & Iron Corp.
139. The Colorado Milling & Elevator Co.
140. Columbia Brewing Co.
141. Columbian Carbon Co.
142. Columbia River Packers Assoc., Inc.
143. Commercial Solvents Corp.
144. Congoleum-Nairn, Inc.
145. Consolidated Cigar Corp.
146. Consolidated Vultee Aircraft Corp.
147. Container Corp. of America
148. Continental Baking Co.
149. Continental Can Co., Inc.
150. Continental Motors Corp.
151. Continental Oil Co.
152. Continental Steel Corp.

153. Copperweld Steel Co.
154. Corn Products Refining
155. Craddock-Terry Shoe Corp.
156. Cramp Shipbuilding Co.
157. Crane Co.
158. The Creamery Package Mfg. Co.
159. Crown Central Petroleum Corp.
160. Crown Cork & Seal Co., Inc.
161. Crown Zellerbach Corp.
162. Crucible Steel Co. of America
163. The Cuban-American Sugar Co.
164. The Cudahy Packing Co.
165. The Cuneo Press, Inc.
166. The Curtis Publishing Co.
167. Curtiss-Wright Corp.
168. Cutler-Hammer, Inc.
169. Deere & Co.
170. The Derby Oil Co.
171. Devoe & Raynolds Co., Inc.
172. The Diamond Match Co.
173. Diamond T Motor Car Co.
174. Diana Stores Corp.
175. Dictaphone Corp.
176. The Di-Noc Co.
177. District Theatres Corp.
178. Dixie Cup Co.
179. Doehler-Jarvis Corp.
180. Douglas Aircraft Co., Inc.
181. The Dow Chemical Co.
182. The Drackett Co.
183. Dresser Industries, Inc.
184. E. I. DuPont de Nemours & Co.
185. Dwight Mfg. Co.
186. The Eastern Malleable Iron Co.
187. Eastern Stainless Steel Corp.
188. Eaton Mfg. Co.
189. Elastic Stop Nut Corp. of America
190. The Electric Auto-Lite Co.
191. Electric Boat Co.
192. The Electric Storage Battery Co.
193. Elgin National Watch Co.
194. Ely & Walker Dry Goods Co.
195. The Emerson Electric Mfg. Co.
196. Endicott Johnson Corp.
197. Ex-Cell-O Corp.
198. Fairbanks, Morse & Co.
199. A. B. Farquhar Co.
200. The Federal Machine & Welder Co.
201. Federated Department Stores, Inc.
202. The Firestone Tire & Rubber Co.
203. First National Stores, Inc.
204. M. H. Fishman Co., Inc. 5 cents to $1 Stores
205. The Florsheim Shoe Co.
206. Follansbee Steel Corp.
207. Food Machinery Corp.
208. Foremost Dairies, Inc.
209. Fruehauf Trailer Co.
210. The Garlock Packing Co.
211. Gaylord Container Corp.
212. General American Transportation Corp.
213. General Aniline & Film Corp.
214. General Baking Co.
215. General Bottlers, Inc.
216. General Box Co.
217. General Cable Corp.
218. General Cigar Co., Inc.
219. General Electric Co.
220. General Mills, Inc.
221. General Motors Corp.
222. General Railway Signal Co.
223. General Refractories Co.
224. General Shoe Corp.
225. The General Tire & Rubber Co.
226. Giddings & Lewis Machine Tool Co.
227. Gillette Safety Razor Co.
228. Gimbel Bros., Inc.
229. Gleaner Harvester Corp.
230. The Glidden Co.
231. Globe Steel Tubes Co.
232. Adolph Gobel, Inc.
233. Godchaux Sugars, Inc.
234. Goldblatt Bros., Inc.
235. Good Humor Corp.
236. The B. F. Goodrich Co.
237. The Goodyear Tire & Rubber Co.
238. Granite City Steel Co.
239. W. T. Grant Co.
240. The Great Western Sugar Co.
241. The Griess-Pfleger Tanning Co.
242. The Gruen Watch Co.
243. Grumman Aircraft Engineering Corp.
244. Gulf Oil Corp.
245. W. F. Hall Printing Co.
246. The Haloid Co.
247. Hamilton Watch Co.
248. Harbison-Walker Refractories Co.
249. Harnischfeger Corp.
250. Harris Manufacturing Co.
251. The Harshaw Chemical Co.
252. Harvill Corp.
253. Haskelite Mfg. Corp.
254. Hawley Pulp & Paper Co.
255. Hayes Mfg. Corp.
256. Hazel-Atlas Glass Co.
257. Hearst Consolidated Publications, Inc.
258. Hercules Motors Corp.
259. Hercules Powder Co.
260. Higgins, Inc.
261. Hooker Electrochemical Co.
262. Geo. A. Hormel & Co.
263. Houdaille-Hershey Corp.
264. Howell Electric Motors Co.
265. Hudson Motor Car Co.
266. Hygrade Food Products Corp.
267. Industrial Brownhoist Corp.
268. Ingersoll-Rand Co.
269. Inland Steel Co.
270. Interchemical Corp.
271. International Business Machines Corp.
272. International Harvester Co.
273. The International Nickel Co. of Canada, Ltd.
274. International Paper Co.
275. International Shoe Co.
276. International Silver Co.
277. Interstate Bakeries Corp.
278. Iron Fireman Mfg. Co.
279. Jantzen Knitting Mills Inc.
280. Jessop Steel Company
281. Johns-Manville Corp.
282. Johnson & Johnson
283. Jones & Lamson Machine Co.
284. Jones & Laughlin Steel Corp.
285. Joslyn Mfg. & Supply Co.
286. The E. Kahn's Sons Co.
287. Geo. E. Keith Co.
288. Kennecott Copper Corp.
289. Keystone Steel & Wire Co.
290. Walter Kidde & Co., Inc.
291. Kimberly-Clark Corp.
292. G. R. Kinney Co., Inc.
293. D. Emil Klein Co., Inc.
294. Koppers Co., Inc.
295. S. S. Kresge Co.
296. S. H. Kress & Co.
297. The Kroger Co.
298. Kuner-Empson Co.
299. The Lambert Co.
300. Lawrence Portland Cement Co.
301. Lear, Inc.
302. Lehigh Portland Cement Co.
303. Lerner Stores Corp.
304. Le Roi Company
305. R. G. LeTourneau, Inc.
306. Liberty Aircraft Products Corp.
307. Libby, McNeill & Libby
308. Libbey-Owens-Ford Glass Co.
309. Liggett & Myers Tobacco Co.
310. Lily-Tulip Cup Corp.
311. Lima-Hamilton Corp.
312. Link-Belt Co.
313. Lockheed Aircraft Corp.
314. Loew's Inc.
315. Lone Star Cement Corp.
316. P. Lorillard Co.
317. Lukens Steel Co.
318. Luscombe Airplane Corp.
319. Lyttons, Henry C. Lytton & Co.
320. Macfadden Publications, Inc.
321. Mack Trucks, Inc.
322. R. H. Macy & Co., Inc.
323. P. R. Mallory & Co., Inc.
324. Marathon Corp.
325. Marmon-Herrington Co., Inc.
326. Marshall Field & Co.
327. The Glenn L. Martin Co.
328. The Master Electric Co.
329. The W. L. Maxson Corp.
330. The May Department Stores Co.
331. Oscar Mayer & Co., Inc.
332. McCall Corp.
333. McGraw Electric Co.
334. McGraw-Hill Publishing Co., Inc.
335. McKesson & Robbins, Inc.
336. The Mead Corp.
337. Medusa Portland Cement Co.
338. Melville Shoe Corp.
339. Metal & Thermit Corp.
340. Mid-Continent Airlines Inc.
341. Mid-Continent Petroleum Corp.

342. Miller & Hart, Inc.
343. Miller Mfg. Co.
344. Minneapolis-Honeywell Regulator Co.
345. Mohawk Carpet Mills, Inc.
346. The Mohawk Rubber Co.
347. Monsanto Chemical Co.
348. Montgomery Ward & Co., Inc.
349. Moore Drop Forging Co.
350. John Morrell & Co.
351. Philip Morris & Co., Ltd. Inc.
352. Motor Products Corp.
353. Motor Wheel Corp.
354. The Moxie Co.
355. Nash-Kelvinator Corp.
356. National Biscuit Co.
357. The National Cash Register Co.
358. National Company, Inc.
359. National Cylinder Gas Co.
360. National Dairy Products Corp.
361. National Distillers Products Corp.
362. National Lead Co.
363. National Paper & Type Co.
364. National Steel Corp.
365. The National Supply Co.
366. J. J. Newberry Co.
367. The New Britain Machine Co.
368. Newport News Shipbuilding & Dry Dock Co.
369. Niles-Bement-Pond Co.
370. North American Aviation, Inc.
371. Northrop Aircraft, Inc.
372. The Ohio Match Co.
373. The Ohio Oil Co.
374. The Oliver Corp.
375. The O'Sullivan Rubber Co., Inc.
376. Otis Elevator Co.
377. Owens-Illinois Glass Co.
378. Pacific Mills
379. Packard Motor Car Co.
380. Pan American Petroleum & Transport Co.
381. Panhandle Producing & Refining Co.
382. Paramount Pictures Inc.
383. Park & Tilford, Inc.
384. The Parker Pen Co.
385. The Parkersburg Rig & Reel Co.
386. Pathe Industries, Inc.
387. The Patterson-Sargent Co.
388. Peden Iron & Steel Co.
389. J. C. Penney Co.
390. Pennsylvania Coal & Coke Corp.
391. Peoples Drug Stores, Inc.
392. Pepsi-Cola Co.
393. The Permutit Co.
394. Pet Milk Co.
395. Phelps Dodge Corp.
396. Philadelphia Dairy Products Co., Inc.
397. Phillips Petroleum Co.
398. Pillsbury Mills, Inc.
399. Pittsburgh Plate Glass Co.
400. Pittsburgh Screw & Bolt Corp.
401. Pittsburgh Steel Co.
402. The Pittston Co.
403. Polaroid Corp.
404. H. K. Porter Co., Inc.
405. Pratt & Lambert, Inc.
406. Pullman Inc.
407. Pure Oil Co.
408. Purity Bakeries Corp.
409. PurOlator Products, Inc.
410. The Quaker Oats Co.
411. Radio-Keith-Orpheum Corp.
412. Ralston Purina Co.
413. The Rath Packing Co.
414. Raybestos-Manhattan, Inc.
415. Rayonier Inc.
416. Regal Shoe Co.
417. Remington Rand Inc.
418. Republic Aviation Corp.
419. Republic Steel Corp.
420. Revere Copper & Brass Inc.
421. Reynolds Metals Co.
422. R. J. Reynolds Tobacco Co.
423. Rice-Stix Dry Goods Co.
424. Richfield Oil Corp.
425. Roberts & Mander Corp.
426. Roberts & Oake, Inc.
427. H. H. Robertson Co.
428. The Ruberoid Co.
429. Jacob Ruppert
430. The Safety Car Heating & Lighting Co.
431. Safeway Stores, Inc.
432. Samson United Corp.
433. Schenley Distillers Corp.
434. Scott Paper Co.
435. Scovill Mfg. Co.
436. The Scranton Lace Co.
437. Sears, Roebuck & Co.
438. Sharon Steel Corp.
439. Sharp & Dohme, Inc.
440. Frank G. Shattuck Co.
441. Shell Union Oil Corp.
442. The Sherwin-Williams Co.
443. Simmons Co.
444. Sinclair Oil Corp.
445. Skelly Oil Co.
446. A. O. Smith Corp.
447. Socony-Vacuum Oil Co., Inc.
448. Southern Advance Bag & Paper Co., Inc.
449. Southwest Lumber Mills, Inc.
450. A. G. Spalding & Bros., Inc.
451. Spencer Kellogg & Sons, Inc.
452. The Sperry Corp.
453. Spiegel, Inc.
454. Sprague Electric Co.
455. Square D Co.
456. Stahl-Meyer, Inc.
457. A. E. Staley Mfg. Co.
458. Standard Brands Inc.
459. Standard Oil Co. of Cal.
460. Standard Oil Co. (Ind.)
461. Standard Oil Co. (Kentucky)
462. Standard Oil Co. (N. J.)
463. The Standard Oil Co. (Ohio)
464. The Standard Stoker Co., Inc.
465. Stewart-Warner Corp.
466. Stokely-Van Camp, Inc.
467. Struthers Wells Corp.
468. The Studebaker Corp.
469. Sun Oil Co.
470. Sunshine Biscuits, Inc.
471. The Super-Cold Corp.
472. The Superior Oil Co.
473. Sutherland Paper Co.
474. Swift & Co.
475. The Texas Co.
476. Texas Gulf Sulphur Co.
477. Thompson Products, Inc.
478. Tide Water Associated Oil Co.
479. Time, Inc.
480. Timken Roller Bearing Co.
481. Twentieth Century-Fox Film Corp.
482. Union Bag & Paper Corp.
483. Union Carbide & Carbon Corp.
484. Union Oil Co. of Calif.
485. Union Tank Car Co.
486. United Aircraft Corp.
487. United Artists Theatre Circuit, Inc.
488. United Cigar-Whelan Stores Corp.
489. United Drill & Tool Corp.
490. United Fruit Co,
491. United Merchants & Mfgrs., Inc.
492. The United Piece Dye Works
493. Rexall Drug Inc.
494. United Shoe Machinery Corp.
495. The U. S. Finishing Co.
496. U. S. Gypsum Co.
497. U. S. Industrial Chemicals, Inc.
498. U. S. Potash Co.
499. U. S. Rubber Co.
500. U. S. Smelting Refining & Mining Co.
501. U. S. Steel Corp.
502. United Stove Co.
503. Universal-Cyclops Steel Corp.
504. Universal Leaf Tobacco Co., Inc.
505. Universal Match Corp.
506. Wagner Electric Corp.
507. Walgreen Co.
508. Walworth Co.
509. Ward Baking Co.
510. Warner Bros.Pictures, Inc.
511. Wesson Oil & Snowdrift Co., Inc.
512. Western Auto Supply Co.
513. The Westinghouse Air Brake Co.
514. Westinghouse Electric Corp.
515. Weston Electrical Instrument Corp.
516. West Virginia Pulp & Paper Co.
517. Wheeling Steel Corp.
518. Willys-Overland Motors, Inc.
519. F. W. Woolworth Co.
520. Worthington Pump & Machinery Corp.
521. Wright Aeronautical Corp.
522. Wm. Wrigley, Jr. Co.
523. The Yale & Towne Mfg. Co.
524. York Corporation
525. The Youngstown Sheet & Tube Co.