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American Institute of Accountants

ACCOUNTING TECHNIQUES

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INTRODUCTION

Accounting Techniques Used in Published Corporate Annual Reports is the third in a series of studies initiated in 1946 by the council and carried out by the research department of the American Institute of Accountants.

The primary aim of this study is to give the reader a broad perspective on the latest accounting practices and trends as disclosed in published annual reports, with particular emphasis on topics dealt with in recent Accounting Research Bulletins issued by the committee on accounting procedure of the American Institute of Accountants.

This survey is based on a detailed analysis of 525 published reports of industrial corporations with fiscal years ending between July 1948 and June 1949. Where possible, comparable statistics from the reports of the same companies for the preceding two years are provided. Certain other excerpts and references have been included, based upon a review of some 600 additional reports.

It is hoped that by making this year's study available in November, its usefulness to those preparing 1949 year-end statements will be enhanced.

In order to achieve this early publication date, we did not wait to receive about 2 per cent of the selected group of 525 reports. Most of these reports had fiscal years ending in the second quarter of 1949. Tabulations for these companies were based on the assumption that their treatments had not changed from those used in the preceding year.

References to the names of specific corporations or to their code number in the appendix have been provided for the use of readers with access to a collection of published reports.

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

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Section 1: GENERAL TECHNIQUES

Customary Certified Statements

These statements were considered to be the balance sheet, and income and surplus statement(s).

In 1948, thirty-seven companies presented their customary certified statements in a different form than in the preceding year. However, the aggregate statistics below show only minor variations because these changes, to a great extent, offset one another.

Sixteen companies which had formerly presented a separate earned surplus statement, changed to a combined income and surplus presentation, while thirteen other companies, instead of presenting the combined statement, showed earned surplus changes independently of the income statement in 1948. Six companies, which in 1947 presented a balance sheet and income statement only, added the earned surplus reconciliation in their 1948 reports.

1948	1947	1946	
357	357	369	Separate balance sheet, income statement, and surplus statement
143	137	129	Balance sheet, combined income and surplus statement
17	22	18	Balance sheet and income statement only—no separate surplus statement
3	4	5	Balance sheet only
1	1	1	No certified statements presented
4	4	3	Balance sheet and surplus statement—income items in surplus statement
525	525	525	

In some cases there seemed to be a tendency to use the combined income and surplus form when there were no charges or credits to earned surplus other than net income and dividends for the year, and when additional charges or credits did occur, to use the separate earned surplus statement.

The same type of reasoning seemed to apply to the statement of capital surplus. If there were no debits or credits to that account, a separate statement thereof was usually omitted.

Stockholder Equity Statements

Of the following named companies, the first three presented statements of stockholders' equity in place of the more usual earned surplus certified statements for the first time in 1948, the others having used such statements in years previous to 1948:

Title of Statements	Name of Company
"Statement of Common Stockholders Equity"	Allied Stores Corp.
"Common Stockholders' Investment and Changes Therein"	Federated Department Stores, Inc.
"Stockholders' Equity"	Socony-Vacuum Oil Co., Inc.
"Capital Stock and Surplus" (Schedule A)	The Byrndun Corp.
"Statement of Capital Stock and Surplus"	International Shoe Co.
"Analysis of Capital Invested"	Scovill Mfg. Company
"Statement of Consolidated Net Worth"	Standard Oil Co. (N. J.)
"Statement of Stockholders' Interest"	Standard Oil Co. (Ohio)
"Statement of Stockholders' Ownership"	Colt's Manufacturing Co.

The above certified statements presented in de-

Figure 1. Federated Department Stores, Inc.

FEDERATED DEPARTMENT STORES, INC.
and Subsidiary Companies

Common Stockholders' Investment and Changes Therein

52 WEEKS ENDED JANUARY 29, 1949

For legal and accounting reasons, the common stockholders' investment in the Company is divided into three parts: (1) the accumulated earnings which are employed in the business, (2) par value of common stock, which is the legal capital of the Company, and (3) the excess of the consideration (cash or other assets) received for common stock issued over its par value, which is regarded as additional capital from the accounting point of view. These amounts at January 29, 1949 are summarized as follows:

Accumulated earnings employed in the business	$40,843,468
Par value of common stock	13,362,352
Capital in excess of par value of common stock	21,647,373
	$75,853,193

The changes in each of these categories during the year ended January 29, 1949 are tabulated below:

ACCUMULATED EARNINGS EMPLOYED IN THE BUSINESS

Balance, beginning of year		$31,485,462
Add net income applicable to shares of parent company		14,780,181
		$46,265,643
Deduct dividends on:		
Preferred stock—$4.25 per share	$ 528,620	
Common stock—$2.00 per share	4,893,555	5,422,175
Balance, end of year (of this amount $15,489,061 may not be distributed to common stockholders under the Company's loan agreement terms)		$40,843,468

PAR VALUE OF COMMON STOCK

4,000,000 shares of common stock have been authorized and at the 1948 annual stockholders' meeting the shares were changed from no par shares with a stated value of $5 per share, to par value shares with a par value of $5 per share; this action did not change the amount of the legal capital. Other changes in the common stock held by stockholders other than the Company are as follows:

	NUMBER OF SHARES	AMOUNT
Outstanding, beginning of year (excluding 4,500 shares in treasury)	2,354,013	$11,770,065
Issued for acquisition of Milwaukee Boston Store	292,600	1,463,000
Issued upon exercise of warrants	26,406	132,030
Purchased for the treasury	3,400*	17,000*
Issued in exchange for common stock of a subsidiary	2,851	14,257
Outstanding, end of year (excluding 2,500 shares in treasury)	2,672,470	$13,362,352

CAPITAL IN EXCESS OF PAR VALUE OF COMMON STOCK

Balance, beginning of year	$15,081,988
Excess of consideration received over par value of common stock issued in the acquisition of the Milwaukee Boston Store	6,387,458
Credit with respect to warrants exercised	184,420
Miscellaneous	6,493*
Balance, end of year	$21,647,373

*Deduct

tail the various elements comprising the common stockholders' equity, thereby allowing the balance sheet to show this equity in a condensed form. More complete information was often given in this type of statement as to the purpose(s) for which capital stock was issued during the year. As an illustration, the statement of Federated Department Stores, Inc. is shown in Figure 1.

United States Steel Corporation followed a somewhat similar plan, but included such detailed information in footnotes rather than making use of a separate certified statement of net equity.

Omission of Surplus Statement

Of nineteen companies which in 1948 presented no certified earned surplus statements, fifteen showed the year's surplus adjustment(s) on the balance sheet itself; two presented the surplus adjustments as footnote material; one left the reader to discover that earnings for the year and dividends deducted at the foot of the income statement were the only two items affecting the opening surplus balance, while surplus changes of the remaining company were not reconciled.

When no separate surplus analysis was given, the adjustments shown on the balance sheet usually reflected only net income and dividends for the year. It was noted, however, that in addition to these two items, The Hazeltine Corporation showed on its 1948 balance sheet the transfer to surplus of a portion of a reserve for plant improvement and contingencies.

Account Titles Explained

The 1948 certified statements of Consolidated Gas Electric Light and Power Company of Baltimore contained parenthetical explanations of most items in the balance sheet, income, and surplus statements. These informative sentences appeared in small type beneath the customary account titles and groupings.

Other Variations

Veeder-Root Incorporated presented a balance sheet and a "Summary of Changes in Consolidated Capital during the calendar years 1948 and 1947" which showed in one statement the changes during each year in capital stock, capital surplus, and earnings retained for business needs, with operating results also shown therein in condensed form.

Toro Manufacturing Corporation of Minnesota, in a separate certified "statement of amounts paid in by stockholders" showed details of capital stock, treasury stock, and capital surplus. Another feature of this report was an 11 months' income statement which was compared with that of the previous year. (See also California Packing Corp.)

Electric Auto-Lite Company presented separately statements of "capital surplus" and of "paid in surplus," while Jones & Laughlin Steel Corporation presented a "Consolidated Statement of other Capital and Income Retained in the Business."

Additional Certified Statements

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

1948	1947	
483	482	None shown
4	7	Parent company statements
11	13	Subsidiary statements—domestic
14	14	Subsidiary statements—foreign
4	7	Reserve statements
1	1	Supplemental compensation fund
3	2	Schedules
1	1	Comparative statements—more than two years
3	1	Statements of funds
2	1	Summary earnings comparisons
1	1	Retirement system assets
1	1	Profit and loss statement of factory retail store
3	...	Statements of disposition of net profit
1	...	Statistical material on dividends, wages, prices, taxes, book value per share, outstanding shares and dividends per share

The principal changes during 1948 in the above types of statements were:

(1) Montgomery Ward and Co., Inc., The Duplan Corp., and U. S. Gypsum Co. presented certified statements of the source and application of funds. (See Figure 2) These companies have adopted a policy previously noted only in the report of Caterpillar Tractor Co. Attention is invited to the fact that nineteen companies used an uncertified statement of source and application of funds for the first time in 1948 to supplement the certified statements.

(2) A certified statement entitled "Disposition of Net Income" or "Disposition of Net

Figure 2. Duplan Corporation

OPERATIONS

Years Ended May 31, 1949 and May 31, 1948

	1949	%	1948	%
NET SALES	$43,287,076	99.75	$42,122,297	99.75
Other income	110,435	.25	103,769	.25
	43,397,511	100.00	42,226,066	100.00
COSTS:				
Payroll and related costs	16,725,281	38.54	15,766,727	37.34
Materials and supplies	17,813,936	41.05	15,535,427	36.79
Power, freight and other services	2,373,816	5.47	2,807,670	6.65
Taxes on income	2,057,027	4.74	2,887,593	6.84
Set aside for depreciation	1,204,150	2.77	1,052,157	2.49
Interest on long term debt	195,104	.45	147,604	.35
	40,369,314	93.02	38,197,178	90.46
	3,028,197	6.98	4,028,888	9.54
LESS:				
Dividends on preferred stock	12,000	.03	12,000	.03
Earnings applicable to minority interest in Canadian subsidiaries			251,749	.59
	12,000	.03	263,749	.62
NET EARNINGS	$ 3,016,197	6.95	$ 3,765,139	8.92
Earnings per share	$3.34		$4.85	

WORKING CAPITAL

Working Capital at May 31, 1948		$8,186,219
Additions during year:		
Net earnings for year	$3,016,197	
Set aside for depreciation	1,204,150	
Proceeds of sale of fixed assets, etc.	41,760	4,262,107
		12,448,326
Deductions during year:		
Expended for fixed assets	2,477,595	
Cash dividends	459,409	
Reduction in long term debt	300,000	3,237,004
Working Capital at May 31, 1949		$9,211,322

Figure 3. International Paper Company

INTERNATIONAL PAPER COMPANY

AND SUBSIDIARY COMPANIES

Sales and Other Income:			
Gross sales, less returns, allowances and discounts			$458,802,749
Other income – net (see summary opposite)			3,224,011
			$462,026,760
Costs and Expenses:			
Pulpwood, labor, materials, etc.		$251,667,042	
Maintenance and repairs		38,310,220	
Taxes (other than income taxes)		5,928,644	
Outward freight and delivery expenses		40,308,779	
Selling, general and administrative expenses		11,984,609	
Depreciation		12,474,165	
Depletion		881,272	
Provision for taxes based on income:			
U.S. Federal and State taxes	$32,428,380		
Canadian and other foreign taxes	9,384,113	41,812,493	403,367,224
Net Profit from Operations			$ 58,659,536
Add: Profit on disposition of investments (less $46,614 provision for U.S. Federal income tax)			1,829,730
Net Profit			$ 60,489,266

Net Profit		$ 60,489,266
Less: **Appropriated to Reserves:**		
For inventory price adjustment	$ 6,000,000	
For replacement of capital assets at current costs	6,000,000	12,000,000
Balance Carried to Earned Surplus		$ 48,489,266

Note: The accounts of foreign companies, principally Canadian, are included in the above statement as reflected on their books of account which do not differentiate in sales and costs between U. S. dollars and Canadian dollars. A large percentage of the sales are payable in U. S. dollars. During the year the official rate of exchange on the Canadian dollar was at parity with the U. S. dollar.

Figure 4. Burroughs Adding Machine Company

BURROUGHS ADDING MACHINE COMPANY

COMBINED STATEMENTS OF SUBSIDIARY COMPANIES OPERATING IN FOREIGN COUNTRIES

STATEMENT OF OPERATIONS

	1948	1947
Charges to customers for products sold and services rendered	$18,352,258	$15,208,315
Miscellaneous income	94,225	36,288
	$18,446,483	$15,244,603
Cost and expenses	14,311,815	11,586,291
	$ 4,134,668	$ 3,658,312
Estimated taxes on the year's income	1,714,000	1,649,000
Net income for the year	$ 2,420,668	$ 2,009,312
Dividends paid to parent company	961,005	1,501,600
	$ 1,459,663	$ 507,712
Income of prior years not paid in dividends to parent company	2,262,917	1,648,100
Adjustment of prior years' foreign income taxes settled in 1948 and 1947	35,108	107,105
Income not paid in dividends to parent company at end of year	$ 3,757,688	$ 2,262,917

STATEMENT OF FINANCIAL CONDITION

	December 31 1948	1947
WORKING CAPITAL:		
Cash	$ 3,951,144	$ 2,786,386
Foreign government securities (at approximate market value)	103,465	1,277,333
Amounts receivable from customers and others, less estimated amounts which may not be collected	2,768,788	2,045,126
Inventories of purchased materials and finished and partly finished products	5,149,470	3,501,962
Expenses paid in advance	283,739	322,527
Current assets	$12,256,606	$ 9,933,334
Current liabilities, excluding amounts owing to parent company	4,685,270	4,577,813
Working capital	$ 7,571,336	$ 5,355,521
COST OF LAND, BUILDINGS AND EQUIPMENT	1,176,769	949,837
Less estimated cost of wear and exhaustion (depreciation)	(717,107)	(692,854)
OTHER ASSETS	80,232	112,786
Net assets owned by parent company	$ 8,111,230	$ 5,725,290

Inventories are stated substantially at their dollar cost. Except for inventories, the net assets and net income of the British, Canadian and Swiss companies are stated at official rates of exchange at December 31, 1948, the French company at the export rate of 255 francs to the dollar and the other companies at free rates of exchange prevailing at December 31, 1948. The adjustment arising from the conversion of foreign accounts into U.S. dollars amounted to $46,894 and was credited to miscellaneous income.

ARTHUR F. LISKA, *Comptroller*

Profit" was presented by Granite City Steel Co., International Paper Co., Allied Products Corp., and Wesson Oil & Snowdrift Co., Inc., in addition to the customary income statements. Accounting Research Bulletin No. 35, "Presentation of Income and Earned Surplus," suggested such a separate statement wherein certain charges or credits could be shown as an alternative to including them in the earned surplus statement. (See Figure 3)

(3) General Electric Co. and Gulf Oil Corporation did not present separate certified parent company statements as they had the previous year. Chiefly because of consolidations and mergers, fewer companies presented separate certified statements of domestic subsidiaries in 1948 than in 1947.

(4) Three companies omitted certified reserve statements which they had shown in the previous year. (American Sugar Refining Co., Butler Brothers, American-LaFrance-Foamite Corp.)

(5) International Harvester Co. included "Supplemental Schedules (pages 17 to 22, inclusive)" among the certified statements, while Scott Paper Co. presented a certified summary earnings statement.

(6) The following statement signed by the auditors was made independently of the short form certificate and in a different section of the report:

"To the Stockholders of the Ruberoid Co.

"In connection with our examination of the financial statements of The Ruberoid Co. as at December 31, 1948, as reported upon in our certificate appearing on page 17, we have also reviewed the statistical data set forth in the president's letter and on pages 11, 18 and 19 of this annual report. In our opinion, such information has been compiled properly."

Separate Parent Company Statements

The National Pressure Cooker Company in 1948 presented a consolidated balance sheet (domestic subsidiaries only), a parent company balance sheet, and, in addition, profit and loss and surplus statements which in two vertical columns showed both parent company and consolidated results.

Separate Statements of Subsidiaries Operating in Foreign Countries

Burroughs Adding Machine Co. presented a separate 1948 "Statement of Operations" and "Statement of Financial Condition" for subsidiary companies operating in foreign countries. Such subsidiaries were excluded from consolidation in 1948. (See Figure 4) A number of the statements on foreign subsidiaries were shown as part of the footnotes. (See sections on consolidation policy.)

Certified Statements—Comparative Form Used

While the auditor's report usually did not express an opinion as to the previous year's statements, the certified statements were considered to be in comparative form when figures for the preceding year were shown in an adjoining vertical column. In this regard it was noted that one leading accounting firm often expressed an opinion on the statements of the preceding as well as the current year.

Thirty-nine companies presented complete comparative statements for the first time in 1948 which covered the balance sheet and income and surplus statement(s). Of these thirty-nine companies, twenty-eight had presented no comparative statements in the preceding year.

As the result of such increases in 1948, over one-half of the 525 tabulated reports are now making some use of comparative certified statements.

1948	1947	1946	
249	278	297	No comparative statements
			Comparative statements furnished:
111	89	86	Separate balance sheet, income statement and surplus statement
57	56	62	Balance sheet and income statement only
70	60	43	Balance sheet, combined income and surplus statement
14	17	18	Income statement and surplus statement only
18	18	14	Income statement only
6	7	5	Balance sheet only
525	525	525	

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

"For reference purposes, the figures relating to the year ended November 30, 1947, have also been made a part of the accompanying statements" (final paragraph of auditor's report—Ex-Cell-O Corporation).

"The figures as of December 31, 1947, are presented for comparative purposes" (below balance sheet—Western Auto Supply Company).

Willys-Overland Motors Inc. restated the com-

Figure 5. **Colgate-Palmolive-Peet Company**

THE BALANCE SHEET PLAINLY STATED

The Company Owns the Following Assets

		December 31, 1947	December 31, 1948
Current Assets	Current assets include cash and those items which may be converted into cash within a short time in the normal operation of the business:		
	Cash represents money in the bank and small amounts in our offices	$ 11,554,000	$ 11,438,000
	Government securities have been purchased with cash not required immediately in the business. An additional amount equal to our indebtedness for income taxes has been deducted from that liability.	9,208,000	7,200,000
	Accounts receivable are principally the amounts billed to customers which are not due until the following month	15,179,000	12,149,000
	Inventories include raw materials, products which are partially complete, finished products ready for shipment, supplies and the like. These are valued at cost or the equivalent of market price, whichever is lower	32,562,000	28,773,000
	Total current assets	$ 68,503,000	$ 59,560,000
Prepaid Expenses	Prepaid expenses are payments made for insurance, advertising, etc. which are applicable to future months	1,131,000	1,699,000
Investments	Investments represent principally stock of wholly-owned or controlled foreign companies and amounts due from these companies for materials and finished goods shipped to them	6,179,000	7,757,000
Property, Plant and Equipment	Property includes land, factory and office buildings and the machinery and equipment necessary to our operations. These are valued at their cost to the Company less reserve for depreciation which is the amount allocated previously to expense due to estimated wear on buildings and equipment. To replace this property at present prices would cost a great deal more than the amount shown	23,323,000	30,629,000
Goodwill	Goodwill is the backbone of an established business. It is the high regard which people hold for products bearing our name. Because it is intangible and cannot be measured, goodwill is generally carried at the nominal value of $1.00. However, in 1946, the price paid for the Lustre-Creme business included $3,750,000 for the goodwill of this product. This goodwill is being absorbed in expense over a ten-year period starting in 1947	3,375,000	3,000,000
	The total of our assets is	$102,511,000	$102,645,000

THE BALANCE SHEET PLAINLY STATED

	December 31, 1947	December 31, 1948
The Following are Classified as Liabilities		
Current Liabilities — Current liabilities represent amounts owing to others for materials delivered, services rendered, taxes and similar items. Only those items which will become due and payable within one year are classified as current liabilities	$ 14,868,000	$ 13,689,000
Deferred Liabilities and Reserves — Liabilities which we will not be called upon to pay for more than a year and provisions made for possible future liabilities are classified as deferred liabilities and reserves. We have such provision in our accounts for the eventual redemption of premium coupons which have been issued in the past and for our policy of self-insuring for employers' liability insurance	4,173,000	4,373,000
The reserve for inventory price decline is a segregation of earnings made to give the Company protection in its accounts against losses arising from a drop in the market price of raw materials	7,250,000	3,000,000
The total of these liabilities is	$ 26,291,000	$ 21,062,000
Net Worth		
Capital Stock and Surplus — The capital stock and surplus accounts represent the amount which our stockholders have invested in the Company. This amount is often referred to as the net worth of a company as there are assets of the same amount standing behind this investment. We have both preferred and common stock outstanding.		
The Company's by-laws permit the issuance of 250,000 shares of Preferred Stock of which 125,000 shares of $3.50 Preferred Stock have been sold to investors. This stock has a right to dividends at the annual rate of $3.50 per share before any dividends may be paid on the Common Stock and a prior right to the Company's assets of $100 per share	$ 12,500,000	$ 12,500,000
The remainder of the net worth of the Company represents the investment of the owners of nearly 2,000,000 shares of Common Stock. This includes the amount originally paid to the Company for these shares of stock and the earnings over the years which were not distributed as dividends. At December 31, 1948, this is equal to $34.58 per share of common stock	63,720,000	69,083,000
Total investment of preferred and common stockholders	$ 76,220,000	$ 81,583,000
Total liabilities and net worth	$102,511 000	$102,645,000

Figure 6. Houdaille-Hershey Corporation

In 1948, Houdaille-Hershey added $30,548,090.67 of value to Raw Materials and Services which cost $22,002,761.93

The value added is represented by the difference between the amount Houdaille-Hershey paid for raw materials and services and the amount it received from sales and other income through its operations. From this added value, members of Houdaille-Hershey received compensation for the part they played in creating it, and other needs of the business were met as detailed below:

From sales made to customers, and from other income, the Corporation received........................	$52,550,852.60
For materials, power, fuel, and other purchased items and services, the cost was........................	22,002,761.93
Remainder—representing the value added to materials by the Corporation's activities..................	$30,548,090.67

This $30,548,090.67 was used as follows:

75.92% or	$23,190,850.39	for Wages and Salaries
10.22% or	3,122,458.13	for Taxes
4.23% or	1,292,685.55	for Wear and Tear (Depreciation) on facilities
.66% or	201,336.42	for Interest on Borrowed Money, etc.
3.97% or	1,212,512.84	for Dividends to Shareholders
5.00% or	1,528,247.34	retained for Working Capital, Plant Expansion, Debt Retirement, and other needs of the business.

The sum of the last two items—dividends and the amount retained in the business—equals the Corporation's Consolidated Net Income of $2,740,760.18 for 1948.

parative figures for the preceding year, as did a number of companies retroactively adopting accelerated depreciation policies.

U. S. Hoffman Machinery Corporation used an increase-decrease column with their comparative statements.

The auditors of American Potash and Chemical Company reported as follows with respect to the statements of the preceding year:

"We have not examined the consolidated income statement for the preceding year ended December 31, 1947, and the amounts shown for purposes of comparison are taken from the annual report to stockholders for that year."

Uncertified Statements

The most pronounced developments in regard to uncertified statements were increased use of the following:

(a) Statements of source and application of funds.

(b) Summary earnings comparisons for more than two years.

(c) Charts showing distribution of sales dollar.

(d) Comparative statements (balance sheet and income statement) for more than two years.

The following five uncertified statements were deemed of sufficient interest to justify reproducing them in the following pages:

(1) "*The Balance Sheet Plainly Stated*" (Colgate-Palmolive-Peet Company)—(See Figure 5)

This balance sheet presented explanatory captions which provided a great deal of information not given elsewhere in the report and at the same time expressed technical information in simple terms. (The National Sugar and Refining Company included in narrative form in its 1948 report an explanation of the technical meaning attached to the terms used in its certified statement of income and earned surplus and the balance sheet.)

Figure 7. Armour & Company

Requirements

	10 Years (1939–1948)
Requirements to finance increases in inventories and receivables due to higher prices amounted to..................	$124,484,000
These requirements were met in part by increases in short term credits of.......	51,731,000
Increase in working capital..............	$ 72,753,000
Additional requirements:	
In reducing senior obligations from $192,586,000 (including $2,575,000 of accrued preferred dividends) to $187,628,000...........................	4,958,000
For increases in investments...........	4,399,000
Total requirements......................	$ 82,110,000

How Obtained

Earnings $136,967,000 less dividends paid $55,426,000 (excluding $2,575,000 of accrued preferred dividends at the beginning of the ten year period) leaving earnings retained and employed in the business................................	$ 81,541,000
Depreciation in excess of capital expenditures and reduction in deferred charges less surplus adjustments—added an additional net amount of................	569,000
	$ 82,110,000

Figure 8. Hooker Electrochemical Company

1948 IN BRIEF

At November 30, 1947 our net worth was			$15,999,100
We received income from			
Sales of chemical products, parts, and services	$23,675,600		
Interest, dividends, and licenses . . .	478,600		
Total Income		$24,154,200	
We used our income for			
Wages and salaries	$ 6,651,400		
Raw materials, fuel, transportation, and other costs . . .	11,085,900		
Depreciation on buildings & equipment	1,221,400	$18,958,700	
Leaving gross profit before taxes of . .		$ 5,195,500	
Federal income and other taxes . . .		$ 2,269,300	
Leaving net earnings amounting to . .		$ 2,926,200	
Out of net earnings we paid			
Dividends to stockholders		$ 1,217,500	
Leaving a balance which was invested in our business			$ 1,708,700
We secured additional capital amounting to (net after expenses)			$ 4,848,600
Making our net worth at November 30, 1948			$22,556,400

(2) *Statement of value added to raw materials and services* (Houdaille-Hershey Corporation)—(See Figure 6)

This statement is a variation of the form of supplementary income statement showing employment costs which has been quite widely used in recent years.

Another similar variation was that of Swift and Company which showed the various uses to which gross income (Sales less amount paid for raw materials, livestock, etc.) was put both in dollars and percentage of gross income.

(3) *Requirement for Funds and How Obtained* (1939–1948) (Armour & Company)—(See Figure 7)

In this statement was summarized the source and disposition of funds for a ten year period.

(4) *1948 in Brief* (Hooker Electrochemical Company)—(See Figure 8)

This statement reconciles net worth at the beginning of the year with that at the end of the year, at the same time showing the sources of income and its distribution.

(5) *A statement of source and application of funds showing sources and distribution of income* (Gulf Oil Corporation)—(See Figure 9)

Figure 9. Gulf Oil Corporation

	Year 1948	Year 1947
RECEIVED FROM:		
Sales to customers and other revenues	$1,073,998,000	$802,850,000
(Including miscellaneous net cash receipts in 1948 of $5,122,000; and in 1947 of $5,639,000)		
PAID OUT FOR:		
Oil and products bought from others	$ 407,902,000	$286,960,000
Wages, salaries, and employee benefits	164,683,000	137,690,000
Materials, supplies, transportation, etc.	200,863,000	171,310,000
Taxes (not including sales tax)	78,724,000	52,770,000
Cash dividends declared to stockholders	34,036,000	31,770,000
Additions to plant facilities and investments	239,551,000	180,960,000
Total paid out	$1,125,759,000	$861,460,000
EXCESS OF AMOUNT PAID OUT OVER RECEIPTS	$ 51,761,000	$ 58,610,000
Additions to inventories, receivables, and working funds	83,915,000	41,390,000
ADDITIONAL FUNDS OBTAINED	$ 135,676,000	$100,000,000
SOURCE OF ADDITIONAL FUNDS:		
Sale of installment notes	—0—	$100,000,000
Sale of Gulf stock (net after expenses)	$ 112,770,000	—0—
Sale of Texas Gulf Sulphur capital stock (net after tax)	22,906,000	—0—
Total	$ 135,676,000	$100,000,000

Consolidation Policy—Domestic Subsidiaries

Those cases in which a footnote was devoted to explaining consolidation policy were the exception rather than the general rule.

Perhaps the reason for lack of disclosure was related to the fact that most reporting corporations did not have to decide upon any over-all policy. They had to reach a decision affecting perhaps one or only a limited number of subsidiaries. For example, if a company's subsidiaries were all 100 per cent owned, there was little reason to consider whether or not a partly-owned subsidiary would be excluded or included. Similarly, where it was evident that all domestic subsidiaries were consolidated with no general statement of policy, there was no guarantee that the next one acquired would not be treated differently.

The tabulations below on consolidation policy indicate the sketchiness of such information provided in corporate reports. Such information was found in the great majority of reports only in the title heading of the financial statements. For example, if the statement title read "Consolidated Balance Sheet" and no investment in subsidiaries was separately shown on the balance sheet, it was assumed that all domestic subsidiaries were consolidated with no general statement of policy being provided. In other cases the financial statements might be headed "American Locomotive Company and Wholly-Owned Subsidiaries" and would be classed as "positive statement that all 100 per cent owned subsidiaries were consolidated."

1948	1947	
129	132	No domestic subsidiaries indicated
		No statement of policy
29	27	Domestic subsidiaries indicated on the balance sheet but not consolidated
181	184	but all domestic subsidiaries consolidated
39	40	but some domestic subsidiaries consolidated, others excluded

		Policy Indicated
83	78	subsidiaries consolidated were 100 per cent owned
7	7	stated percentage of ownership determined inclusion of subsidiaries in consolidation
6	6	no fixed percentage stated for over-all policy but percentage of ownership quoted for individual subsidiaries
16	15	subsidiaries excluded because their operations were not homogeneous with those of the parent company
39	40	positive statement that all domestic subsidiaries were consolidated
1	1	all consolidated except mutual insurance company and three subsidiaries less than 60 per cent owned
2	2	only domestic sales companies consolidated
1	1	voting controlled subsidiaries consolidated
1	1	only 100 per cent owned subsidiaries consolidated except one 100 per cent owned pipe line with earnings restricted
2	1	all consolidated except those not considered significant
...	1	subsidiary excluded in 1947 because of bankruptcy

Among the domestic subsidiaries there were very few policy changes. Most of the changes indicated by the above statistics were the result of the acquisition or creation of subsidiaries and the sale or dissolution of subsidiaries.

Policy changes by three companies were described in the following excerpts taken from the related auditors' reports and the footnotes:

(1) "The accounting principles followed during the year are consistent with those of the preceding year, except that the accounts of Wisconsin Motor Corporation (83.1037% owned at October 31, 1948) have been included in the annual consolidated financial statements for the first time. This change in accounting principles has our approval. If the accounts of the subsidiary had been included in the consolidated financial statements for the preceding year, the reported net loss of $2,049,216 for that year would have been reduced approximately $756,000." (Continental Motors Corp.—auditor's report)

(2) "At the end of each prior fiscal year the Corporation adjusted the carrying value of its investment in Alaska Packers Association (a 92% owned subsidiary) to its equity in the underlying net assets (based upon the Association's fiscal year ended December 31) and included in its income account its proportionate share of the earnings or losses of the Association. As at February 28, 1949 the accounts of this subsidiary have been consolidated with those of the Corporation (note A)." (California Packing Corp.—auditor's report)

(3) "In statements of consolidated income of Philadelphia Company and subsidiaries published in prior years operating revenues and operating revenue deductions included only the operations of utility companies, operations of non-utility companies were included under other income, and certain intercompany transactions between utility and non-utility companies were not eliminated. In the statement of consolidated income for 1948, operating revenues and operating revenue deductions include the operations of both utility and non-utility companies and all intercompany transactions of significant amount have been eliminated. This change in practice has no effect on the amount of net income for the year. The statement of consolidated income for the year 1947, which is included in this report, has been restated to conform to the practice adopted in 1948." (Notes)

(4) "In the appended financial statements covering the year 1948, the accounts of all wholly-owned domestic subsidiaries have been consolidated. In prior years several minor domestic subsidiaries of The M. W. Kellogg Company, whose operating results were not material in amount, were not included in the consolidation. These subsidiaries have been consolidated as of January 1, 1948, the Company's equity in the undistributed earnings thereof at that date having been taken up in the consolidated surplus account." (Pullman Incorporated—footnote)

The following three excerpts also deal with the general question of consolidation policy:

(1) "On December 31, 1948 McGraw-Hill Book Company, Inc., a 100% owned subsidiary of McGraw-Hill Publishing Company, Inc., purchased all the stock of The Gregg Publishing Company and The Gregg College. The former company owns all of the stock of two British Companies, The Gregg Publishing Company, Ltd. and The Gregg Schools, Ltd. On December 31, 1948 McGraw-Hill Book Company, Inc. paid a major portion of the purchase price for all of the stocks acquired, the balance to be based upon the appraised value of specific assets. Inasmuch as the value of these assets had not been determined as of the date of our audit, the unpaid commitment has not been reflected in the balance sheet, nor do the consolidated statements include assets and liabilities of the acquired companies." (McGraw-Hill Publishing Company—auditor's report)

(2) "The consolidated financial statements include the accounts of all subsidiary companies, namely, Hunt Foods, Inc. of Utah (95.52% owned), The Harbauer Company (82.61% owned), and E. Pritchard, Inc. (95.18% owned). The accounts of the latter two companies are consolidated in 1948 for the first time because of additional acquisitions of Harbauer stock and initial acquisition of Pritchard stock; in the case of Pritchard no operating accounts are included, as the acquisition (in October 1948) is considered for accounting purposes to be as of the close of Hunt's fiscal year. Intercompany items, including any intercompany profits, have been eliminated in consolidation." (Notes)

"In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earned surplus, with the notes to financial statements, present fairly the financial position of the companies at November 30, 1948 and the results of their operations (except as to one subsidiary acquired in October 1948) for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Hunt Foods, Inc.—Accountants' Certificate)

(3) "As explained in Note 'A' of the notes to consolidated financial statements, the operating loss of approximately $56,400 of a wholly-owned subsidiary has not been reflected in the consolidated financial statements. The inclusion of this loss would have resulted in a decrease of approximately $56,400 in the consolidated net profit.

"In our opinion, subject to the preceding paragraph. . ." (National Can Corporation—Accountants' Report)

Consolidation Policy—Foreign Subsidiaries

The major change noted in regard to consolidation policy in 1948 reports was the effect of exchange restrictions and unsettled economic conditions in foreign countries. As the result of such conditions, a number of companies excluded certain foreign subsidiaries from consolidation.

There were, however, variations in the methods and extent of these exclusions. The main consideration seemed to be to exclude restricted foreign earnings from the income statement by one of the following five procedures:

(1) *Excluding all foreign subsidiaries from consolidation*

McCall Corporation in 1948 changed its policy so as to carry foreign subsidiaries at cost plus undistributed income at January 1, 1948. Dividends received will be applied to "reduce the carrying value to the extent of such undistributed income." (Wholly-owned subsidiaries in England and Australia)

Burroughs Adding Machine Company in 1948 decided to exclude all foreign subsidiaries from consolidation. Subsidiaries operating in foreign countries (which included British, Canadian, Swiss, and French companies) were carried at cost less reserve, with dividends from such subsidiaries added as the last item before "Net Income for the year." Supplementing the parent company statements were combined statements of operations and financial condition for all subsidiaries operating in foreign countries. (See also John Morrell & Company where investment in British subsidiary was carried at net equity and unremitted profits credited to a reserve, and the Lambert Company were "Equity in unconsolidated foreign subsidiaries, branches, and agencies" [Australia, New Zealand, England, Continental Europe and Western Hemisphere] was shown separately in the balance sheet with no policy regarding earnings or dividends being mentioned.)

(2) *Excluding only certain foreign subsidiaries from consolidation—earnings thereof recognized only as dividends are received*

The change in policy made in 1948 by Paramount Pictures, Inc., was described in the excerpt below from the auditor's report and the footnote which follows:

"In view of unsettled economic conditions prevailing in many foreign countries, the financial statements of subsidiary companies operating in foreign countries other than Canada have not been consolidated with those of the parent company as was done in the preceding year. This change in basis of consolidation was made with our approval. For purposes of comparison the consolidated financial statements of the preceding year have been restated to exclude the accounts of subsidiary companies operating in such foreign countries." (Auditor's report)

"The investments are carried at values adjusted to January 1, 1935, with subsequent additions at cost." (footnote) (See also Gilette Safety Razor Corporation where subsidiaries in Continental Europe other than Sweden and Switzerland were excluded.)

(3) *Excluding foreign assets and liabilities from consolidation but consolidating income statement accounts, with unremitted foreign income deducted prior to net income for the year and credited to a reserve*

Such a policy was described in the auditor's report of Vick Chemical Company ("Foreign Net Assets" shown separately on the balance sheet):

"Effective July 1, 1948, the company adopted the policy (which has our approval) of reporting foreign income to the extent remitted in dollars; the unremitted portion of foreign income for the fiscal year 1949 was $275,043 for which a reserve was provided out of consolidated income. In addition an amount equal to the foreign net assets at July 1, 1948, of $2,437,331 substantially all of which represented unremitted foreign income of prior fiscal years, was transferred from earned surplus to such reserve (see page 7 of this report). In other respects the principles of accounting were applied on a basis consistent with that of the preceding year." (See also Loew's Inc.)

A similar treatment was described in the footnote to Columbia Pictures Corporation:

"The accounts of certain other companies operating in foreign territories, previously consolidated, have not been included in the accompanying statement of assets and liabilities of subsidiary companies operating in foreign territories, for the reason that such territories have foreign exchange restrictions. Investments in these companies are shown separately in the consolidated balance sheet at cost.

The consolidated statement of profit and loss includes the operations of these companies but the equity in profit (net) of these companies for the year ending May 31, 1948 has been deducted from the total profit transferred to earned surplus. The equity in earned surplus (net) of these companies at the beginning of the year has been eliminated from earned surplus. Income from these companies is not recorded until received in the United States.

"While the current effect of foreign exchange restrictions upon certain foreign companies has been included in the consolidated financial statements at June 30, 1948, as stated above, the effect of such restrictions upon future operations is uncertain."

The following treatment described in a footnote by Warner Bros. Pictures, Inc., is similar to the above except for the valuation of the investment:

"The consolidated statement of profit and loss includes the film rentals, etc. and costs and expenses of subsidiary companies operating in the British Isles and in certain other foreign territories where the producers' share of film rentals had been remitted or was remittable in dollars. However, the equity in undistributed earnings of those companies has been deducted in arriving at the net profit of the combined companies. The consolidated balance sheet does not include the assets, liabilities or undistributed earnings of those companies.

"The amount of $2,836,898 shown in the attached consolidated balance sheet for investments in and advances to subsidiary companies operating in foreign territories represents the cost of such investments and advances, adjusted for operating deficits, less a reserve of $2,187,313. The consolidated group's equity in undistributed earnings of those subsidiary companies is $4,488,657."

Another variation was the policy followed by The National Cash Register Company, which carried the investment in foreign countries on the balance sheet at the net assets figure less "accumulated earnings outside of Western Hemisphere not remitted to the United States," this latter amount for 1948 being deducted as the last item in the income statement. A separate certified statement of "Net Assets of Foreign Companies and Branches" supported the figure shown in the balance sheet.

(4) *Excluding certain foreign subsidiaries from the consolidation in the balance sheet (showing investment at net equity), but adding net profits of such subsidiaries as the last item prior to net profit for the year*

Such a policy was followed by Bristol-Myers Company in 1948 as described in the following footnote:

"The consolidated financial statements include the parent Company and all wholly-owned domestic and Canadian subsidiaries. Other foreign subsidiaries located in England, Australia and South Africa have not been consolidated, but the profits and losses of these subsidiaries have been taken up in the income account in conformity with the Company's consistent practice of adjusting its 'investment in subsidiary companies' to conform with the net worth of such subsidiaries as reflected by their financial statements after eliminating goodwill.

"The assets of the unconsolidated foreign subsidiaries mentioned above amounted to less than 10% of the consolidated assets, and the gross revenue amounted to less than 10% of the consolidated gross revenue for the year 1948."

(5) *Consolidating certain foreign subsidiaries but excluding from income all foreign income not currently realizable in United States dollars*

Twentieth Century-Fox Film Corporation in a separate vertical column adjacent to the 1948 consolidated balance sheet showed the foreign assets and liabilities which were included in the consolidated statement. Policy with respect to income not currently realizable was described in a footnote:

"The assets and liabilities of foreign wholly-owned subsidiaries are included in the consolidated statements as at November 20, 1948, and their operations are included for the fiscal year then ended. The amounts were converted at current foreign exchange rates, except as to property, plant, equipment and investments, which were converted at rates prevailing at the dates of acquisition. There are currency restrictions in most of the countries in which the foreign subsidiaries operate, which affect the realization of foreign assets into U. S. dollars.

"The Corporation follows the policy of excluding from earnings all foreign income which is not currently realizable in U. S. dollars. As to countries from which transfers are uncertain (at December 25, 1948—China, France and Finland), no amount is included on the accompanying balance sheet for the net assets owned; and the income statement includes only amounts actually realized in this country during the year. As to other countries from which transfers can be made more freely, the income is included in earnings and a provision for foreign assets (at December 25, 1948—$950,000) is made for the income not currently realizable. When arrangements are made to convert the currencies into U. S. dollars, they will be taken into earnings."

1948	1947	
347	352	No foreign subsidiaries indicated
		No statement of policy:
43	44	foreign subsidiaries indicated but none consolidated
48	47	but all foreign subsidiaries consolidated
12	11	some but not all foreign subsidiaries consolidated
1	1	but percentage ownership in unconsolidated subsidiaries stated
		Policy indicated:
22	21	based on geographical location
16	15	based on percentage ownership

12	11	based on both geographical location and percentage ownership
18	17	no foreign subsidiaries consolidated
6	6	all foreign subsidiaries consolidated
4	4	some foreign subsidiaries consolidated in income account but not in balance sheet

Inclusion of Foreign Subsidiaries and Earnings

The Coca-Cola Company in 1948 consolidated certain foreign subsidiaries from which war conditions had previously impeded the flow of financial data.

The auditor's report referred to this treatment as follows:

"Statements of foreign subsidiaries consolidated herein were furnished to us as certified by other independent accountants.

"The statements for 1948 have been prepared on a basis consistent with those for the preceding year, except for the inclusion (with our approval) in 1948 of statements of subsidiaries and branches in certain foreign countries which were not included in consolidation for the years 1940 to 1947 inclusive, during which period the investment in and advances to these subsidiaries and branches were shown as a separate item in the balance sheet.

"In our opinion, based upon our examination and the statements of foreign subsidiaries consolidated, above referred to, the accompanying . . . . ."

In 1948 the financial statements of Sinclair Oil Corporation included an 86½ per cent owned subsidiary (and its subsidiaries). Former policy had been to consolidate wholly-owned subsidiaries only. The opinion paragraph of the auditor's report stated as follows:

". . . consistent . . . except for the inclusion in the financial statements of the accounts of Venezuelan Petroleum Company and Subsidiaries as explained under 'Operations in 1948' on page 4 of this report, which change we approve."

(The president stated that in view of the change the financial statements were presented in a form showing comparative figures for the preceding year.)

Other Presentations

The Gulf Oil Corporation showed the geographical distribution of consolidated assets, liabilities, income, and expenses for the first time in their 1948 report.

General Motors Corporation showed a footnote schedule of foreign assets entitled "Summary of General Motors Investment Outside the United States."

A. G. Spalding & Bros., Inc., indicated in a footnote the current and non-current assets of a consolidated Canadian subsidiary, while Sharp and Dohme, Inc., showed the assets and liabilities of consolidated foreign subsidiaries and branches as separate items in the various sections of the balance sheet.

Nash-Kelvinator Corporation separated its investments in and advances to subsidiaries between domestic and foreign subsidiaries, showing on the balance sheet the names and percentage ownership of two domestic and three foreign subsidiaries. Geographical location of each of the foreign subsidiaries was also stated.

The following statement appeared in the auditor's certificate of a Canadian Corporation, Distillers Corporation—Seagrams Ltd.:

"In accordance with the requirements of Section 114 of The Dominion Companies Act, we report that the earnings of the subsidiary companies not consolidated are included in the accompanying financial statements only to the extent of dividends received during the year."

Post Balance Sheet Disclosures

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

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

In Footnotes

The three items which appeared most often in the footnotes were in connection with funds borrowed or repaid, dividends, and legal suits. Here are a few examples:

(1) "In February, 1949, the company paid the note payable to bank of $100,000. Subsequent thereto, the company arranged a line of credit with various banks of $1,200,000. Borrowing under the bank credit will be evidenced by unsecured demand notes at 2½% interest." (Scranton-Spring Brook Water Service Co.)

(2) "Accumulated Dividends on Preferred Capital Stock of The Drackett Company amounted to $27,000 at September 30, 1948. These dividends were declared on October 28, and were paid on November 15, 1948." (Fiscal year ended September 30, 1948)

(3) ". . . Accordingly, the companies appealed this latter decision to the Supreme Court of the United States where the case was heard on January 6, 1949, and decision is pending . . ." (Air Reduction Co., Inc.—fiscal year ended December 31, 1948)

(4) "A Consent Judgment entered in the United States District Court for the Southern District of New York provided for a Plan of Reorganization of the Company, which the stockholders adopted on April 12, 1949. Under it two new corporations will be formed to acquire the assets and assume the liabilities of the Company on December 31,

1949. The Company will be dissolved. The Consent Judgment, among other things, requires the disposition of certain wholly owned theatres and the termination of joint interests in theatres with the right of acquisition of a number of theatres included in such joint interests. The effect of these changes on the Company's future operating results is, of course, not presently determinable." (Paramount Pictures, Inc.)

In Financial Statements

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

(1) "Current Assets:
Refund of prior years' federal taxes and interest thereon (received in January, 1949) . . ." (Lehigh Portland Cement Co.)

(2) "Current Liabilities:
Dividends Payable (paid in January, 1949 and 1948) . . ." (Air Reduction Co., Inc.)

(3) "Investments and Sundry Assets:
Investment in Petroleum Heat & Power Co.—at cost (distributed to stockholders on February 21, 1949 in payment of a dividend declared December 28, 1948) . . ." (Pan American Petroleum & Transport Co.)

(4) "In accordance with preferred stock retirement provisions, open market orders are outstanding on November 12 [balance sheet date September 30, 1948] for the purchase of 5,660 shares at par, and if not available a minimum of 660 shares must be called for redemption." (Wahlgreen Co.—capital stock section of balance sheet)

An interesting post balance sheet transaction which was reflected in the financial statements was described in the following footnote. The claim mentioned was shown as a current asset:

"On the basis of the facts developed in conference with the Internal Revenue Agent for the year 1942, the company, subsequent to October 30, 1948, filed a claim, and received payment thereof, in the amount of $3,001,970.00 for recovery of prior years' federal income and excess profits taxes under carry-back provisions of the Internal Revenue Code. This claim has been reflected in the accompanying financial statements. It resulted from a loss deducted in its 1948 federal income tax return by the parent company with respect to investments acquired from a predecessor company, which loss was provided for in prior years' consolidated financial statements. Notwithstanding that payment of the claim has been received, it is subject to review by the Bureau of Internal Revenue.

"It is the opinion of the management that reasonable provision has been made in the accounts for any additional federal taxes which may be assessed upon final review of the returns for all years through October 30, 1948." (Hygrade Food Products Corp.)

Butler Bros. showed a receivable in its current assets for the "proceeds from cash sales in January, 1949 of warehouse properties" (fiscal year ended December 31, 1948) and showed the following items in its income statement:

"Special losses incurred on integration of warehouse operations (after applying $900,000 profit on sale of real estate consummated in January, 1949)."

Two other examples where post balance sheet transactions were given effect to in the financial statements are quoted below:

(1) "In addition, pursuant to authorization of the Board of Directors on February 22, 1949, the appropriation of $2,000,000 made in 1947 for possible future inventory price declines has been cancelled, in order to conform to currently accepted accounting practices, and the statements previously published for 1947 have been revised accordingly." (Wheeling Steel Corp.—note below surplus statements—fiscal year ends December 31)

(2) "The company operated an air mail route since February 1, 1947 without compensation pending determination of the rate. Although the final order has not yet been issued, on February 17, 1949 the Civil Aeronautics Board determined that the company is entitled to revenue of $215,277 applicable to 1947, which amount, less provision for estimated income taxes thereon of $84,300, has been credited to earned surplus. Mail revenue for this route, together with retroactive adjustments of other rates, for the year 1948 amounted to $245,985.93 which has been included in income for the current year." (Mid-Continent Airlines, Inc.—footnote—calendar year closing)

Auditor's Report

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

(1) "In our opinion, the accompanying financial statements, supplemented by the comments in the president's letter to stockholders relating to the subsequent acquisitions of new plant facilities, present fairly . . ." (Oscar Mayer & Co., Inc.)

(2) "In our opinion, the accompanying balance sheet and statements of net earnings and earnings retained for use in the business present fairly the financial position of Boeing Airplane Company at December 31, 1948, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, in our opinion, the action of the Board of Directors on March 28, 1949, in setting aside from the earnings of the year 1948 a sum of $180,000 under the Incentive Compensation Plan for Officers and Employees, is in conformity with the provisions contained in the first paragraph of Section 2 of such plan." (Boeing Airplane Co.)

(3) "Early in February, 1949, the company filed with the Securities and Exchange Commission a Plan (see page 6 of this report) designed to further the conformance of the company's holding company system to the requirements of Section 11 of the Public Utility Holding Company Act of 1935. In substance, such Plan provides for (1) the reorganization of West Penn Railways Company and (2) the elimination of divided ownership of common stock of West

Penn Power Company and Monongahela Power Company within the system and the concentration of such ownership in the company. The extent to which the accounts of the company and its subsidiaries will be affected in the future in the consummation of the Plan, or as the result of any other action taken under the Public Utility Holding Company Act of 1935, is not determinable at present.

"In our opinion, subject to the reservation in the preceding paragraph . . ." (West Penn Electric Co.)

Pension Plans (see later section on past service pension costs)

The pension plans described in 1948 reports seemed to be of three types, with considerable variation being noted as to the accounting treatments followed and the information provided. These three types were:

(1) Trusteed Plans } Formal
(2) Annuity Plans }
(3) Informal Plans

In the case of (1) and (2) a corporation made actuarially computed payments to an independent agency which took over the administration of the plan, whereas in (3) responsibility for administration remained with the corporation.

As insufficient information was provided in the majority of cases to allow for classification of pension plans, the following material will try to point out various methods of handling such plans.

Under the trusteed and annuity plans, the usual accounting recognition of the pension scheme was by a charge in the income statement for the payment made to the outside agency. While the estimated future liability for past service pension cost was often stated as supplementary information, it was also noted that a number of companies carried reserves to cover such costs, charging payments directly thereto.

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

In contrast to the usual trusteed plan where no fund or reserve was shown on the balance sheet, the Atlas Powder Company showed the following:

"Reserves		
Pensions December 31, 1948	$2,719,540	
Less Amount in Pension Trust	2,352,466	367,074"

Republic Steel Corporation, while not showing a pension reserve, showed among other assets "Pension trust fund—United States Government securities—at cost and accrued interest . . . . . ."

International Harvester Corporation under the footnote heading of "Contingencies" stated the estimated amount of the unfunded balance under a frozen pension plan. While no legal obligation had been assumed, the Board of Directors in 1943 had recorded its intention to continue making appropriations from time to time to the Pension Trust Fund.

American Stores Company had a retirement plan under which payments were made to an insurance company. The portion of the annual payment relating to past service was charged net of the related tax reduction to a reserve "Employees' Retirement Income Benefits" provided in 1946. (See also National Lead Company and Brown & Sharpe Manufacturing Company)

While the question of legal obligation to continue with pension payments was seldom, if ever, discussed, the informal plans appeared to be those in which no legal or formal obligation for pension payments was recognized by the corporation. These informal plans seemed to fall into three groups:

(1) Where no funds or pension reserves had been created.

(2) Where the reserve was shown but no cash segregated on the balance sheet.

(3) Where the cash had been set aside and the reserve was also shown on the balance sheet.

Two examples of each of these three divisions follow:

(1) "We have no formal employees' retirement system for age or disability, but we paid over $235,000 last year to old employees who have retired." (Scovill Manufacturing Company—President's letter)

(2) "Under the terms of certain employment contracts, the companies are required under certain conditions to pay severance and retirement benefits. It is the practice of the companies not to make provision for payments of this character." (Hearst Consolidated Publications, Inc.—notes)

(3) "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." (General Cable Corp.—notes)

(4) "The Company has notified its employees that they may apply for retirement on pension after reaching a certain age and after having had a specified period of service with the Company. The notice to the employees sets forth a formula for the determination of the amount of each pension which is granted in response to such applications but the Company reserves the right to discontinue granting of pensions at any time without notice although, in case of such discontinuance, pensions already granted will not be af-

fected. Pensions actually paid are charged to the pension reserve. No additional provision was necessary for employees pensioned during the year ended February 26, 1949, as the present balance in the pension reserve is sufficient to cover the total actuarial liability with respect to all pensioned employees." (Collins & Aikman Corp.—notes)

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

"The Pension Fund and Reserve have now reached a figure, net of tax deductions, which approximates our estimate of the amount now required to provide (1) pensions to those now on the pension roll and (2) the accrual to date toward future pension costs of all present employees." (American Sugar Refining Company—President's letter)

(6) "At the annual meeting of stockholders held April 7, 1948 the employees pension and group life insurance plans recommended by the board were approved. During the year $178,000 was paid for pensions. As in the preceding year, the sum of $500,000 was set aside in a pension reserve which may be drawn upon from time to time to pay pensions but which, in the discretion of the board, could be returned to the general funds of the company if such course seemed desirable. At the end of 1948 $52,300,000 life insurance for employees and pensioners was in force." (Babcock & Wilcox Company—President's letter)

The following footnote and excerpt from the auditor's report discussed the method of funding a pension plan and the related income charge:

"Current assets do not include Pension Fund assets in the amount of $4,000,000 represented by cash and U. S. Government securities set aside by the Board of Directors for the purpose of paying pensions to retired employees pursuant to the Employee Pension Plan approved by the stockholders on December 28, 1948." (Footnote)

"At a special meeting December 28, 1948, the stockholders approved the adoption of the Employee Pension Plan recommended by the Board of Directors. Under this plan the Board proposes to establish over a period of years a Pension Fund from current earnings as in the judgment of the Board might appear to be appropriate from time to time, and to set aside funds for that purpose. Although this Fund will be designated on the books of the company as 'Pension Fund,' and may be returned to the general funds of the company at any time in the discretion of the Board, it is not the intention of the Board to do so unless the Pension Plan is terminated, modified or amended. The Board of Directors decided that, in view of the increasing cost of maintaining the existing informal pension program and the adoption by the stockholders of the Employee Pension Plan, it was desirable to provide a fund during 1948 in the amount of $4,000,000 by a charge to net income for the year of that amount and to set aside funds for that purpose. In our opinion, the portion of this provision that is properly chargeable against income for the year 1948 is indeterminable in the absence of any stated policy covering the annual accrual of the remaining cost of the past and current service benefits. Net income for the year 1948, as shown in the accompanying income account, represents the balance after deducting the foregoing provision and an additional provision of $1,500,000 for inventory obsolescence. Such provisions are included in cost of goods sold and other expenses.

"In our opinion, with the foregoing reservations. . ." (Ingersoll-Rand Company—auditor's report)

R. J. Reynolds Tobacco Company showed among other assets:

"Retirement and Insurance Investment Fund (consisting of 200,000 shares of common stock of the Company)

	10,120,000	
Less Reserve	10,119,999	1.00"

and among the reserves:

"For retirement and group insurance costs . . . $548,-628.66" (not previously shown)

Reasons Advanced for Retaining Earnings

In a release issued on October 14, 1948, the Committee on Accounting Procedure reaffirmed the position which it expressed in Accounting Research Bulletin No. 33, December, 1947, that "accounting and financial reporting for general use will best serve their purposes by adhering to the generally accepted concept of depreciation on cost." This release further stated:

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

About one-third of the 525 reports gave a variety of reasons for not paying larger dividends. These companies often indicated that two or more factors were involved but agreed that the major ones were the increased cost of plant replacements, plant expansion and modernization plans, and the pressure for working capital caused by increases in both inventory prices and volume of business.

1948	1947	
43	60	The high cost of plant replacements
59	46	Plant expansion, modernization, or improvement requirements
40	22	Working capital needs
12	8	Increased volume of business
11	2	Increases in inventories and accounts receivable
8	6	High cost of inventory replacements
4	5	Increased cost of doing business
5	5	Inflation of inventory values

4	1	Expansion and research
4	1	Maintain strong financial position
4	2	Increased inventory volume
2	1	Desire to avoid borrowing
2	1	To finance growth
2	1	For further development
2	..	To take advantage of investment opportunities (United Merchants and Manufacturers, Inc.)
2	..	To reduce long term debt (Tidewater Associated Oil Co.)
1	1	New product development
1	..	To maintain increased inventories at higher prices (Bucyrus-Erie Company)
1	..	To continue future operations of the corporation successfully (Houdaille-Hershey Corp.)
1	..	Present inflationary conditions (Continental Can Co.)
1	..	Future requirements (The International Nickel Company of Canada, Ltd.)
1	..	To keep company progressive and competitive (Walgreen Co.)
1	1	To finance need of expanding business
1	1	Increased provision required for income tax
..	8	Miscellaneous

Inadequacy of Depreciation Charges

An additional eighty companies commented on the inadequacy of depreciation charges but did not, in most cases, specifically relate this factor to the need for retaining earnings.

The depreciation problem was stated in the footnotes of two reports as follows, with estimates in each case of depreciation on replacement cost:

(1) "The generally accepted accounting principle followed with respect to buildings, machinery and equipment is the allocation to each year's operations of a proper portion of the original cost of these facilities based upon their expected useful service life. In accordance with that principle there was allocated to 1948 operations the amount of $3,777,800. The plant assets currently in use by the Company were, however, acquired over many years at cost levels which varied from year to year and which were lower than the levels of current costs. The portion of the original cost of these assets allocated to 1948 and used in determining profit was therefore substantially lower than it would have been if the allocation had been based on current replacement cost. It is contended by many recognized authorities in the fields of accounting, business and economics that business income should be determined by making provision for depreciation of capital assets on the basis of their current replacement cost. Use of such a basis is not presently regarded as a generally accepted accounting principle nor is it available for purposes of federal income tax determination. Had this basis been adopted for 1948 with respect to the properties summarized on statement 6, it is estimated that the depreciation charge allocated to the year would have been increased by approximately $1,500,000, and on the assumption that such increased depreciation would have been allowable for tax purposes, the reported profit after income tax would have been reduced by about $930,000." (Caterpillar Tractor Company)

(2) "The estimated replacement cost of the properties now in use amounts to approximately $50,000,000. On this basis, the accumulated depreciation thereon to November 30, 1948, would be about $25,000,000 compared to $15,000,000 now on the books on the basis of original costs, and the charge for the year would be $2,400,000 compared to $1,300,000 actually charged to income. When replacements of the present plant are required because of the passage of time, it appears probable that the accumulated depreciation will be insufficient and accordingly it will be necessary for the Company to retain additional earnings in the business or to obtain new capital, to provide for the cost of such replacements. In this connection, the Corporation has reserved $500,000 of earned surplus." (Endicott Johnson Corporation)

One of the best discussions of the inadequacy of depreciation charges was that by the West Virginia Pulp & Paper Company. The following excerpt is taken from a section of the report entitled "The Cost of Staying in Business":

"In theory each piece of equipment ought to earn enough to pay for itself by the time it is discarded. Accordingly, each time the company buys a new piece of equipment the engineers estimate its 'useful life,' divide the cost by the corresponding number of years, and enter this amount each year as a charge against earnings called 'depreciation.' Sometimes people erroneously think of entries in the depreciation account as some sort of savings, like deposits in the bank, and imagine that the figures set up on the books as 'depreciation reserve' represent a great horde of cash. Actually, however, this is only a measure—and presently, as explained below, a misleading measure—of whether the company is earning enough to pay for equipment as it wears out.

"The trouble with the theory is that it assumes a company can stay in business merely by working each piece of equipment until it falls apart and then buying another exactly like it. That would compare to buying a new horse and buggy after the Ford came in. What happens in fact is entirely different—it is more like first converting the original horse and buggy into a horseless carriage, then into a Model T, then into a V-8, then equipping it with windshield wipers and fluid drive or whatever else is necessary to keep up with other vehicles on the road. Changes of this kind are going on around a modern industrial plant all the time—if it can earn and save the money to pay for them. If not, it gradually retires, like the horse and buggy, into the museum class, and the people who used to work for it are out looking for other jobs.

"Whether or not the depreciation account is in any degree a realistic measure depends on many factors—the speed of new developments in the industry, what relation the price of new equipment bears to the cost of the old, how accurate was the estimate of 'useful life,' etc. At present, and probably for some time to come, the most important is price—the cost of replacing equipment bought before the war is now, in general, at least twice, and often three times, the original purchase price. It is painfully obvious that a depreciation account established chiefly on pre-war prices provides a poor yardstick for the funds needed today for even identical replacements, to say nothing of the improvements required to keep abreast of competition.

"All of this is complicated by a tax angle. The government regards any and all earnings above 'depreciation' as 'profits,' whereof the tax collector immmediately seizes a third—to be precise, at present writing, 38 per cent. The result is that, to have a dollar to spend on plant beyond the amount allowed as 'depreciation,' it is necessary to earn \$1.60—in effect an outlay of a further 60 per cent for everything bought out of so-called 'profits.'

"During 1948 'depreciation' covered only \$3,823,000 of the \$5,170,000 actually spent. The remaining \$1,347,000 had to be taken out of so-called 'profits,' thus swelling the real amount for this part of the spending by 60 per cent on account of the tax. Some of this difference was due to the fact that we were trying to catch up after the war but most of it was undoubtedly due to high prices.

"The same principles apply to the record of each year since the war. For example, 'depreciation' in 1947 allowed \$3,461,528; we actually spent on plant \$10,027,000. The difference had to come out of taxed profits. Much of what we have been required to report as 'profits' is, for these reasons, phantom.

"What the cost of replacements will run to in the future is something of an enigma. Some idea can be obtained, however, by assuming that an integrated pulp and paper mill has a 'life' of twenty years—i.e., that enough money ought to be spent on it each year to overhaul, reorganize, or rebuild it entirely in the course of twenty years. It is generally estimated that to construct facilities for producing the grades we make would, at today's prices, cost between \$60,000 and \$80,000 per ton of daily capacity. This means that to reproduce our present capacity of about 2,000 tons per day would cost between \$120,000,000 and \$160,000,000. Spread over twenty years, if prices stay the same, this would require between \$6,000,000 and \$8,000,000 per year—i.e., we perhaps ought to spend something like that each year, instead of the \$3,800,000 currently allowed by 'depreciation,' in order to keep from gradually drifting into decay." (West Virginia Pulp and Paper Company)

Several companies were noted which indicated that they felt that reported income was considerably out of line with economic income. We quote from two of these reports:

"Net Income actually was not as large as it is stated because conventional (and we think archaic) accounting principles and internal revenue regulations do not permit the Company to include in operating costs, sufficient amounts (Depreciation) to replace worn out plant and equipment.

"To state the fact a little differently, present legal, tax, and accounting requirements compel the Company to report as Net Profit \$2,865,700 which must be retained in the business, in addition to the reserve for Depreciation, to replace at present costs plant and equipment as it wears out. Accounting procedure terms this money 'Profits'—but it can never reach the shareholders.

"While Net Income appears large in comparison with preceding years, it is stated (like all other figures) in dollars. Everyone knows today's dollar is not the same thing as the prewar dollar. A comparison of real profits is given in the following figures which show the Company's earnings for the three prewar and the three postwar years in terms of the purchasing power of the dollar:

	Earnings in Dollars	**What the 1939 Dollar Would Buy*
1939	\$10,766,412.	\$10,766,412.
1940	13,793,937.	13,536,739.
1941	14,989,178.	13,241,323.
1946	17,071,099.	10,860,025.
1947	27,771,144.	14,104,187.
1948 (as stated)	32,748,900.	15,310,379.
1948 (adjusted)	29,883,200.	13,970,640.

* Purchasing power based on the Bureau of Labor Statistics, Index of Wholesale Prices (all commodities), 1939 = 100."

(Pittsburgh Plate Glass Company—President's letter)

"The inflationary spiral that started as a result of World War II continued unabated during the last year. The resultant reduction in purchasing power of the dollar has presented the company and all industry with one of the most plaguing and drastic problems they have ever faced. The fact that conventional accounting based upon historical dollars fails to reflect economic income or loss is recognized by all authorities today including the Government which, through the Department of Commerce, has estimated that non-recurring inflation-caused inventory profits have amounted to almost 40% of the published income of corporations during recent years. The New York Stock Exchange has recognized this condition in one of its recently published articles in which it states that profits of all corporations for the year 1947 would be about half the amount reported if distortion caused by inflation were eliminated.

"In recognition of these conditions and to provide for possible inventory price declines, we have estimated that non-recurring profit or income has been reflected in the 'dollar' income for the year to the extent of at least \$1,000,000. Therefore, we have appropriated this amount out of the income for the year of \$6,008,851, thereby resulting in a transfer of \$5,008,851 to net income employed in the business." (American Steel Foundries)

Section 2: BALANCE SHEET

Title of Certified "Balance Sheet"

While the term "balance sheet" was very widely used, it is interesting to note that over 10 per cent of the 1948 reports examined used other titles. Most of these other titles were used in conjunction with rearrangements in the traditional form of the balance sheet. (See section which follows.)

1948	1947	1946	
468	485	506	"Balance sheet"
32	23	9	"Statement of financial position" or "financial position"
18	10	6	"Statement of financial condition"
2	1	1	"Statement of assets and liabilities"
1	1	1	"Investment" (Johns-Manville Corp.)
1	1	1	"Statement of assets, liabilities and net worth" (Brewster Aeronautical Corp.)
1	1	..	"Statement of ownership" Westinghouse Electric Corp.)
1	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	1	No heading used (The Curtis Publishing Co.)
525	525	525	

Nine companies in 1948 adopted the term "financial position" or "statement of financial position" and nine other companies changed to "statement of financial condition," all but one having formerly used the term "balance sheet" in the preceding year. The American Asphalt Roof Corporation had previously used the title "Statement of What the Company Owned and What It Owed."

Seven of the above-mentioned companies in 1948 changed their statement titles without any change in statement format. The forms adopted by the other eleven companies are discussed in the following section.

The Borg-Warner Corp. adopted the title "Statement of Consolidated Assets and Liabilities" in place of "Consolidated Balance Sheet." The former term was also used by the Artloom Corp.

Form of Certified Balance Sheet

Closely related to changes in the title of the traditional "balance sheet" were the changes in balance sheet form.

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

These statements began by deducting current liabilities from current assets to arrive at a working capital or net current assets figure, with the remaining assets and liabilities added and deducted before reaching a net assets amount. The composition of the net assets in terms of the stockholders' equity, represented by capital stock, capital surplus and earned surplus, com-

Figure 10. Packard Motor Car Company

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
December 31, 1948

CURRENT ASSETS:		
Cash		$24,951,696
United States and Canadian Government securities at cost and accrued interest, not over market, ($241,170 Canadian)		20,629,905
Accounts and installment notes receivable, less $86,927 allowance for uncollectible accounts		8,623,665
Inventories, at lower of cost or market—		
Raw materials and work in process	$19,403,050	
Automobiles	5,324,162	24,727,212
Advance to supplier		2,250,000
Prepaid insurance and other expenses		619,170
		$81,801,648
LESS—CURRENT LIABILITIES:		
Accounts payable and accruals	$21,118,252	
Provision for product warranty, commitments, etc.	2,281,390	
Estimated income taxes	11,444,715	34,844,357
WORKING CAPITAL		$46,957,291
MORTGAGES RECEIVABLE, MISCELLANEOUS INVESTMENTS, ETC.		453,833
PROPERTIES, at cost less $13,952,596 depreciation		24,997,228
		$72,408,352
LESS RESERVE FOR CONTINGENCIES		2,500,000
STOCKHOLDERS' EQUITY		$69,908,352

REPRESENTED BY:	
Common stock of no par value, 25,000,000 shares authorized, 15,000,000 shares issued	$30,000,000
Capital in excess of stated value of common stock (No change in 1948)	12,016,721
Net income retained since May 1, 1935 for use in the business	28,394,609
	$70,411,330
Less common stock held in treasury, 108,660 shares at cost	502,978
	$69,908,352

Figure 11. Briggs Manufacturing Company

Statement of Financial Condition—December 31, 1948 and 1947

Stockholders' Investment	1948	1947
No-Par Value Common Stock, 2,025,000 shares authorized, 1,979,000 shares issued at stated amount	$12,793,323	$12,793,323
Less cost of 31,300 shares in treasury	286,174	286,174
	$12,507,149	$12,507,149
Income Invested in the Business	34,365,515	28,718,142
Total Investment	$46,872,664	$41,225,291

This Investment was used as Follows

	1948	1947
Working Capital:		
Current Assets:		
Cash	$ 8,352,997	$ 6,166,561
United States Government securities, at cost	322,020	334,729
Amounts receivable from customers and others, less estimate of uncollectible accounts	8,329,407	9,778,731
Inventories of raw materials, operating supplies, and finished and partly finished products, at cost or less, not over estimated realizable amounts	24,226,839	19,280,168
Cost of dies, jigs and fixtures collectible from customers	161,100	3,267,736
Taxes, insurance and other expenses paid in advance	1,296,922	1,070,716
Total current assets	$42,689,285	$39,898,641
Current Liabilities:		
Amounts payable for materials and services	$12,427,599	$ 9,091,275
Amounts owing for wages, taxes and other expenses	5,571,240	5,346,196
Estimated liability for Federal income taxes and for renegotiation in 1947	9,839,088	11,193,909
Total current liabilities	$27,837,927	$25,631,380
Working Capital	$14,851,358	$14,267,261
Land, Buildings and Equipment, less reserves	29,639,969	24,530,295
Other Assets	2,381,337	2,427,735
	$46,872,664	$41,225,291

pleted the statement. (See Figure 10—Packard Motor Car Co.) Thirty-seven companies were using this type of statement in 1948, nine of these adopting it during that year.

1948	1947	
481	490	Assets equal liabilities plus capital stock and surplus—current items first
3	4	Same as above except noncurrent items first
4	3	Assets minus liabilities equal capital stock and surplus

1948	1947	1946	
32	24	13	Current assets minus current liabilities, plus other assets minus other liabilities equals net equity (capital stock and surplus)
3	4		Similar to above but bonds as well as stock included in equity interest
2	..		Similar to above but net equity stated first
525	525		

Two of the thirty-seven tabulated companies (Briggs Manufacturing Co., and American Asphalt Roof Corporation) began their statements by showing the stockholders' equity first, following this with the arrangement of assets and liabilities described above. The statement presented by Briggs Manufacturing Company is shown in figure 11. (See also Burroughs Adding Machine Co.)

Armco Steel Corporation (formerly American Rolling Mills Company) in their 1947 report had shown current liabilities deducted from current assets. In their 1948 report they deducted total liabilities from total assets to arrive at the "stockholders' equity."

Marketable Securities (Current Assets) Basis of Valuation

There was no aggregate change from last year in the number of companies showing marketable securities as current assets, but there was a decline in the number of such holdings where market was in excess of cost; cost now approximating market in a greater number of instances.

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

1948	1947	1946	
215	215	155	No marketable securities shown
110	109	145	At cost, market not stated
50	63	89	At cost, market value stated —above cost
27	27	17	At cost, market value stated —below cost
64	61	78	No basis of valuation stated
18	17	17	At lower of cost or market
37	31	18	At cost which approximates market
6	4	3	At market
6	7	7	At cost less reserve
1	2	6	At face value
3	2	..	At par
8	7	..	At cost, not over market
8	8	4	At redemption values
..	1	..	At cost, less premiums paid on certain securities
1	1	1	At 1934 written down values
2	2	..	At cost which equals market
1	1	1	At lower of cost or principal amount
..	..	1	At amortized values
..	..	1	At realizable value
2	1	3	At, or below cost
1	1	..	At, or below cost—market stated above cost
1	1	..	At cost, market stated to be slightly lower
1	1	..	At approximate market or redemption value
1	1	..	At cost and market plus accrued interest

Almost all instances where marketable securities were stated at cost without their market value being disclosed involved U. S. Government securities. In a few instances, however, such items as "other marketable securities" or "short-term marketable securities" were shown separately from U. S. Government obligations and were valued at cost without market being shown parenthetically.

Where cost was the sole basis used, accrued interest was often added thereto. A few companies valued marketable securities at "cost or redemption value," "cost less amortization," or "cost or principle amount."

Where no basis of valuation was stated, market value or the relationship to market of the stated dollar amount of marketable securities was sometimes given. In other cases, redemption value was shown parenthetically.

In two instances where "the lower of cost or market" valuation was used, market was stated parenthetically.

The International Nickel Company of Canada, Ltd., divided marketable securities between "short-term" and "those maturing after 1949," showing both as current assets.

U. S. Government securities which were shown in the Plant Expansion Fund under "Plant Property and Equipment" were also shown separately deducted from the current marketable securities in the report of the Maytag Company.

Inventories—Basis of Pricing

No significant trends were noted in the bases of pricing. Most of the changes in 1948 involved variations in disclosure from 1947.

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

1948	1947	1946	
453	444	435	At the lower of cost or market
112	113	111	At cost
45	46	48	At lower than cost, market not mentioned
15	14	18	At less than the lower of cost or market
20	19	23	At market
5	5	3	No inventories or inventories negligible
12	15	15	Basis not stated
17	17	13	At less than market, cost not mentioned
6	6	7	Contract price
8	8	14	Miscellaneous
693	687	687	

Metal & Thermit Corporation changed its basis so that "beginning with December 31, 1948, a fixed quantity of tin in process is carried at a constant price which is substantially lower than cost or market; the remainder of the inventory is priced, as heretofore, at the lower of cost or market." (Footnote) The auditors stated that "in our opinion, such change does not materially affect the comparability of the published statements of income for 1948 and 1947."

Atlas Plywood Corp. reduced LIFO inventories to market by a charge shown in a combined income and surplus statement prior to the opening earned surplus balance. A footnote commented that this charge was not an allowable deduction for tax purposes.

Inventories— Method of Determining Cost

While the number of companies using the LIFO method increased slightly during the year, adoption of that method was not as pronounced as in the preceding year.

1948	1947	1946	
285	274	281	Not indicated
93	96	102	First-in First-out
112	108	100	Average cost
96	92	79	Last-in First-out
27	25	23	Standard Cost
5	6	6	Base stock
14	12	12	Retail method
5	5	3	No inventories or inventories negligible
10	9		Specific invoice costs
5	3		"Estimated" costs
8	7		"Actual" costs
1	1		Prime cost
1	..		Relative value method
1	1		Miscellaneous (Joslyn Mfg. & Supply Co.)
663	649		

Adoption of Lifo

Here are the names of companies adopting the LIFO method during the year:

Atlas Imperial Diesel Engine Co. (not for tax purposes)
Clearing Machine Corp. (readopted for tax purposes)
W.T. Grant Co. (for tax purposes)
R. H. Macy Co., Inc. (for tax purposes)
Johns-Manville Corp. (not for tax purposes)
[Kimberly-Clark Corp. changed its basis of computing LIFO inventories]

Industrial Breakdown of 96 Companies Out of 525 Tabulated Which Have Made Some Use of the LIFO *Method*

Industry	No. of Reports Examined	No. Mentioning LIFO	References to Appendix for Names of Companies
Meat Packing	11	5	55, 331, 350, 413, 474
Grain	6	..	....
Textiles	13	9	43, 78, 84, 107, 114, 185, 345, 378, 491
Rubber	5	1	225
Chemicals	16	5	25, 63, 143, 294, 347
Steel	22	5	83, 284, 364, 419, 501
Building Materials	21	6	34, 56, 157, 230, 281, 399
Automobiles	11	..	....
Shipbuilding	4	..	....
Auto Parts	14	..	....
Food	22	6	77, 91, 93, 111, 307, 522
Beverages	6	1	361
Tobacco	8	1	145
Shoes	7	2	275, 338
Paper	12	4	274, 291, 336, 516
Publishing	7	..	....
General Machinery	24	3	116, 258, 365
Electrical Mach.	10	..	....
Transportation Equipment	8	1	222
Airplanes	16	..	....
Non-ferrous Metals	16	9	31, 38, 49, 125, 149, 217, 288, 420, 435
Oil	24	16	62, 127, 151, 244, 380, 397, 407, 424, 444, 459, 460, 462, 463, 469, 478, 484
Wholesale	8	1	461
Retail	31	9	12, 60, 129, 201, 203, 228, 239, 322, 330
Misc. Registered Companies	118	10	52, 131, 170, 241, 246, 251, 282, 400, 443, 511
Misc. Non-Registered	85	2	30, 279
	525	96	

Reports Quoting Current Replacement Value of Lifo Inventory

(1) "The inventories based on the LIFO principle are stated at $5,441,976 less than if this principle had not been followed." (Since 1941) (Allied Stores Corp.—footnote)

(2) "The current cost of replacement of these inventories [LIFO] is approximately $9,500,000 in excess of the amount carried in the balance sheet." (American Radiator & S. S. Corp.—President's letter)

(3) "Inventories are stated at the lower of cost or market. As to the principal commodities, cost is determined under the 'last-in, first-out' (LIFO) method, and as to the remainder, under the 'first-in, first-out' method. Reductions to market, where required, have been based on replacement cost applied to specific items. All inter-company profits have been eliminated.

"The classification of inventories at December 31, 1948, is as follows:

Raw Materials	$ 7,707,050
Work in Process	5,277,310
Finished Stocks	9,547,666
Supplies	2,461,147
Total	$24,993,173

"The above total includes approximately $4,250,000 with respect to commodities valued on LIFO basis; if such commodities were priced at current replacement costs, the comparable valuation would be approximately $9,450,000, a difference of $5,200,000.

"The quantities of certain principal commodities carried on LIFO basis, on hand at January 1, 1948, were reduced during the year, resulting in an abnormal margin of operating profit on such items because of the relatively low LIFO basis charged to cost of sales, as compared with the current cost of such items. Computed on the level of replacement costs at December 31, 1948, such abnormal profit is estimated to be $1,800,000." (Armstrong Cork Co.—notes to financial statements)

(4) "If the inventories described in (a) [LIFO] above had been stated at the lower of average cost or market, the amount of such inventories and the inventories as stated in the accompanying balance sheet at December 31, 1948 would be increased by approximately $441,000." (Belding Heminway Co.—footnote)

(5) "The market value of the materials contained in our inventory at December 31, 1948 was approximately $10,000,000 above the figure at which they were carried on our balance sheet." (Bigelow-Sanford Carpet Co., Inc.—President's letter)

(6) "In determining the results of operations for 1948, as in 1947, the inventories at both the beginning and the end of the year were, with minor exceptions, stated on the basis of the same cost level, namely, that prevailing as of January 1, 1947. This method of stating inventories produces a result approximately equivalent to that obtained by the so-called 'last-in, first-out' method of inventory accounting. This is a generally accepted accounting practice designed to permit the allocation of incurred costs in such a manner as to relate them to revenues more nearly on the same price level basis than would the 'first-in, first-out' method formerly used by the company. The general effect is to exclude from reported profits increases in inventory costs since these increases are deemed to be merely the result of rising cost levels. With minor exceptions, the dollar amounts of inventories recorded in the company's financial statements during these two years reflect only the changes in the physical volume of inventories. Furthermore, since the amounts of profits and inventories have not been inflated for cost increases above the level of January 1, 1947, they will not have to be deflated for decreases in cost levels at least until such time, if ever, as cost levels decline below those prevailing at January 1, 1947. At the end of 1948, the replacement cost of the company's inventories was approximately $61,350,000 as compared with the amount of $49,754,096 reported in the financial statements on the basis of the approximate cost levels prevailing at January 1, 1947." (Caterpillar Tractor Co.—footnote—not for tax purposes)

(7) "Inventories—at cost determined principally on the 'last-in, first-out' basis of valuation (approximate replacement cost $2,515,573 in 1948)—$2,195,425.31." (Falstaff Brewing Co.—balance sheet)

(8) "... At $8,524,742 below cost or market..." (Federated Department Stores, Inc.—President's letter)

(9) "Under the LIFO method of inventory accounting, the principal raw materials were carried on our books at the close of the year at a valuation of $7,875,268.42 less than replacement cost on October 31, 1948." (The Glidden Co.—President's letter)

(10) "At July 31, 1948 the cumulative reduction in the inventory valuation by the use of the LIFO method amounted to $12,719,314 equal to approximately 34% of the inventories valued at present price levels, thus providing a substantial cushion against shrinkage in future earnings resulting from price decline." (R. H. Macy & Co., Inc.—President's letter)

(11) ". . . The amount at which the inventories are stated at December 31, 1948 is less than current replacement cost." (Mohawk Carpet Mills Inc.—footnote) (See also Bethlehem Steel Corp.)

(12) "Inventories of whiskies produced in the company's distilleries have been substantially increased during the year and are valued at about $21,000,000 less than they would have been on the cost basis used prior to the adoption in 1946 of the 'LIFO' method of inventory valuation." (National Distillers Products Corp.—President's letter)

(13) "Balance sheet:

Inventories—stated at cost (principally standard costs periodically adjusted) or market, whichever is lower, except for certain items of resale merchandise and tubular products aggregating $14,880,853.11, which are stated on 'last-in, first-out' basis and had a current replacement cost of approximately $5,500,000 in excess of the stated value:

Raw materials and supplies	11,018,190.37
Work in process	10,064,706.75
Resale merchandise, finished products and parts	20,001,266.10
	41,084,163.22
Less allowance for obsolescence	2,056,482.00"

(National Supply Co.)

(14) "The replacement market value of inventories valued on the last-in, first-out basis was approximately

$3,748,000 in excess of their stated values at January 1, 1949." (Textron Inc.—footnote)

(15) "LIFO" inventories, if priced at the lower of cost or market would be increased by about $231,000 at August 31, 1948 and $115,000 at August 31, 1947." (Jantzen Knitting Mills, Inc.—footnote)

(16) "Leather valued at $607,017 in the inventory of raw materials at October 31, 1948 has been priced at cost on the basis of 'last-in first-out' resulting in a value of approximately $240,000 below cost of replacement." (Nunn-Bush Shoe Co.)

Current Assets—Unusual Items, Treatments, and Presentations

Cash

Foreign

Usually cash was shown as a single item in the current assets section of the balance sheet. Possibly because of restrictions on the availability of certain foreign currencies, a number of cases were noted where these foreign currency items were shown separately although still as current assets.

Lone Star Cement Corporation separated cash on hand and on deposit in banks as between that in the United States and that in Cuba and South America. The Electric Storage Battery Company separated United States currency from foreign currencies. Bulova Watch Company showed as current "Cash in Swiss bank—restricted (to be released during 1949)" while Electric Boat Company described cash in a footnote as follows:

"Cash included $2,201,202.04 (£544,851-19-10) on deposit in London, England. This amount is converted at $4.04 to the £ but is restricted to payments for purchases in England. Also included is $260,000.00 held in escrow for payments under a license agreement applicable to contracts in process."

A little different presentation was that of the Bon Ami Company which showed "cash, receivable and inventories less current liabilities" subject to foreign exchange restrictions as a separate current item. (The amount of restricted net profit was also shown.) (See also Sharp & Dohme Inc., for separate showing of foreign assets and liabilities.)

Special Deposits

Certain companies showed cash deposits separately. For example, Central Soya Company, Inc., showed margin deposits on commodity future contracts as a separate current item, Hearst Consolidated Publications, Inc. (and McCall Corp.) showed post office deposits separately, and A. O. Smith Corp.—"life insurance proceeds on deposit with insurer."

Payroll Deductions

The Baldwin Locomotive Works and Hooker Electrochemical Co. both showed separately the amount of payroll deductions for taxes and United States Savings Bonds.

Special Funds

A number of companies showed separately in current assets the sums set aside for paying off specific corporate liabilities. Purposes of such funds were:

Payment of dividends (The International Silver Company)
Payment of bank loan (Samson United Corporation)
Deposit with trustee for payment of debenture interest (A. G. Spalding & Bros., Inc.)
Deposit with sinking fund trustee for redemption of debentures (The American Tobacco Company)
Redemption of preferred stock (Dictaphone Corporation)

Cash in Transit

United Merchants and Manufacturers Inc. and S. S. Kresge Company both mentioned that cash in transit was included in the cash balance shown.

Cash Hypothecated

Among the items which Anderson Clayton and Company indicated as being hypothecated as security for indebtedness on notes payable and performance contracts were cash, securities, and inventory.

Cash Held for Consignor

In the current assets section of the balance sheet, the Byrndun Corporation showed the following: "Cash in Bank for Account of Merchandise Consignors . . . Less: Amount Due to Consignors for Merchandise Sold. . . ."

Accounts Receivable

Installment Receivables

Both Allied Stores Corporation and The May Department Stores Company showed customers' accounts receivable less allowances for deferred carrying charges. Brunswick-Balke-Collender Company deducted a reserve for losses and unearned interest from notes and accounts receivable, while Refrigeration Discount Corporation deducted unearned discount and service charges from contracts, notes, and accounts receivable.

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

The Arundel Corporation (Receivables from joint ventures)
The Autocar Company
Brunswick-Balke-Collender Company
Fruehauf Trailer Company
Iron Fireman Manufacturing Company
Liberty Products Corporation
Mack Trucks, Inc.
R. H. Macy & Co., Inc.
The National Supply Company

From Employees & Subsidiaries

A number of instances were noted in which receivables from officers and employees were shown separately as current assets (e.g., Colonial Stores Inc., Godchaux Sugars, Inc.). The Ruberoid Company showed separately in a schedule:

"Accounts Receivable
Employees, principally advance payments under retirement plan"

while Fruehauf Trailer Company included the following footnote:

"During 1948, the Company made advances to two officers and directors aggregating $18,881 throughout the year. At December 31, 1948, $144 of such indebtedness remained unpaid."

The following two items illustrate the separate showing of current receivables from certain controlled companies:

(1) "Notes and accounts receivable—trade:
Accounts (including in 1948, $251,390 owing by a company which is owned by certain stockholders of Harnischfeger Corporation)."
(2) "Accounts and notes receivable—customers (including $994,000 for controlled retail store companies)." (The General Tire & Rubber Co.)

Purchased, Assigned, Pledged

Instances of accounts receivable purchased, assigned to the reporting company, and pledged to secure accounts payable appear as current assets in the reports of United Merchants and Manufacturers, Inc., American-LaFrance-Foamite Corporation, and American Transformer Company, respectively.

Due From Insurance Companies

Two companies showed as current assets the amounts due from insurance companies:

E. J. Brach & Sons
Crown Zellerbach Corporation

Excessive Reserve

Both in the president's letter and in a footnote, it was disclosed by McKesson & Robbins, Inc. that the reserve for doubtful accounts was more than was required.

Other Receivable Items

Time, Inc. showed the following receivable on the current section:

"Rentals from motion pictures released—estimated portion to be billed when exhibited, less distributors' share."

Bethlehem Steel Corporation and Cluett, Peabody & Company, Inc., each indicated that customers' accounts receivable were net of discounts.

The following items appeared in the current assets section of the balance sheet with either balancing or related entries shown in the liabilities section:

(1) "Acceptors' liability on Endorsed Bills Sold, per contra" (liability shown in equal amount "contingent liability as Endorser, per contra")—(Discount Corporation of New York)

(2) "Trade accounts receivable—after deducting $312,414.32 in 1948 . . . due for returnable containers; also deducted from liability (see contra)" (non-current liability—"Deposits refundable to customers for returnable containers [less $312,414.32 deducted from accounts receivable]"—(Falstaff Brewing Co.) [See Current Liability section for other treatments of container deposits]

(3) "Contra charge to preferred stock sinking fund provision included in current liabilities" (Universal Winding Co.)

(4) "Renegotiation Rebate Resulting from Accelerated Amortization of Emergency Plant Facilities" (current liability "Renegotiation refund—Fiscal Year 1945")—(Beech Aircraft Corporation)

(5) Amounts withheld by the government pending settlement of renegotiation (current liability "reserve for renegotiation refunds after taxes")—(Willys-Overland Motors, Inc.)

(6) Inventories, less costs applicable to advance billings on uncompleted orders (current liability—Advances or uncompleted orders, less costs incurred on such orders, deducted from inventories)—(Industrial Brownhoist Corp.)

Inventories

Contract Work

In regard to uncompleted contracts at the balance sheet date, the total expenditures were usually shown with a deduction for amounts billed to the customer and/or payments made by such customer. Practice seemed to be divided between several presentations, examples of which are shown below:

(1) Inventories:

"Contracts in progress, representing percentage of sales price based on the extent completed, less amounts invoiced." (The Sperry Corporation)

(2) As last item credit in current assets section:

"Amounts included in the foregoing assets representing billings to and collections from customers in advance of delivery of products and services." (Blaw-Knox Co.—see also Otis Elevator Co.)

(3) "Excess of expenditures on shipbuilding contracts plus profits or less losses recorded thereon over billings." (Bath Iron Works Corp.—see also Newport News Shipbuilding & Dry Dock Company)

Tools, Dies, Etc.

Where costs of tools, dies, jigs, etc. were considered to be recoverable from customers, they were sometimes shown in the current assets section. (Briggs Mfg. Corp.—The Budd Co.) Harvill Corp. showed the following item as a current asset:

"Cost of tooling in excess of prices paid therefore by customers—recoverable from sales under orders on hand" (the remaining tooling cost was shown below the current section. The auditors took exception to the above treatment.)

Inventory at Various Locations

The following disclosures were made as to the location of certain items of inventory:

"On consignment" (General Aniline Film Corp.)
"With Agents" (United Cigar—Whelan Stores Corp.)
"In transit" (F. W. Woolworth Co.—Lee Rubber & Tire Co.)
"In stores" (The Cuban-American Sugar Co.)

The Lukens Steel Company priced unbilled shipments of sales orders at estimated selling prices.

The Florsheim Shoe Company valued merchandise inventories at the lower of cost or market, less discounts.

Exchange Difficulties

The effect of exchange restrictions and fluctuations upon current asset items is evident in the situations described in the three footnotes below:

(1) "As set forth on page 5 of this report, the consolidated balance sheet includes amounts for assets and liabilities in Cuba and South America expressed in U. S. dollars,—as to fixed assets, generally at exchange rates in effect at the dates of acquisition thereof, and as to all other assets and liabilities, at current exchange rates, but subject to the following special provision. Because of the present instability of such current exchange rates, together with delays in obtaining remittances in U. S. dollars, net current assets have been written down at December 31, 1948 by a special provision of $1,321,066 against the possibility of a decline of exchange rates. Of this special provision, $500,000 has been charged to consolidated income account as relating to current earnings of subsidiaries; the balance of $821,066, together with net adjustments of $712,303 for unrealized foreign exchange losses resulting from fluctuations in exchange rates during the year, has been charged to consolidated earned surplus account." (Lone Star Cement Corp.)

(2) "The accounts receivable include $5,155,880 at October 1, 1948, and $3,248,611 at October 31, 1947, owed by an independent jobber who sells the company's products in Argentina. On May 14, 1948, the Argentine Government stopped providing United States dollars against its outstanding import and exchange permits. Collection of this receivable will depend upon future action of the Argentine Government." (Deere & Co.)

(3) "The accounts of the corporation's Canadian subsidiary have been included in this consolidated balance-sheet. All assets and liabilities of this subsidiary, with the exception of fixed assets and those representing U. S. dollars, have been translated at the official rate of exchange prevailing at December 31, 1948. Since foreign exchange transactions involving the funds of Canadian corporations are subject to restriction and control by the Canadian government, it should be noted that, of the foregoing consolidated totals of current assets, current liabilities and earned surplus, the percentages subject to restriction and control as of December 31, 1948 were approximately 12%, 3% and 8%, respectively." (Trans-Lux Corp.)

Prepaid Expenses and Deferred Charges

The trend toward showing prepaid items in the current assets was continued during the year, in line with the recommendation made in Accounting Research Bulletin No. 30, "Current Assets and Current Liabilities" (paragraph 4).

While the number of companies which changed their previous practice in this regard in their 1948 reports was not as great as in the preceding year, about 24 per cent of the 525 companies tabulated are now showing prepaid items in the current assets section.

1948	1947	1946	
			All or part shown in current assets:
81	58	3	Described as "prepaid"—no "deferred" classification shown
40	32	..	"Prepaid" in current—"deferred" in non-current
2	3	3	"Prepaid" and "deferred" split between current and non-current
1	1	..	Described as "prepaid" and "deferred"
1	1	..	"Deferred" split between current and non-current
1	..	..	"Prepaid" current—miscellaneous title non-current
1	..	..	"Charges applicable to future operations"
2	1	..	Unexpired insurance premiums and other deferred expenses
129	96	6	

1948	1947	1946	(cont.)
			All shown in non-current section:
121	134	157	Headed "deferred" with some individual items described as "prepaid"
86	91	114	Title included words "prepaid" and "deferred"
90	98	133	Described as "deferred"
65	73	79	Described as "prepaid"
25	24	23	Miscellaneous titles
387	420	506	
9	9	13	No such items separately shown
525	525	525	

Changes in the location of prepaid expenses on the balance sheet did not usually require a reference in the auditor's report. The following excerpt from the auditor's report of Utah-Idaho Sugar Company was an exception to this general practice:

"... in conformity with generally accepted accounting principles which, except for reclassification of prepaid expenses (approved by us) as referred to in Note B to the balance sheet, have been applied on a basis consistent with that of the preceding year."

A number of instances were noted in which prepaid and/or deferred items were shown immediately following the current assets section.

P. R. Mallory & Co., Inc., showed prepaid items in the current section with deferred charges immediately following that section. International Business Machine Corp. showed "Deferred Assets: Prepaid Insurance, Taxes, Etc." immediately below the current section.

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

"Unexpired insurance, etc." (Bath Iron Works Corp.)

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

"Deferred charge to operations" (Doehler-Jarvis Corp.)

"Cost allocable to future periods" (California Packing Corp.)

"Costs chargeable to future operations" (Blaw-Knox Co.)

"Charges applicable to future operations" (Houdaille-Hershey Corp.)

Insurance, taxes, and other expenses—applicable to future periods (American Locomotive Co.)

Expenses paid in advance (The Lambert Co.)

Unconsolidated Subsidiaries—Valuation Basis

There was little change in the basis of valuation of unconsolidated subsidiaries, cost being the most common.

1948	1947	
337	337	No investments shown
89	87	At cost
43	45	No basis of valuation indicated
25	28	At net equity (or related thereto)
15	14	At cost or less—at or below cost
12	11	At cost less reserve
11	11	At nominal value
1	1	Estimated realizable value
1	1	At 1935 values, subsequent additions at cost
3	3	At par value of capital stock
1	1	At book value
1	1	At values determined by Board of Directors in 1940
3	2	As revalued in 19—
1	2	At net assets in 19— less undistributed earnings and reserves
1	1	Independent appraisal in 1947 for subsidiaries written off during war.

The following modifications of the "net equity" basis were noted in 1948 reports:

... Less reserve for foreign exchange fluctuations and certain profits carried in suspense. (John Morrell & Company—Standard Oil Co. of California)

Net assets at a specific date (Pittsburgh Plate Glass Co.)

... Less undistributed profits (Safeway Stores, Inc.)

... Less unremitted earnings outside of the western hemisphere (The National Cash Register Company)

Less than net equity (Ingersoll-Rand Company)

At cost less reserve—equivalent to net assets (Armstrong Cork Company)

At net equity except for the exclusion of profits earned in countries having exchange restrictions (General Motors Corp.)

... Less estimated loss on realization (Radio-Keith-Orpheum Corporation)

Claims for Tax Refunds

About one-third of the 1948 reports examined showed tax claims of various kinds as assets on the balance sheet. Another 9 per cent mentioned claims under Sections 721 or 722 of the IRC but gave no effect thereto.

Forty per cent of the claims for tax refund were shown in the current assets, the other 60 per cent being shown below that section. The nature of the claim was in many instances not explained.

In Current Assets	
18	Carry-back claims
16	Prior year federal taxes (and interest thereon)
11	Tax refunds
2	Replacement of basic LIFO inventories
2	Recoverable federal and Canadian taxes on income
2	Prior year excess profits taxes
2	Canadian excess profits taxes
2	Refund claims for income and excess profits taxes and renegotiation rebate
1	Resulting from adoption of LIFO
1	State tax claim
57	

Below Current Assets	
28	Postwar refund—foreign excess profits tax
16	Prior years' taxes on income
13	Carry-back claims for refund of federal taxes
14	Replacement of basic LIFO inventories
11	Federal income tax refund—no explanation
6	Resulting from adoption of LIFO method
1	Inventory restatements in prior years under Treasury rulings
3	Recoverable state income or franchise taxes
1	Refund claim—excess profits tax
1	Claims for refunds—federal and Canadian income taxes
94	

An interesting treatment whereby a claim for tax refund was split between the current and non-current assets was adopted by Libby, McNeill & Libby, as described in a footnote:

"... The Company has now filed tax refund claims applicable to the calendar (tax) years of involuntary liquidation and has applied for an interim allowance with respect to such claims, which is expected to be received in 1949. The tax refund claims, less additional taxes payable, amount to $2,932,416 of which $2,058,703, expected to be realized in 1949, is shown as a current asset in the balance sheet and $873,713 is carried as a long-term receivable."

A somewhat similar split between current and non-current assets was made by the Safety Car Heating and Lighting Co., Inc., with respect to postwar refunds of Canadian excess profits tax. In addition, however, a reserve was provided for the entire amount until such time as the refunds are actually received.

The Nu-Enamel Corporation included a receivable for a tentative carry-back adjustment in current assets although no application therefor had been filed. The auditor's report contained the following remarks:

"No application has yet been filed for the tentative carry-back adjustment of taxes for prior years in respect of which an amount is included in the balance sheet under current assets. Such adjustment is indicated by the net operating loss for the year under review, and application therefor may be filed by the company on or after the date of filing the income tax return for the year. The application will be subject to review by the Treasury Department, and additional taxes resulting from the disallowance of deductions taken by the company in determining the income tax liability for each prior year affected by the carry-back may be applied against the amount recoverable. In that connection it should be mentioned that for the purpose of determining its income tax liabilities for the years 1946 and 1947 the parent company deducted amounts, not recorded on the books nor in the accounts, of approximately $225,000 and $915,000, respectively, representing the excess of the fair market value at date of issuance over the option price of common stock issued to certain officers during those years under options granted them to acquire said stock. For income tax purposes an excess of this nature is considered to be compensation to the officers acquiring the stock, and is deductible by the company as such subject to the reasonableness, as determined by the tax authorities, of the total amount paid to each officer including other forms of compensation. The disallowance by the Treasury Department of any part of the amounts mentioned above would result in additional taxes for the year involved of 38 per cent of the amount disallowed.

"In our opinion, subject to the collectibility of the amount shown as receivable, in respect of the tentative carry-back adjustment referred to in the preceding paragraph, the accompanying ..."

Fully Amortized Emergency Facilities

While sixty-three companies referred to fully amortized emergency facilities, only three mentioned the restatement of such facilities in prior years, and none of the 525 reports tabulated made any restatement during the year 1948.

References to fully amortized emergency facilities were about evenly divided between disclosure on the balance sheets and in the footnotes.

Marmon-Herrington Company, Inc., applied a "reserve for loss of future income tax benefits resulting from the non-deductibility of depreciation of restored fully amortized war facilities" as a reduction of property, plant, and equipment accounts. This reserve was formerly shown on the liability side of the balance sheet. A footnote explained the treatment as follows:

"At December 31, 1948 the company and its wholly-owned subsidiary adjusted their property, plant, and equipment accounts, as at the beginning of the year, by applying thereagainst the reserve of $617,159.09 for loss of future income tax benefits resulting from the nondeductibility of depreciation of restored fully-amortized war facilities. This adjustment was made to simplify the arrangement of the statement of earnings wherein, in prior years, a transfer was made from the aforementioned reserve to compensate for the loss of income tax benefits resulting from the nondeductibility for income tax purposes of depreciation of such facilities, thus resulting in net income of the same amount as would have resulted had the depreciation been deductible for tax purposes.

"The statement of earnings for the year 1947, as shown in the annexed statement, has been revised to reflect the elimination of the transfer of $67,669.63 from the reserve for loss of income tax benefits and a corresponding reduction in the aggregate amount of cost of sales, engineering, selling and administrative expenses and loss on sale of plant assets to reflect depreciation allowances computed on the same basis as in 1948. This revision in the statement of earnings had no effect on net income for 1947.

"A review, during 1948, of the wholly-owned subsidiary's restored fully-amortized war facilities indicated that the estimated remaining useful lives of such facilities will be substantially longer than was estimated at the time the facilities were restored in the accounts in 1945. Accordingly, the subsidiary's depreciation allowances for 1948, as well as for 1946 and 1947, have been recomputed on the basis of the revised estimated remaining useful lives. The reduction in the accumulated depreciation allowances applicable to 1946 and 1947, aggregating $34,551, has been credited to earnings reinvested in the business. Had the revision in the depreciation allowances been made in 1947, the net loss for that year would have been $17,371.34 less than the amount shown in the statement of earnings for that year." (Marmon-Herrington Company, Inc.)

The Consolidated Gas Electric Light and Power Company of Baltimore discussed the treatment of the difference between normal depreciation and that allowed for tax purposes as follows:

"The aggregate amounts currently set aside for depreciation and amortization are intended to make provision for losses by reason of obsolescence, inadequacy, or any other cause which may actually occur during the period and also provision for losses to occur in the future at uncertain times from uncertain causes . . . .

"Depreciation and amortization for 1948 and 1947 include, in addition to provisions at normal rates, $340,882 and $806,559 respectively, equal to the current reductions in taxes resulting from the deduction for tax purposes of amounts allowable as amortization of emergency facilities under Section 124 of the Internal Revenue Code instead of depreciation at the normal rates . . . .

"Because of the allowance for tax purposes of deductions for amortization of emergency facilities in excess of depreciation at normal rates, 'Taxes' for 1948 and 1947 were reduced $340,882 and $806,559, respectively. However, these reductions did not affect net income because of the offsetting charges made in the statement of income . . ." (Consolidated Gas Electric Light and Power Company of Baltimore)

While not in the group of tabulated companies, the Dana Corporation reinstated emergency facilities as described in the following note:

"Facilities acquired for war production under certificates of necessity at a cost of approximately $12,800,000 were entirely amortized as at August 31, 1945. Since these facilities are now being operated on a basis comparable with other facilities, and the cost thereof is considered to be reasonable and substantially below present cost, the amortization previously provided thereon was reversed as of September 1, 1947 and depreciation at 10 per cent per annum from date of acquisition was substituted therefor, resulting in a credit to earned surplus of $5,898,241.90. Depreciation of these facilities amounted to $1,275,329.79 in the fiscal year ended August 31, 1948, and will approximate the same amount per annum for the fiscal years 1949 through 1951 and some $790,000 for the fiscal year 1952. Such amounts will not be deductible for income tax purposes."

Cash Surrender Value of Life Insurance

Predominant practice continued to be the showing of the cash surrender value below the current assets section on the balance sheet.

Only eight of the ninety-three companies showing such an item on their 1948 balance sheets included it in the current assets section.

1948	1947	1946	
432	427	424	No such items shown
8	13	19	Shown in current assets
85	85	82	Shown below current assets
			(22) as a separate item
			(28) as investments
			(34) as other assets
			(1) as deferred charge
525	525	525	

Four companies changed their practice from that followed in the preceding year, now showing the item below the current assets section, in accordance with the recommendation made in Accounting Research Bulletin No. 30, "Current

Assets and Current Liabilities—Working Capital" (August 1947). (John Morrell & Co., The Mead Corp., Spiegel, Inc., and Moore Drop Forging Co.).

Intangibles (See Accounting Research Bulletin No. 24, "Accounting for Intangible Assets")

Intangibles were usually shown as a separate group and at a nominal valuation in 1948 reports. The statistics below will indicate the relative frequency with which various types of intangibles were mentioned as well as the number of each type which were valued at either a nominal valuation or in excess of such nominal amount.

1948 total	No. Valued at Nominal	No. Valued in Excess of Nominal	Type
193	124	69	Patents
155	125	30	Goodwill
105	79	26	Trademarks, tradenames, brands
21	5	16	Licenses
12	5	7	Water rights
8	8	..	Copyrights
5	4	1	Franchises
9	5	4	Processes
7	6	1	Formulae

It is evident from the above table that predominant policy is to write off most types of intangibles, either through planned amortization or by direct charges to earned surplus. However, a number of reports were noted where intangibles were retained on the balance sheet at fixed amounts. Examples follow:

Goodwill The Curtis Publishing Co.
Bucyrus-Erie Co. (goodwill consisted of engineering development, trademarks and patents)
General Motors Corp. (goodwill from consolidation)
American Wringer Corp. (goodwill from consolidation)

Patents United Shoe Machinery Corp.

Water Rights American Woolen Co., Hearst Consolidated Publications, Inc.

Goodwill & Trademarks—Quaker Oats Co., Macfadden Publications, Inc., The Byrndun Corp., Atlas Powder Co.

Patents, Goodwill, Trademarks—U. S. Rubber Co., American Tobacco Co., The Moxie Co., O'Sullivan Rubber Co., Gilette Safety Razor Co.

Patents, Goodwill, Trademarks & Processes—Allied Chemical and Dye Corp.

Patents & Trademarks—Diamond T Motor Car Co.

Goodwill, Trademarks & Formulae—The Coca-Cola Co.

Among the reports where intangibles were shown in excess of a nominal value, two which expressed their amortization policy clearly did so as follows:

"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 over five years." (District Theatres Corp.)

"*Excess in Consolidation:*
Excess of cost of investments in subsidiaries over the book value of their net assets at date of acquisition . . .
Less: Reserve for amortization (over ten-year period) . . ." (Diana Stores Corp.—balance sheet)

1948 Changes

There were relatively few changes with respect to intangibles during the year 1948.

The following companies wrote off intangibles to earned surplus during the year:

Bohn Aluminum & Brass Corp. (goodwill)
Continental Baking Co. (goodwill)
Liberty Products Corp. (goodwill from consolidation)
Revere Copper & Brass, Inc. (goodwill at \$1 deducted from capital surplus)

The American Locomotive Co. described the write-off of patterns, drawings, and dies as follows:

"Since 1939 the Company had carried patterns, drawings and dies for standard type products at a fixed going-concern value of \$1,760,000 and, in lieu of providing depreciation thereon, has charged all expenditures for patterns, drawing and dies to earnings. During 1948, incident to the discontinuance of the manufacture of steam locomotives, the company changed its accounting policy with respect to these patterns, drawings and dies and charged off their aforesaid carrying value to the reserve for contingencies, which was created in prior years by charges to earnings. As a result of this change in policy, the assets as shown in the accompanying consolidated statement of financial position at December 31, 1948, do not include any value for patterns, drawing and dies; however, there is no effect on earnings for 1948." (footnote)

"In our opinion, except that the assets as shown in the accompanying consolidated statement of financial position at December 31, 1948, do not include any value for patterns, drawings and dies as explained in Note 2 to the financial statements, the accompanying . . . " (American Locomotive Co.—auditor's report)

The 1948 report of American Safety Razor Corp. gave notice of a future partial write-off of "Goodwill, Patents, and Trademarks" by applying the entire balance of capital surplus thereto. The president stated as follows:

"Our annual meeting will be held on May 19, 1949 and the notice of this meeting refers to a resolution (set forth in the proxy statement) to be offered and which authorizes a reduction in the 'Goodwill, Patents and Trademarks' item from $7,451,661 to $5,000,000. This writedown of $2,451,661 will be made by applying the entire capital surplus item of $1,885,973 with the remainder of $565,688 to be charged to our earned surplus. This 'Goodwill, Patents and Trademarks' item is a real asset of the company and represents in the main the actual value which the company paid in cash and shares of its common stock at the time the company was organized in 1919. While we believe the trademarks and goodwill elements (the patents originally acquired have expired) are well worth the sum at which they are carried on our books, we recognize that they represent intangibles, and this writedown is the commencement of a program under which we contemplate eventually to carry this account at a progressively reduced value. This procedure conforms with current general practice." (American Safety Razor Corp.—President's letter)

The auditors of Universal Laboratories Inc., excluded goodwill from the consolidated balance sheet for the following reason:

"In the preparation of the accompanying consolidated financial statements, goodwill and capital surplus of Sleight Metallic Ink Company of Illinois, Inc., a consolidated subsidiary, in the amount of $650,000 have been excluded although contained in the books of Sleight. The items were originally recorded in the books on the initiative of and as valued by management in March 1947, although not acquired for cash or any equivalent property. For the reason that this procedure does not conform with generally accepted accounting principles and practices, the items have been eliminated from the accompanying statements."

Two changes in policy with respect to the amortization of intangibles were described in 1948 reports as follows:

"Effective January 1, 1948 the company has adopted the policy of charging these expenses against income of the year in which incurred as contrasted with the policy followed previously of amortizing such expenses over a 17-year period. The amount ($861,695) deferred at December 31, 1947 under the policy previously followed has been written down to a nominal amount of $1 by a charge to earned surplus in 1948. Net income reported for the year 1948 has been increased $75,281 as a result of the change in policy." (General Railway Signal Co.—notes to Financial Statements as of December 31, 1948)

"Prior to January 1, 1944, intangible assets amounting to $40,733,778, as adjusted, were reflected at $1; the difference having been written off by charges against capital and earned surplus. Intangible assets aggregating $7,617,895, as adjusted, acquired subsequent to January 1, 1944 were, prior to January 1, 1948, being amortized by annual charges to earned surplus. The unamortized balance at January 1, 1948 of such intangible assets was charged to earned surplus during the year 1948." (American Home Products Corp.—notes to Consolidated Financial Statements)

Goodwill From Consolidation

Giddings & Lewis Machine Tool Co. allocated goodwill on consolidation to a subsidiary's fixed assets.

(Other companies showing goodwill resulting from consolidation on their 1948 balance sheets were Nos. 71, 212, 174, 221, 314, 177, 47, 127)

Non-Current Assets—Unusual Items, Treatments, and Presentations

The following listing contains items or treatments which were noted on the reports tabulated as being interesting or unusual:

Foreign Assets

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

"Net current assets in foreign countries (withdrawals subject to prevailing restrictions in foreign exchange)." (The Brunswick-Balke-Collender Co.)

"Net assets in Continental Europe" (Loews, Inc.)

"Foreign Net Assets" (with equal reserve or credit side—Vick Chemical Co.)

Plant and Equipment

"Fixed assets:
Blast furnace property subject to acquisition of legal title, less reserve for depreciation. . ." (Koppers Co., Inc.)

"Note 2:
Plant and equipment includes a deposit of $10,000 made under an agreement to purchase plant site in the township of Union, New Jersey." (PurOlator Products, Inc.)

"Paper coating mill—less allowance of $800,000 for loss on sale . . ." (Time, Inc.)

"Property, Plant and Equipment: (Less contributions for plant facilities of $1,100,070)."—(Champion Paper & Fibre Co.)

Pension Costs

"Other Assets and Deferred Charges:
Premium advances for employees and prepaid expenses under Insurance Pension Plan" (Corn Products Refining Co.)

"Deferred premium on retirement pension plan" (Industrial Brownhoist Corp.)

"Deferred Charges:
Prepaid requirement for past services under Retirement Annuity Plan, to be amortized annually through December 31, 1952." (Electric Boat Co.)

Development and Organization Expenses

"Interest in development expenditures of joint venture." (Scovill Manufacturing Co.)

"Mine examination and development expenditures, principally on property under lease or option." (American Smelting and Refining Co.)

"Mine development, including expenditures on properties leased or held under option." (Anaconda Copper Mining Co.)

"Deferred Charges for Stripping and Mine Development" (Kennecott Copper Corp.)

"Mine stripping costs" (Reynolds Metals Co.)

"These Deferred Charges to Operations consist chiefly of the cost of stripping, thawing and other work ahead of the dredges in Alaska, and development and ore breaking in the lode mines, chargeable against the gravels and ores when and as these are, respectively, dredged and extracted. The Reserve for Development has been provided to offset contingent loss from such part of the foregoing deferred charges as may not eventually be recovered through operations." (U. S. Smelting Refining & Mining Co.)

"Tool costs deferred . . .

Development and engineering expense deferred . . ." (Samson United Corp.)

"Refinancing and Recapitalization Expenses" —being amortized over fifteen-year period (The Drackett Co.)

"Regauging expenses of subsidiary" being amortized over five-year period, less amount written off $79,870. (Munsingwear, Inc.)

"Deferred Charges:

Expenses of subsidiaries deferred as preliminary and training costs. . .

Organization expenses of subsidiaries . . .

Cost of tooling in excess of prices paid thereof by customers—to be charged against anticipated future orders" (Harvill Corp.—accountant takes exception)

"Discount on preferred stock. . .

Organization and financing expense . . ." (O'-Sullivan Rubber Corp.)

"Engineering and development expenses, less amortization of $8,673." (American Transformer Co.)

"Modernization Expense" (A. B. Farquhar Co.)

"Deferred Charges (including $578,733 of unamortized organization and plant pre-opening expenses)" (United Merchants and Manufacturers, Inc.)

"Deferred Charges:

Research and development costs on new product . . ." (Lear, Inc.)

"Production, mailing and editorial expenses applicable to completed issues dated January, 1949" (Time, Inc.)

"Deferred Charges:

Dead season sugar expenses since termination of 1948 crop . . .

Expenditures on account of unfinished voyages . . .

Unamortized premium on insurance fund investment . . ." (United Fruit Co.)

"Deferred general and administrative expenses (U. S. Government contracts not completed)" (The W. L. Maxson Corp.)

"Deferred Charges:

Tools and dies for future production . . ." (United Stove Co.)

Taxes

"Deferred adjustment for Federal taxes. . ." (Revere Copper & Brass Inc.)

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

"Deferred refunds on state unemployment insurance taxes" (less reserve for full amount—Houdaille-Hershey Corp.)

Investments

"Investment in General Motors Corp." (at net equity) (E. I. du Pont de Nemours & Co.)

"Investment in common stock (of affiliate)—at cost. . .

Less allowance to reduce to approximate equity in net assets" (Haskelite Mfg. Corp.)

Investment carried in excess of market at "fair value" to the company in 1938 upon acquisition (Pittsburgh Steel Co.)

"Investment in and advances to Northwest Magnesite Co.:

At cost less allowance for reduction in value of $320,000 . . . 480,000" (General Refractories Co.)

"Other Assets:

Gimbel Bros. Bank and Trust Co.—at equity in net assets . . ." (Gimbel Brothers, Inc.)

Quoted market of investment—below cost (The Autocar Co.)

Miscellaneous

"Working and Trading Assets at Cost:

Inventories of Sulphur above ground . . .

Inventories of Materials & Supplies . . .' (Texas Gulf Sulphur Co.)

"Suspense Account:

Represents the checks for fictitious purchases obtained by W. A. Nickel, an employee of the Company, amounting to $663,295.10 during the fiscal year ended September 30, 1946 and $81,450.03 during the month of October, 1946, making a total of $744,745.13, which will be carried in 'Suspense' pending final determination of the amount recoverable by the Company." (Mergenthaler Linotype Company)

"Properties free of mortages or encumbered by mortages to which the companies are not a party

Depreciated cost...

Less mortgage...

Equity...

Properties encumbered by mortgages executed by subsidiaries at depreciated cost. . ." (contra) (The Alliance Realty Co.)

"Prepaid and Deferred Charges:

Unallocated items in transit due to different fiscal years of subsidiaries which operate in foreign countries..." (The Atlantic Refining Co.)

"Deferred Assets and Expenses:

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

"Dispensers and other accessories on loan to customers... $1." (Lily-Tulip Cup Corp.)

"Other Assets:

Retirement and Insurance Investment Fund (consisting of 200,000 shares of Common Stock of the Company)" (R. J. Reynolds Tobacco Co.—fully reserved)

"Miscellaneous Investments:

Obligations of Argentina and Brazil, payable in their currencies" (Lone Star Cement Corp.)

The following items were shown below the current assets section with related items shown on the credit side of the balance sheet:

(1) "Real estate purchase contract" (contra non-current liability—"Liability on real estate purchase contract") (American Wringer Co.)

(2) "Special Deposit for Compensation Insurance Claims" (contra current item—"liability for workmen's compensation claims") (Willys-Overland Motors, Inc.)

(3) "Property, plant, and equipment (at cost) (including $280,000 estimated cost to complete and equip facilities in process of construction)"—(contra liability shown in current section—Central Soya Company, Inc.)

(4) "Property, plant, and equipment to be received under purchase and construction contracts" (Contra liability shown in part in the current liabilities section—Hearst Consolidated Publications, Inc.)

Current Liabilities—Interesting and Unusual Items and Presentations

Offsetting Items

In addition to the common practice of deducting tax notes from the current provision for federal income taxes, several other instances were noted in which a similar treatment was followed in the current liabilities section of the balance sheet:

(1) "Reserves:

Research and development	$811,110	
Less: Segregated Cash in banks	800,000	
(A. O. Smith Corp.)		$11,110"

(2) "Employees' Savings Bond Fund........

Less: Cash on Deposit............."

(Adolph Gobel, Inc.)

(3) "Federal and State Taxes on Income, Net of Claims for Refund of Prior Years' Taxes (Note D) . . ."

(H. K. Porter Co., Inc.—see also Beech-Nut Packing Co.)

Reserves

For use of term "reserve" with current liabilities, see section devoted to use of that term.

Container Deposits

The following companies showed a current liability for customer deposits:

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

Liability for redemption of returnable bags (Lehigh Portland Cement Co.)

Customers' deposits on bottles and cases (Jacob Ruppert)

The Pepsi Cola Company added the parenthetic note as shown below to the caption of Total Current Liabilities:

"Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)" [See Falstaff Brewing Co.—Current Assets section]

Employee Benefits

The following current liabilities were related to employee benefit plans:

"Provision for contribution to profit sharing trust" (The Parker Pen Company)

"Under savings and profit sharing plan for officers and employees" (Time, Inc.)

"Liability under amended pension plan—estimated" (Eaton Manufacturing Company)

"Bonus to executive officers" (Bayuk Cigars, Inc.)

"Incentive Compensation Fund" (Blaw-Knox Company)

"Employees Profit Sharing and Retirement Trusts (Note 2)" (Western Auto Supply Company)

"Amounts payable to the Chase National Bank of the City of New York, Trustee, for additional employment benefits, dependent on Company profits, under McCall Corporation Retirement Plan."

"Special incentive compensation fund" (Bethlehem Steel Corp.)

"Contributions to employees' profit sharing incentive retirement plan" (American Box Board Company)

Taxes

While the most common presentation was to show the income-tax liability for the current year as a separate item, two other presentations were quite often used.

Taxes, other than federal income taxes, were shown as a separate item in many reports. Here are a few 1948 designations for these provisions:

"Accrued property, sales, and other taxes" (Owens-Illinois Glass Company)

"Accrued taxes—general" (Universal Cyclops Steel Corp.)

"Taxes (other than Federal income tax)" (Ex-Cell-O Corp.)

"Accrued taxes other than federal income taxes" (Sears, Roebuck & Company)

"Personal property, real estate and other taxes" (Butler Bros.)

"State and other taxes" (Devoe & Raynolds Co., Inc.)

"Accrued taxes" (Interchemical Corp.)

"Taxes other than taxes on income" (The Electric Storage Battery Co.)

Prior years' taxes were quite often mentioned in the current liability section. These prior years' taxes were either shown in combination with the current year's provision or as a separate item. Here are a few ways in which such taxes appeared:

"Federal taxes on income for prior years, accrued interest thereon, and other Federal (Note G) State and local" (The Autocar Co.)

"Prior years federal taxes on income" (Scovill Mfg. Co.)

"Federal and State taxes on income for 1948 and prior years, estimated" (The Electric Storage Battery Co.)

"The federal tax liability of $3,608,659.57 includes adequate provision for possible additional taxes of prior years in the amount of $273,659.57 which is net after deducting estimated adjustment of $635,000 resulting from 'Lifo' inventory replacements in 1945, 1946, 1947, and 1948." (footnote—Beech-Nut Packing Company)

"Provision for federal taxes on income and other corporate taxes for current and prior years, estimated" (Corn Products Refining Company)

"Federal and State income taxes, estimated:
Current fiscal year . . .
Prior years, resulting from adjustment of operating reserves . . . " (Lukens Steel Co.)

Three companies were noted which included as a current liability the amount of excess profits taxes withheld as permitted by the Internal Revenue Code. The O'Sullivan Rubber Corp. in 1947 showed a reserve below the current liabilities section but in 1948 showed a current liability for "excess profits tax deferment." (See also Park & Tilford, Inc.) Time, Inc., discussed the withholding in the following footnote:

"Under provisions of Section 722 of the Internal Revenue Code, the Company has filed claims for relief as regards excess profits taxes for the six years 1940–1945 and has filed a claim for refund based on carry-back of unused excess profits credit for 1946. These claims are for substantial sums but the amounts, if any, recoverable thereon are not presently determinable, and, accordingly, these claims are not reflected in the financial statements. As permitted by the Code, the Company withheld payments of excess profits taxes for the years 1943–1945 in amounts equivalent to 33% of the claims for these years, and the amounts so withheld are included in the provision for income taxes under Current Liabilities but without provision for interest thereon. The delay in the final determination of Federal income and excess profits taxes is due to the extended time required to obtain a decision upon the claims for relief under Section 722."

The National Cash Register Company showed "deferred taxes on installment income" in the current liability section.

Sinking Fund Provision

The Cuneo Press Inc. is required to set aside a sinking fund on or before May 1 in each year for the purchase or redemption of preferred shares. On the 1948 balance sheet, the current portion of the sinking fund requirement was shown in the current liabilities with the corresponding charge shown as a deduction in the capital stock and surplus section. (Contrast Thompson Products, Inc., where information was provided in a footnote and no current liability was shown.)

Deferred Credits

The following deferred credits were included in the current liability section:

"Unearned finance charges on customers' notes" (The Autocar Company)

"Deferred credits—film rentals received in advance, foreign remittances held in abeyance, etc." (Twentieth Century-Fox Film Corp.)

"Treatment charges unearned" (American Smelting and Refining Company—The American Metal Co., Ltd.)

"Unrealized exchange profit on inter-company financing" (see footnote—Electric Boat Co.)

Product Warranties

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

"Provision for claims for defective materials, retroactive wage adjustments, etc." (Lukens Steel Company)

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

Miscellaneous Current Liabilities

"Credit balances of factored clients" (United Merchants and Manufacturers, Inc.)

"Estimated cost to replace involuntarily liquidated 'Lifo' inventories—less tax credit" (The National Supply Co.)

"Provision for additional costs on contracts" (The Babcock and Wilcox Company)

"Employees deposits for income and social security taxes and the purchase of savings bonds" (Pacific Mills-Celanese Corp. of America)

"Unredeemed gift certificates" (Adam Hat Stores Inc.)

"Estimated additional costs on delivered airplanes" (Douglas Aircraft Co., Inc.)

"Estimated cost of past service benefits under pension plan, payable during year 1949" (remainder in reserve below current liabilities—Pratt & Lambert, Inc.)

"Provision for foreign assets" (Twentieth Century-Fox Film Corp.)

"Estimated liability for building alterations and repairs" (Rice-Stix Dry Goods Co.)

"Accounts payable for purchases, expenses, etc.

. . . to U. S. Foil Co., parent company

. . . to other affiliated companies" (Reynolds Metals Co.)

"Advance by joint operator against 1949 operations" (Columbia River Packers Association, Inc.)

"Balance payable on stock subscription" (Coosa River Newsprint Company)

"Special deposits on incompleted contracts and accounts receivable credit balances" (A. B. Farquhar Co.)

"Foreign bank loans and overdrafts . . . Drafts and acceptances for rubber in transit . . ." (The Goodyear Tire & Rubber Company)

"Sight drafts outstanding" (The Studebaker Corp.)

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

Inventory Reserves—Where Shown

There was a slight decline in the number of inventory reserves shown in 1948 reports, in comparison with the preceding year; about 30 per cent of the reports examined showing some type of inventory reserve.

The practice of showing reserves on the balance sheet in a "twilight" section between liabilities and the net equity section has been followed by the great majority of corporations. No distinction is thus made between appropriations of earned surplus and those "reserves" which are estimates of liabilities.

1948	1947	
371	359	None shown
12	19	Deducted from assets—purpose not indicated
39	33	Deducted from assets—purpose indicated
100	115	Shown on liability side of the balance sheet above net equity section
15	9	Shown in capital stock and surplus section
4	4	Shown in current liabilities (all relating to replacement of basic Lifo inventories)

Six companies changed the location of their inventory reserves or appropriations from above the capital stock and surplus section of the balance sheet in 1948, now showing such reserves as appropriated surplus. These companies were:

The Champion Paper & Fibre Co.
Colonial Stores Inc.
Continental Steel Corp.
National Biscuit Co.
The Quaker Oats Co.
Rice-Stix Dry Goods Co.

(For the names of other companies showing inventory reserves in the net equity section see Appendix Nos. 55, 119, 153, 216, 229, 267, 272, 356, 410.)

The types of reserves which were deducted from inventories on the asset side were for the following purposes:

16	Future inventory price decline, or related title
8	Obsolescence
6	To reduce to LIFO or normal stock basis
2	Unrealized losses on market valuations
2	Unrealized inter-company profits
1	Increased cost to replace opening inventories
1	Estimated expenses of shipment from Cuba
1	To reduce inventories from cost to lower of cost or market
1	Loss indicated on completed production not released
1	Amortization of released production
39	

Inventory Reserves—Classification

The great majority of inventory reserves noted in 1948 reports were for possible future price declines. There was no standard terminology for these reserves, most of which were shown on the liability side of the balance sheet above the net equity section.

As there was often little or no description of the purpose of the reserve other than the title used, a separate classification was used for those titles which either did not indicate specific purpose or which were considered to be for possible future inventory price declines.

1948	1947	
371	359	No reserves shown
57	69	Reserves providing specifically for possible future inventory price decline
52	51	Reserves with varying titles not providing specifically for future inventory price declines, but, in most cases, probably intended for that purpose
12	19	No indication of purpose of inventory reserve deducted on the asset side
15	10	Obsolesence — possible obsolete items
12	13	Replacement of basic LIFO inventories
6	5	To reduce inventories to LIFO valuations
5	5	Normal stock method
1	1	To reduce inventories from cost to the lower of cost or market
2	1	For unrealized losses based on market valuations
1	1	Surplus reserve based on inventory overhead
4	4	Unrealized inter-company profits (and discount)
1	1	Loss indicated on completed production not released
1	1	Amortization of released production
1	1	Purchase commitments
1	1	Estimated expense of shipping from Cuba
1	1	Metal stock reserve—used to absorb price fluctuations occurring during processing period

Here are the twenty-four title variations for inventory reserves (with examples) which were included in the special grouping of fifty-two reserves above:

Inventory Price Decline (Swift & Co.)

Inventories (Bigelow-Sanford Carpet Company Inc.)

Shrinkage (National Steel Corp.)

Possible loss on liquidation or realization (National Steel Corp.)

Inventory Contingencies (Burlington Mills Corp.)

Inventory Price Adjustments (Universal-Cyclops Steel Corp.)

Contingencies (purpose described elsewhere) (The Electric Storage Battery Company)

Shrinkage & Obsolescence (Eaton Manufacturing Company)

Mark-downs (Melville Shoe Corp.)

Inventory and other contingencies (The Yale & Towne Mfg. Co.)

Adjustments in materials and supplies (United Fruit Co.)

Fluctuations in the price of metals and other contingencies (The International Silver Company)

Inventory adjustment reserve (General Cigar Co., Inc.)

Price declines (Libby, McNeill & Libby)

Inventory losses (The Curtis Publishing Co.)

Manufacturing and other contingencies (Pullman, Inc.)

Contingencies on account of unusual market conditions and other contingencies (Rice-Stix Dry Goods Company)

Possible loss on inactive and excess stocks (General Electric Co.)

General inventory reserve (National Lead Co.)

Metal price fluctuations (U. S. Smelting Refining & Mining Co.)

Surplus Reserve—based on inventory overhead increase (Wagner Electric Corp.)

Possible losses from revaluation of inventories (The Champion Paper & Fibre Co.)

Unusual market conditions and other contingencies (Ely & Walker Dry Goods Company)

Possible inventory adjustments and other contingencies (Industrial Brownhoist Corporation)

1948 Presentations

Nineteen companies which previously used inventory reserves apparently intended for possible future inventory price declines did not show them at all on this year's balance sheets. On the other hand, there were eight companies which initially set up such reserves during the 1948 fiscal year.

Three machinery manufacturers who had not previously indicated the purpose of inventory reserves deducted on the asset side, did so in the year under study. Such purposes involved "obsolescence" in all cases. (See Companies 365, 268, 520)

Two companies (The Borden Company and International Paper Company) no longer showed reserves for the replacement of LIFO inventories, while Allied Chemical & Dye Corp. showed for the first time a reserve for "the increased cost of replacing opening inventories."

Three oil companies did away with inventory reserves so that of twenty-four oil company reports examined, none showed inventory reserves of any kind although quite a few retained contingency reserves.

The Carr-Consolidated Biscuit Company showed a reserve for loss on purchase commitments on the credit side of the balance sheet.

The report of General Mills, Inc. (May 31, 1949) indicated for the first time its policy with regard to inventory reserves in the following footnote:

"The company continues to hedge its flour and soybean product unfilled orders and inventories of raw materials and finished goods whenever adequate hedging facilities exist, as a means of minimizing the risk of adverse price fluctuations. The desirability of maintaining this hedging policy would seem to be amply demonstrated both by existing price levels and by current uncertainties surrounding the long-term future policy of the Federal Government with respect to support levels of all agricultural commodities. All factors relating to items customarily hedged are reflected in the financial position at fair market value, including market adjustments for open transactions.

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

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

"Total inventory reserves as of May 31, 1949 amounted to $5,141,081. The decrease in these reserves during the year of $1,097,365 is reflected in earnings as an offset to inventory losses sustained because of price level declines as they applied to base or normal quantities of certain nonhedged items."

(See also 1949 report of Pillsbury Mills Inc., where a somewhat similar policy to the above was indicated.)

Reserves Shown Below Current Liabilities

(Inventory "reserves" are discussed separately in the two preceding sections.)

Accounting Research Bulletin No. 34, "Recommendation of the Committee on Terminology —Use of Term 'Reserve' " (October 1948), recommended that use of the word "reserve" be limited to indicating "that an undivided portion of the assets is being held or retained for general or specific purposes." However, since relatively few of the 1948 reports examined had substituted new terminology for liabilities which they had classed as "reserves" in the past, we have included in the tabulations below all instances in which the word "reserve" was used below the current liabilities section as well as all earned surplus appropriations. (See later section on Use of Term "Reserve")

The statistics below indicate developments in the most widely used "reserve" categories. Following the table, the 1948 changes in the various categories are discussed.

1948	1947	1946	
225	243	272	"Contingency Reserves" shown separately or words "and other contingencies" added to other specific reserve(s)
137	142	143	Insurance reserves
3	10	50	War and postwar reserves
38	46	46	"General," "other," "sundry," "miscellaneous"

83	87	51	Reserves involving plant and equipment
32	31	26	Taxes
20	22	22	Warranties or guarantees
31	33	20	Foreign operations
70	68		Reserve for employee benefits
50	48		Miscellaneous titles

Contingency Reserves

The most pronounced change in the use of reserves during the year 1948 was the decline in the use of general contingency reserves, such reserves disappearing from the 1948 balance sheet in twenty-six instances, with the great majority being transferred to earned suplus. Here is what the president of Sears, Roebuck and Co. said in that regard:

> "The $28,500,000 Reserve for Contingencies has been transferred to the Surplus Account of the company since, according to the policy recommended by the American Institute of Accountants, the reserve served no practical purpose."

Other methods of eliminating such reserves involved (1) using the complete reserve to partially absorb prior year tax charges (Thompson Products, Inc.); (2) combining the contingency reserve, formerly shown separately, with other reserves (The Youngstown Sheet & Tube Co.—"increased construction and replacement cost and contingencies"); and (3) changing or amplifying the name of the contingency reserve (The Lambert Co.—from "Reserve for Contingencies and Extraordinary Expenses" to "Reserve for Pension Costs and Income Tax Contingencies").

In eight instances, general contingency reserves appeared for the first time. Two were created by charges to earned surplus, one by an income statement charge (American Wringer Co., Inc.), two others by transfer from current liabilities (R. J. Reynolds Tobacco Co. formerly showed the contingency reserve in current liabilities, while The Sperry Corp. reduced its current provision for federal income taxes and contingencies by the transfer). Several titles were changed to contingency reserves. In another 1948 report the president's letter disclosed that a reserve for contingencies was part of a balance sheet item "Reserves" (Ohio Match Co.).

The National Cash Register Co. showed an item "appropriated for contingencies" in 1948 whereas the 1947 report showed two reserves, "General and contingent" and "foreign contingencies." Similarly, in its latest report (March 31, 1949) a "reserve for contingencies" replaced a "reserve for claims, litigations and contingencies" shown in the preceding annual report of Philip Morris & Co., Ltd.

Insurance Reserves

Of eight insurance reserves of various kinds which were no longer in evidence in 1948 reports, there was no indication as to what disposition had been made of the majority of them. In two instances, the balances were transferred to earned surplus (Wright Aeronautical Corp., Simmons Co.).

Three new insurance reserves appeared in 1948. One for self-insurance was created by a separately shown charge in the income statement (Douglas Aircraft Co., Inc.)

War & Postwar Reserves

War and postwar reserves were reduced from ten to three. Of the seven which disappeared:

3 were transferred to earned surplus (National Co., Inc., Jones & Lamson Machine Co., American Smelting & Refining Co.)

1 was charged with 1948 reconversion expense, a portion of the reserve having been credited to earned surplus in 1947 (Revere Copper & Brass, Inc.)

1 was transferred to the income statement to offset certain expenses (Rexall Drug, Inc.)

1 was used in connection with the retroactive adoption of the Lifo method (R. H. Macy & Co., Inc.)

1 was transferred in part to the income statement to absorb "part of cost of standardization of product," with the remainder being designated "Reserve for cost of standardization of products" (Walworth Co.)

War and postwar reserves remaining on 1948 balance sheets comprise the following:

"Estimated additional costs arising out of the war" (U. S. Steel Corp.)
"War loss claim" (Otis Elevator Co.)
Postwar adjustments, principally federal taxes (Sprague Electric Co.)

Plant and Equipment Reserves

The following reserves shown in 1947 were eliminated from the credit side of 1948 reports:

"Tanker replacement" (U. S. Industrial Chemicals, Inc.)
"Loss of damage to leased equipment" (Continental Motors Corp.)

"Expenses in revision of manufacturing program" (Ingersoll Rand Co.—to surplus)
"Additional depreciation" (Johnson & Johnson—canceled and accelerated depreciation adopted retroactively)
"Drums and containers" (Anderson-Prichard Oil Corp.)
"Depreciation" (Liberty Products Corp.)
"Replacement of plant and machinery" (Ohio Match Co.—mentioned in 1947 but not in 1948)
Replacement of plant and equipment (U. S. Steel Corp., Pure Oil Co., Sun Oil Co., Timken Roller Bearing Co.—accelerated depreciation policies adopted)
"Excess cost of plant and equipment" (Art Metal Construction Co.—to surplus)
"Maintenance of plant" (The Sherwin-Williams Co.)

The following new reserves were created during 1948 by charges to earned surplus:

"Replacement of buildings and machinery" (Armstrong Cork Co.)
"Appropriation for excessive cost of fixed assets" (Liggett & Myers Tobacco Co.)
"Appropriated as reserve for plant expansion" (Gleaner Harvester Corp.)
"Replacement cost of facilities" (Pittsburgh Plate Glass Co.)

International Paper Co. showed under "Reserves" an item "Appropriated from net profits: for replacement of capital assets at current costs" which was created by an appropriation shown in a statement of "Disposition of Net Profit."

The following reserves were created by a charge shown at the foot of the income statement after "net income":

"Replacement of Plant and Equipment" (Hamilton Watch Co.)
"For additional depreciation on property replacement values" (Buckeye Steel Castings Co.—also shown separately in earned surplus statement)
"Reserve for exploration and acquisition oil reserves" (Panhandle Producing & Refining Co.)

Reserves for Taxes

An interesting treatment whereby a reserve equal to the loss of future income tax benefits resulting from the non-deductibility of depreciation of restored fully-amortized war facilities was offset against the plant property and equipment account is described in the section on emergency facilities. (Marmon-Herrington Co., Inc.) Ampco Metal, Inc., and American Smelting & Refining Co. retained similar reserves on the credit side of the balance sheet.

Eastern Stainless Steel Corporation created a reserve for taxes by a charge to surplus for deficiencies indicated by the Bureau of Internal Revenue. At the same time, a related surplus adjustment was also made for the estimated depreciation and repair charges which would be disallowed.

The following companies carried reserves for federal income taxes on installment sales, thereby apparently deferring a portion of the tax on installment receivables outstanding:

The May Department Stores Co.
Spiegel, Inc.
The S. S. White Dental Mgf. Co.
Wieboldt Stores, Inc.

Here are two of the reserve titles used:

"Federal income taxes on the accrual basis, less amount payable in succeeding year on collection basis included in current liabilities." (Spiegel, Inc.)

"Reserves (estimated) for such Federal and State taxes as may have been paid upon accrued profits, as they are realized, on installment contract notes receivable outstanding." (The S. S. White Dental Mfg. Co.)

The following excerpt from a footnote illustrates a complex tax reserve:

"The Federal income tax returns of Pullman Incorporated and its other subsidiaries have been examined and approved through the year 1937. The returns for the years subsequent to 1937 are now being examined by the Bureau of Internal Revenue, and it is possible that this examination may result in assessment of additional taxes. No accurate estimate of the amount of these possible additional assessments can be made at this time, and no specific reserve therefor has been provided in the accounts. However, there is included in the Reserve for Federal and State Tax Contingencies amounts aggregating $7,157,575 at December 31, 1948 and $6,842,545 at December 31, 1947, which represent tax provisions of prior years in excess of the amounts payable on the returns filed for those years, plus certain refunds on taxes of prior years which were credited directly to this reserve account when received; also the offsetting credits against certain claims for refunds were placed in this reserve (See Note B above). The balance in the Reserve for Federal and State Tax Contingencies may therefore be considered as a general reserve against any assessments of Federal or state taxes which may be levied and sustained by the Courts, in addition to those that may be taken care of out of The Pullman Company funds prior to the sale of that Company and subject to settlement procedures provided for in the Closing and Escrow Agreements."

Reserve for Warranties

Nash-Kelvinator Corp. in 1947 showed a "Reserve for five year warranty on refrigerators." In the 1948 report the term "reserve" was omitted.

Foreign Operations

The following reserves of the preceding year were not shown in 1948:

"Possible losses due to foreign exchange adjustments" (Dictaphone Corp.)
"Rehabilitation of foreign business" (to surplus—Ingersoll-Rand Co.)
"Losses arising from operations in foreign countries" (to surplus—Sharp & Dohme, Inc.)
"Sundry reserves of foreign subsidiaries" (Pepsi-Cola Co.)

There were several instances where reserves connected with foreign operations were newly mentioned in 1948:

"Investments in foreign subsidiaries" (The Sherwin-Williams Co.)
"Exchange" (International Nickel Co. of Canada, Ltd.)

Employee Benefit Reserves

Endicott Johnson Corporation reserved $1,500,000 of earned surplus for employees' recreational and welfare facilities under construction.

Other new reserves were:

(1) "For retirement and group insurance costs" (R. J. Reynolds Tobacco Co.—A retirement and insurance investment fund consisting of treasury stock was shown on the asset side at a $1 valuation).

(2) "For estimated cost of past service benefits under pension plan, payable subsequent to December 31, 1949" (from earned surplus—Pratt & Lambert, Inc.)

(3) "Venezuelan pension plan" (charged to income—Gulf Oil Corp.)

Miscellaneous

Other reserves no longer shown on the liability side of the balance sheet in 1948 were:

"Wage adjustments" (The E. Kahn's Sons Co.—to surplus)
"Advertising and sales promotion" (Libbey-Owens-Ford Glass Co.)
"Miscellaneous operating reserves" (Houdaille-Hershey Corp.)
"Officers and employees profit-sharing bonus" (West Virginia Pulp & Paper Co.)
Pending litigation (Skelly Oil Co.)
Contract adjustments and indeterminate expenses resulting from wartime conditions (Boeing Airplane Co.)
Collection of installment accounts sold (Sears, Roebuck & Co.)

Other new reserves consisted of:

Employees' bonus—unawarded balance (General Motors Corp.)
Redemption of scrip certificates (The Yale & Towne Mfg. Co.)

Contingency Reserves and Reserves for Possible Future Inventory Price Declines—How Created or Increased

As in the two previous years, the tabulations on these two types of reserves are presented jointly for the two following reasons:

(1) The two reserves are often joined in one title, both in the balance sheet or in the charge increasing such reserves (e.g., "inventories and other contingencies").

(2) A reserve for contingencies shown on the balance sheet is often described by the president of the corporation as covering possible future price declines, or mention is made that the contingency provision is for such purpose.

An attempt was made in tabulating the changes in these reserves to distinguish between the two types, and each will be mentioned below in discussing the various 1948 treatments.

The most impressive factor in the study of changes in these reserves during the year 1948 was (1) that over half of the reports tabulated showed at least one of these two types, and (2) that in a great many reports there was no change during the year in such reserves.

1948	1947	1946	
9	27	52	Charge against income prior to the determination of "net income for the year."
28	53	36	Charge after the determination of net income but prior to the determination of a net balance carried to surplus, or
5			Charge made at the end of the income account but with wording of items or subtotals either omitted or so vague that it was not clear whether the provision was considered to be a charge before net income or an appropriation after net income was determined.

26	15	11	Charge made to earned surplus.
9	4	15	Charge made to other reserve or liability account.
23	26	14	Increase in contingency or inventory reserve apparent but no indication of surplus charge or appropriation of net income.
1	..	..	Exploration costs capitalized with corresponding credit to contingency reserve.
3	..	..	Charge made in statement of disposition of net income.

The effects of Accounting Research Bulletins No. 28, "Accounting Treatment of General Purpose Contingency Reserves" (July 1947) and No. 31, "Inventory Reserves" (October 1947) are evident in that charges to surplus increasing each of these types of reserves in 1948 were more than twice as numerous as charges prior to net income for the year. This situation should be contrasted with the figures for the two preceding years when charges prior to net income were many times more numerous than they were in 1948.

Charges Before Net Income

Such charges were fairly evenly divided between contingency and inventory price decline provisions.

Of the five reports tabulated in which charges increasing contingency reserves were made in the income statement prior to net income for the year, four seemed to be of a minor nature not materially affecting net income for the year. No exception was taken to these four treatments by the auditors. Here are amounts of the five contingency provisions and the related amounts of net income for 1948:

Name of Company	Contingency Provision	Net Income
Texas Gulf Sulphur Co.	$ 400,000	$24,231,158
Lone Star Cement Corp.	67,084	7,755,541
Coca-Cola Corp.	1,250,000	35,594,169
Phillips Petroleum Corp.	819,917	72,630,997
The International Nickel Co. of Canada, Ltd.	3,000,000	33,503,466

The auditors of International Nickel Company of Canada, Limited, took exception to the contingency provision shown above as follows:

"During the year 1948 the Company made a provision for contingencies in the amount of $3,000,000 by a charge against earnings. This treatment follows the Company's accounting practice during 1947 and in earlier years. An Accounting Research Bulletin of the American Institute of Accountants recommends that provisions for general contingency reserves should not be included as charges in determining net earnings.

"We report that we have obtained all the information and explanations we have required and that, in our opinion, the financial statements and the notes thereto are properly drawn up so as to exhibit, in conformity with generally accepted accounting principles except as indicated above applied on a basis consistent with that of the preceding year, a true and correct view of the state of the combined affairs of The International Nickel Company of Canada, Limited and its wholly owned subsidiary companies at December 31, 1948 and the results of their operations for the year according to the best of our information and the explanations given to us and as shown by the books of the companies."

One of the most interesting of the inventory charges prior to net income was that found in the report of Allied Chemical and Dye Corporation. This charge was in an amount to cover "increased costs incurred during the year to replace inventory items on hand at the beginning of the year," and was adopted in conjunction with an accelerated depreciation policy.

(For other charges before net income see American Wringer Co., Inc., The Curtis Publishing Company, Marshall Field & Co.)

Appropriations at Foot of Income Statement

The reader is referred to the discussion in a later section on Accounting Research Bulletin No. 35, "Income and Earned Surplus."

Wording of Subtotals Omitted or Vague—Net Income Not Clearly Designated

Here are a couple of examples:

(1)

"Federal, State & Foreign Taxes on Income	xxx
[Undesignated amount]	xxx
Provision for contingencies	xxx
Net Income to Earned Surplus	xxx"

(2)

"Provision for Federal and foreign taxes on income	xxx
[Undesignated total]	xxx
Income before special reserves	xxx
Deduct—Special Reserves:	
For increased replacement cost of facilities	xxx
For possible inventory price declines, foreign losses and other contingencies	xxx
Balance of income	xxx"

Charge Made to Other "Reserve" or Liability Accounts

Certain charges made to other accounts were used to increase contingency reserves. The accounts most often affected were those representing tax liabilities. For example:

(1) "The provision for federal income taxes and contingencies was reduced by $1,000,000 and $4,000,000 restored to earned surplus in 1948 and 1947, respectively, and by $1,500,000 transferred to reserve for contingencies in 1948." (Footnote—The Sperry Corporation)

(2) "The charge against reserve for contingencies represents $6,315,004 excess cost of inventories replaced in 1948 which were involuntarily liquidated in prior years less $68,000 transferred from the reserve for annuities granted representing the change in the estimated refunded portion of such annuities." (Footnote—The Gulf Oil Corp.)

Charges to Surplus

An instance where a change was made in a long-established policy of charging provisions for possible future price declines to income was found in the 1948 report of Deere & Company. The president discussed this change as follows:

"The 1948 provision for possible future price declines and obsolescence in inventories has been charged to surplus. From 1915 through 1946, it was the company's consistent practice to charge such provisions to income. The method of reporting in 1948 and 1947 conforms with the current pronouncements of the accounting authorities of the country. If the 1948 provision of $4,000,000 had been charged to income, as in the period from 1915 through 1946, the 1948 income would have been $23,681,997, or $7.16 per common share instead of $27,681,997 or $8.49 per common share, as shown in this report."

Contingency and Possible Future Inventory Price Decline Reserves—How Decreased

While transfers to surplus were by far the most common method by which both contingency and future inventory price decline reserves were reduced, there were a considerable number of instances (1) in which items were charged directly to contingency reserves, and (2) where the decrease in the contingency or inventory reserve was not fully accounted for in the report.

1948	1947	1946	
16	20	30	Credits to cash, inventory, or other asset or liability accounts with direct charges to reserves
2	5	5	Credits in the income statement appearing before the determination of net income for the year
6	7	13	Credits appearing in the income statement after the designation of net income for the year resulting in a balance carried to surplus, or
1			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
41	32	20	Credits to earned surplus
4	7	8	Credits to other reserve accounts
3	2	9	Credits to income statement described or shown as offsetting specific expenses included therein
17	8	5	Decrease in contingency or inventory reserve apparent but no indication of where credited
..	1	..	To "other accrued liabilities"
2	2	..	To current liability (for additional prior year taxes)
1	..	..	Cancellation of reserve by Board of Directors
1	..	..	Adjustments made to opening surplus balance
3	..	..	Credits to Capital Surplus

Contingency Reserves—Decreases in

Below is a listing of the types of items (with examples) charged to "contingency" reserves, of which prior year taxes and renegotiation were the most common:

Taxes and/or renegotiation rebates (Willys-Overland Motors, Inc.)
Prepaid expenses and deferred items (Lone Star Cement Corp.)
Patterns, drawing, dies (American Locomotive Co.)
Current year's research cost (United Shoe Machinery Corp.)
Fixed assets reduced to tax basis (Lawrence Portland Cement Co.)
Past service pension cost (The Coca-Cola Co.)
Litigation (Paramount Pictures, Inc.)
Cost of replacing involuntarily liquidated inventories (Gulf Oil Corp.)
Exploration, royalties and prior year taxes (Texas Gulf Sulphur Co.)

In two instances in which portions of contingency reserves were transferred to the income account, the following types of expenses were offset:

Expansion program (Sharp & Dohme, Inc.)
Loss on remaining war and postwar inventories (Bausch & Lomb Optical Co.)

An additional instance in which the reserve for contingencies was used to offset expenses in the income statement was described in the following footnote:

"The company, by charges against income in the war period, created a reserve for contingencies to meet deferred costs related to that period and to provide for reconversion of facilities for postwar years. As in the years 1945 to 1947, inclusive, the company, in 1948, incurred costs and expenses in abnormal amounts for product and process development, and plant changes incident thereto, which were deferred during the war period. The company has estimated the amount which it considers abnormal and not applicable to current production to be $675,000 after the related reduction of $425,000 in income taxes. Accordingly, $675,000 has been credited to the income account from the reserve for contingencies." (Remington Arms Co., Inc.)

The George E. Keith Co. reduced the reserve for contingencies by transferring a portion thereof to the income statement prior to net profit.

In connection with the reversal of a reserve for contingencies as in addition to, but after the determination of, the net earnings for the year, the auditor's report expresses a preference for the treatment recommended in Accounting Research Bulletin No. 35 as follows:

"During the year 1948, the reserve for contingencies was reversed. This reversal is reported in the accompanying statement of net earnings as an addition to, but after the determination of, the net earnings for the year. While this method of reporting has been recognized in the past, the committee on accounting procedure of the American Institute of Accountants recently has recommended that items of this nature should not be shown in the statement of net earnings, but should be dealt with only in the statement of net earnings retained for use in the business. In our opinion, such treatment would have been preferable in this case." (Arundel Corp.)

Pullman Incorporated indicated a change in accounting policy due to the pronouncements of the SEC and the AIA.

"In order to conform the 1948 accounts to recent recommendations by the Securities and Exchange Commission* and by the Committee on Accounting Procedure** of the American Institute of Accountants, that any application in a current fiscal period of credit from a reserve set up out of Income in previous fiscal periods, be effectuated by the transfer of such credit to the Surplus Account, the Reserve credit of $1,000,000 first applied in the Income Account of the Second Quarter of 1948, has now been transferred as of December 31, 1948 to Surplus Account." (Pullman Incorporated—President's letter)

* SEC Survey Report issued in December 1948.
** Bulletin No. 35 issued in October 1948.

The Dwight Manufacturing Co. increased its appropriation of profits for replacement of plant by a transfer thereto of a reserve for "inventories, contingencies, etc."

The Food Machinery Corp. transferred a portion of its reserve for contingencies to its provision for federal income taxes to provide for additional tax liability for periods prior to December 31, 1945.

A rather unusual treatment was followed by three companies who transferred contingency reserves to capital surplus. In the case of the Hayes Manufacturing Corp., the reserve had been originally provided from capital surplus by a subsidiary. (Also see Allied Stores Corp. and Lawrence Portland Cement Co.)

Reserve for Possible Future Inventory Price Declines—Decreases In

Only two companies showed reductions in inventory reserves in the income statement before the figure of net income for the year. The following footnotes indicate the policies followed:

(1) "Note 4—Reserves for Postwar Rehabilitation and Contingencies:
Changes in the reserves during 1948 were:

	Reserves for Postwar rehabilitation	*Reserves for Contingencies*
Balance at beginning of year	$327,000	$851,000
Restoration to profit and loss of all or portion of reserves	(327,000)	(111,000)
Balance at close of year	....	$741,000

"Additional charges and losses of the nature contemplated when the postwar rehabilitation reserves were provided out of earnings in 1944 and the previous years were incurred during 1948 by the several companies. To the extent of the reserve remaining at the beginning of the year such items, representing abnormal personnel training expenses, pre-opening expenses of postwar store locations and losses in connection with store closings and rehabilitation, have been shown separately in the consolidated statement of earnings and a special credit of $327,000 has been made to earnings by transfer of the remaining balance of the postwar rehabilitation reserves.

"In 1946 certain consolidated subsidiaries provided $110,000 out of earnings for anticipated declines in the prices of certain materials used in manufacturing. Such declines occurred in 1948 and have been reflected with other costs of sales in the accompanying consolidated statement of earnings and the $110,000 previously provided has been restored to 1948 earnings by a transfer from the reserves for contingencies where it was classified in the consolidated accounts at the end of the previous year." (Rexall Drug, Inc.)

(2) "During prior years the Company made provisions for possible inventory shrinkage in connection with studies relative to establishment of a reserve to reduce the inventory prices of certain raw materials to amounts equivalent to a last-in, first-out basis, based on prices during 1945. In 1948 the reserve has been adjusted to the approximate amount indicated as such studies are substantially completed." (Footnote, The Sherwin-Williams Company—Single-step income statement shows $500,000 reduction of inventory reserve in first section)

Of the three companies which showed transfers from inventory reserves in the income statement after net income, one had a fiscal period ending prior to the issuance of Accounting Research Bulletin No. 35. The other two were Colgate-Palmolive-Peet Co. and Craddock-Terry Shoe Corp. (11/27/48).

Simmons Company eliminated its reserve for possible decline in inventory values and other contingencies ($597,500) by reclassifying $307,500 as current liabilities, and by transferring the balance of $290,000 to earned surplus.

The A. E. Staley Manufacturing Co. and Wheeling Steel Corp. restated their 1947 income statements, thereby eliminating reserves for possible future price declines. This treatment was described in footnotes as follows:

"Out of earnings of 1947, an estimated reserve of $2,500,000 was provided to absorb the adverse effect of anticipated downward movements of corn and soy-bean prices. The losses sustained as a result of such downward price movements were less than had been anticipated and were absorbed in 1948 operations, and accordingly the aforementioned reserve was eliminated from the accounts. This has had the effect of increasing by $2,500,000 the amount previously reported as net profit for 1947." (A. E. Staley Mfg. Co.)

"The amounts shown for 1947 have been restated to give effect to a provision of $1,323,582 for accrued vacation wages, resulting from recent legal interpretations of labor agreements, less estimated income tax reduction of $530,000. Such provision represents a charge to profit and loss in 1947 in addition to the vacation wages actually paid in that year.

"In addition, pursuant to authorization of the Board of Directors on February 22, 1949, the appropriation of $2,000,000 made in 1947 for possible future inventory price declines has been cancelled, in order to conform to currently accepted accounting practices, and the statements previously published for 1947 have been revised accordingly." (Wheeling Steel Corp.)

Use of Term "Reserve"

Accounting Research Bulletin No. 34, "Use of Term 'Reserve'" (Oct. 1948), recommended that certain uses of the term "reserve" be abandoned in both the balance sheet and income statement.

Of the 525 reports tabulated, 131 reports substituted other terms for "reserve" in relation to doubtful accounts, while 171 used other wording for "reserve" for depreciation. The tabulations below indicate the various substitute words and phrases used.

"Reserve" for Doubtful Accounts

70	Allowance for doubtful accounts (possible losses) (losses on collection)
25	Provision for doubtful accounts (bad debts) (uncollectibles) (possible losses) (accounts which may prove uncollectible)
13	Estimated uncollectible accounts (amounts)
8	Estimated losses on (in) collection
8	Estimated doubtful accounts (balances)
1	Estimated bad debts
1	Accounts receivable, considered collectible
1	Deduction for estimated doubtful receivables
1	Net of allowances
1	Less amount not recoverable—estimated
1	Less estimated claims and allowances
1	Less estimated amounts which may not be collectible
131	

"Reserve" for Depreciation

63	Allowance for depreciation
52	Depreciation
34	Accumulated depreciation
5	Provision
5	Accrued depreciation
4	Estimated depreciation
2	Depreciation provided
2	Portion allocated to operations to date
2	Wear and exhaustion
1	Depreciation to date
1	Reduced by the estimated cost of wear and tear (depreciation)
171	

Current Liabilities

The term "reserve" was not used very often with respect to current liabilities. Here are a few instances that were noted:

Reserve for replacement cost of pattern discards (McCall Corp.)
Reserve for renegotiation refund applicable to the year 1945 (The Glenn L. Martin Co.)
Reserve for modification costs on delivered commercial airplanes (The Glenn L. Martin Co.)
Reserve for contingencies (Park & Tilford, Inc.)
Reserve for workmen's compensation, self-insurance, etc. (General Aniline & Film Corp.)
Reserves for cooperative advertising & service warranties (Bendix Home Appliances, Inc.)
Reserve for accrued liabilities (The Buckeye Steel Castings Co.)
Reserve for federal income taxes (Bethlehem Steel Corp.)
Reserve for research and development less segregated cash in banks (A. O. Smith Corp.)
Reserve for estimated loss on shipbuilding contracts—net (Bath Iron Works Corp.)
Reserve for vacation pay (Jones & Lamson Machine Co.)

Traditional "Reserve" Section (Above Net Equity)

There was little change in the use of the term "reserve" in the traditional "reserve" section of the balance sheet below current liabilities and above the net equity section. Under the heading of "Reserves" in this "twilight zone" of the balance sheet liabilities and surplus appropriations were generally not differentiated. However, some companies avoided using the term "reserve" in connection with non-current items which other companies often designated "reserves." For example:

"Estimated allowances to customers payable later than one year from date" (Blaw-Knox Co.)
"Provision for rebuilding furnaces & repairs" (Blaw-Knox Co.)
"Provision for compensation insurance claims, not payable during 1948" (Bridgeport Brass Co.)
"Liability for past service annuity premiums" (Continental Can Co., Inc.)
"Five-Year Warranty on Refrigerators" (Nash-Kelvinator Corp.—in previous year this item was headed as "reserve")
"Provision required to give effect to the normal base stock method of inventory" (Endicott Johnson Corp.—formerly classed as a reserve)

In 1947 the National Cash Register Co. showed the following balance sheet reserve section:

"Reserves:
Deferred taxes on installment income
General and contingent
Foreign contingencies"

In the 1948 report there was no reserve section or term "reserve" used, "deferred taxes on installment income" being shown in current liabilities, and an item "appropriated for contingencies" being shown under "stockholders' equities."

Here are a few treatments where surplus appropriations were shown above the net equity section:

(1) "Reserves:
Pension & death and disability benefits . . .
Group life & other insurance . . .
Appropriations of earned surplus:
Possible future price declines & obsolescence in inventories
Contingencies . . .
Total reserves . . ."
(Deere & Co.)

(2) "Surplus Reserves:
Future inventory price decline . . .
Fire insurance & flood loss, etc. . . ."
(Harbison-Walker Refractories Co.)

(3) "Reserves:
Insurance . . .
Prior years income taxes not finally determined . . .
Contingencies . . .
Appropriated from net profits:
For inventory price adjustment . . .
For replacement of capital assets at current costs . . ."
(International Paper Co.)

(4) "Special Reserves:
Appropriation for Excessive Costs of Fixed Assets . . ."
(Liggett & Myers Tobacco Co.)

(5) "Reserves:
Insurance Reserves . . .
For Replacement of Depleted Normal Inventories . . .
Other Reserves . . .
Surplus Reserves:
For Contingencies . . .
For Possible Inventory Price Decline . . .
For Losses on Unusual Property Disposals . . .
Total Reserves . . ."
(The Borden Co.)

(6) "Reserve for Employees' Pension . . .
Appropriation for Extraordinary Depreciation .
Appropriation for Inventory Decline . . ."
(Sunshine Biscuits, Inc.)

(7) "Reserves: . . . $8,755,083.04"
Balances of reservations from earnings and surplus for self-insurance $3,266,669.39
and for contingencies $5,488,413.65"
(United Shoe Machinery Corp.)

(8) "Reserves:
For contingencies, etc. (includes surplus reserve $495,000) . . . 539,656.40"
(Weston Electrical Instrument Corp.)

Surplus Section

Twenty-six reports were noted in which earned surplus reserves were shown in the net equity section. The following listing will give some idea of the variety of these reserves, in addition to those related to inventories, contingencies and plant replacement:

(1) "Reserve for percentage of income depletion" (Alabama Fuel & Iron Co.)
(2) "General reserve" (American Viscose Corp.)
(3) "Appropriated as reserve for building fund" (The Billings & Spencer Co.)
(4) "Appropriated . . . for investment in Ruston Bucyrus Ltd. . . ." (Bucyrus-Erie Co.)
(5) "Reserve for special service benefits" (Byron Jackson Co.)
(6) "Appropriated:
  For possible extraordinary losses from abandonment of property . . .
  For possible losses from revaluation of inventories . . .
  For increased cost of property replacement . . ."
 (The Champion Paper & Fibre Co.)
(7) "Appropriation for plant improvements . . . Appropriated for replacement of plant . . ." (Dwight Manufacturing Co.)
(8) "Reserved for:
  Contingencies . . .
  Employees' recreational & welfare facilities . . .
  Replacement cost of plant & equipment (Note 2) . . .
  Future payments under retirement plan (Note 4) . . .
  Self-insurance . . ."
  (Endicott Johnson Corp.)
(9) "Appropriated for contingencies on account of unusual market conditions & other contingencies"
  (Rice-Stix Dry Goods Co.)
(10) "Earnings Employed in the Business:
  Appropriated for:
   Inventory price decline . . .
   Contingencies . . .
   Payment of interest & sinking fund on subordinated debentures . . .
   Cost of retirement of $3,299,600 stated value of $6 Cumulative Convertible Prior Preferred Stock and $3,371,500 par value of 7% Cumulative Preferred Stock . . .
  Unappropriated . . ."
   (Armour & Co.)

While Accounting Research Bulletin No. 34 recommended that use of the term "reserve" be limited to indicating that an undivided portion of the assets is being held or retained for general or specific purposes (e.g., possible future inventory losses or general contingencies), it was noted that where such types of reserves were shown in the earned surplus section of the balance sheet, the term "appropriated" was often used.

Wording of Tax Provision—Income Statement

A special study on the wording of the tax provision in the income statement disclosed that in none of the 525 tabulated reports was the word "reserve" used in this connection (see Accounting Research Bulletin No. 34, "Use of Term Reserve").

1948	
325	"Provision for . . . . ."
75	"Federal Income Taxes"—"Income Taxes"—no qualifying word(s)
67	"Estimated Federal Taxes"—"Federal Taxes Estimated"
31	"Provision . . . . (estimated)"
1	"Allowance for . . . . ."
19	No tax provision shown
7	No income statement presented
525	

Wording of Federal Income Tax Current Liability

1948	
113	"Accrued . . . "
13	"Accrued . . . estimated"
1	"Accrual for . . ."
116	"Provision . . "
8	"Provision . . . estimated"
1	"Provision for taxes accrued"
114	No qualifying words (e.g., just "Federal taxes")
76	"Estimated . . ."
6	"Estimated liability . . ."
67	"Reserve . . ."
9	No provision shown
1	"Liability for . . ."
525	

Disclosure of Long-Term Leases in Financial Statements of Lessees

Sixteen reports for 1948 were noted in which there were references to the use of long-term leases. Seven of these were in the reports of companies in the retail field. In this retail group, three companies leased properties from subsidiaries (Allied Stores Corp.; W. T. Grant Co.; Safeway Stores, Inc.)

Disclosures of sale-and-lease arrangements were about evenly distributed between the footnotes and the president's letter.

Four footnote disclosures are illustrated below. (See also W. T. Grant Co.; Safeway Stores, Inc.; Canada Dry Ginger Ale, Inc.; Wieboldt Stores, Inc.)

(1) "On March 1, 1948, the Company sold the Koppers Building in Pittsburgh, Pa., to The Equitable Life Assurance Society of the United States for $6,000,000 and took back a net lease for a thirty-year term with options to renew the lease for four additional ten-year periods. The profit of $2,260,913 on the sale was credited to earned surplus. The first year's net rental under the lease is $375,000 and each succeeding year's net rental for the initial thirty-year term is $3,750 less than the last preceding year. The net rental for the first renewal period is $150,000 per annum and for each additional renewal period is $120,000 per annum. In addition, the Company is to pay taxes, insurance, repairs, maintenance and alterations. At the expiration of the twentieth lease year, the Company has the option of terminating the lease by making an offer, which the lessor is free to reject, to purchase the leased property at a price of $3,000,000." (Koppers Co., Inc.—note is keyed to reference thereto on the balance sheet).

(2) "In connection with a sale during the year of a bakery property and prior sales of two similar properties, the company has leased the properties from the purchasers under twenty year leases at net rentals aggregating $582,000.00 per annum." (Sunshine Biscuits, Inc.)

(3) "At July 31, 1948 the Corporation had 63 leases having terms of more than three years from that date. The rentals under these leases for the year ending July 31, 1949 amount to a minimum of $2,608,000 plus, in certain instances, real estate taxes and increased amounts based on percentages of sales. These leases are for varying terms of years and most of them have renewal privileges." (R. H. Macy & Co., Inc.)

(4) "Since 1945 the company or one of its subsidiaries has entered into long-term leases (30 to 35 years) for 23 factory sales and service branches. The companies have the right to purchase the properties after certain specified periods (generally five years from the date of the lease).

"In all cases the rental payments and purchase prices decline gradually over the terms of the leases. The annual rentals on such properties will amount to $326,641 for 1949, exclusive of taxes, insurance, maintenance, and repairs which are also payable by the companies. If all of the rights to purchase were exercisable at the present time the aggregate purchase price would amount to approximately $4,540,000.

"In addition, at December 31, 1948, the companies were lessees under 17 leases having terms extending more than three years (but not more than ten years) from that date. The maximum annual rental requirements thereunder aggregated $86,651." (Fruehauf Trailer Company)

The following excerpts illustrate variations in the amount of information provided in the president's letter. (See also reports of Marshall Field & Co.; Western Auto Supply Co.; Marathon Corp.; Crown Zellerbach Corp.)

(1) "During the years 1946, 1947 and 1948 the Company sold land and buildings thereon under 'sale and lease' agreements whereby the purchasers leased the properties to the Company for terms varying from 20 to 25 years with options to the Company to extend the leases for varying periods at substantially reduced rentals. Under the leases the Company is liable for the upkeep of the properties and for taxes and insurance." (Notes)

". . . As a result, an arrangement was made in 1946 with the New York Life Insurance Company under which it agreed to purchase up to $10,000,000 of new plants (land and buildings only) that the Company might acquire or construct prior to December 31, 1948. In each case such plants are leased back to the Company for an initial term varying from 23 to 25 years depending upon when the plant is purchased by the insurance company. Such leases further provide for extending the term for two successive ten-year periods at the Company's option. In 1948 this arrangement was extended to December 31, 1949 and the amount increased up to a total of $12,000,000.

"Last year new plants at Portland, Ore., Paterson, N. J., and Tonawanda, N. Y., were transferred to the insurance company. In addition, as mentioned in our 1947 report, a new plant at Utica, N. Y., was sold in 1947 under a somewhat similar agreement with others. At December 31, 1948, plants of a value of approximately $9,000,000 had been sold and leased back under these arrangements with the insurance company and others." (Continental Can Co., Inc.—President's letter)

(2) "The funds required to finance the expansion program during the year were provided from earnings and from the sale of retail store properties. To avoid having too much of the Company's capital invested in land and property improvements, as well as to aid in financing the expansion program, again in 1948 selected retail store properties were sold to insurance companies and leased back by the Company at moderate rentals on long-term leases. Property sales totaled $23,570,884." (Sears, Roebuck & Co.)

(3) "The principal elements of fixed plant and equipment costs are rents and depreciation. As additional units are acquired, total rental costs increase. The Company continues from time to time to sell real estate and take back long term leases on such properties. While such transactions provide additional working capital, they result in increased rental costs.

"Many of the store properties are occupied under lease arrangements which provide for stated minimum rents plus bonus rentals based on a percentage of volume in excess of agreed-to amounts. Such bonus rentals vary in amount from year to year as the sales of such stores fluctuate upward or downward. In periods of expanding sales volume, the Company's rental costs are increased by such arrangements. On the other hand, these bonus rents decrease automatically if sales volume declines thereby contributing to the necessary expense reduction requirements of such a period.

"Rentals for the year amounted to $8,272,006 of which $356,301 was paid to Alstores Realty Corporation, a nonconsolidated subsidiary. Of the total rent payments, $2,628,950 represented bonus rentals payable on sales volume obtained in excess of the stated minimum amounts provided for in the leases.

"The increase in the Company's investment in fixed plant and equipment has been in the store fixtures and equipment and the improvements to leased property classifications. These require relatively high percentage provisions for depreciation. Provision for depreciation for the year, $2,684,755, was $853,209 greater than for the previous year." (Allied Stores Corp.)

Section 3: INCOME STATEMENT

Title of Certified "Income Statement"

The trend away from the use of the title "profit and loss statement" was continued in 1948 statements. Seventy-five fewer companies were using the words "profit and loss" in 1948 than in 1946. The most widely used titles were "income statement" or "statement of income."

The new titles which were substituted in 1948 by companies formerly using the words "profit and loss" were fairly evenly divided between "income statement" and three other titles. These three other titles, together with the number of companies adopting each in 1948 are shown below:

11 Statement of earnings or earnings statement (See Appendix—Nos. 12, 92, 175, 273, 311, 322, 348, 489, 492, 493, 496)
9 Statement of operations (See Appendix—Nos. 17, 21, 120, 179, 203, 238, 290, 436, 502)
6 Statement of net earnings (See Appendix—Nos. 59, 87, 150, 330, 336, 355)

The various titles used during the last three years and the number of companies using each are:

1948	1947	1946	
105	126	160	Statement of profit and loss or profit and loss statement
31	36	51	Statement of profit and loss and (earned) surplus (including substitute terms for earned surplus)
139	138	127	Income statement or statement of income
82	70	62	Statement of income and (earned) surplus (including variations in earned surplus terminology)
23	29	33	Income account
23	14	6	Statement of earnings or earnings statement
16	7	4	Statement of operations (and earned surplus)
13	12	13	Summary of income
10	4	..	Statement of net earnings
9	9	6	Summary of income and earned surplus
9	11	..	Profit and loss account
8	10	..	Profit and loss
6	7	4	Summary of profit and loss
6	7	6	No income statement presented
4	5	..	(Condensed) statement of income and profit and loss
4	2	..	Earnings
4	4	..	Statement of net income
4	4	..	Results of operations
4	3	..	Statement of income and expenses
3	3	4	Income and profit and loss
3	5	..	(Consolidated) income (and surplus)
2	2	..	Summary of earnings
2	1	..	Statement of profit
2	4	7	Income and (earned) surplus account
1	1	..	Income account and earned surplus
1	1	..	Income and expense account
1	1	..	Statement of loss
1	1	..	Income, costs and changes in earned surplus

1948	1947	1946	
1	1	..	Statement of profits and losses on liquidation and expenses
1	1	..	Summary of profit
1	1	..	Summary of profit and loss statement
1	2	..	Summary of net income
1	3	..	Condensed statement of gross profit and net earnings
1	..	..	Earnings and summary of earnings employed in the business
1	..	..	Income and accumulated earnings
1	..	..	Income and unappropriated earned surplus
1	..	..	Summary of net earnings and earnings retained for use in the business
		42	Unclassified variations
525	525	525	

Other Titles

A few interesting titles were noted in companies not included in the above tabulations:

"Statement of Income and Deficit" (Market Street Railway Co.)
"Statement of Loss and Surplus" (Wayne Pump Co.)
"Statement of Net Loss" (Carr-Consolidated Biscuit Co.)

Form of Certified Income Statement

Since 1946 there has been a gradual trend toward the single-step form, although the multiple-step form of income statement is still the most common.

For purposes of this analysis, the single-step form was considered to be the separate grouping of all income items, followed by a separate grouping of all costs and expenses, the total of the latter being deducted from the total of the former without the use of any other subtotals or intermediate balances prior to net income for the year.

There were a number of income statements which incorporated certain features of the single-step form, yet varied in other respects. For example, the single step form might be followed except for the fact that an "Other Income" classification might be added at the end of the statement rather than being grouped with other revenue items.

1948	1947	
339	357	Multiple-step form
96	81	Single-step form
43	42	Single-step form with exception of income-tax provision (or credit) deducted (or added) separately
18	16	Single-step form with exception of income-tax provision and other item(s) deducted (or added) separately at end of statement
7	7	Single-step form with exception of items other than income-tax provision (exclusive of appropriations) shown at end of statement
15	14	Abbreviated—beginning after "gross profit" item—not classified
7	8	No income statement
525	525	

A good example of the multiple-step form is the 1948 income statement of the U. S. Hoffman Machinery Corporation. (See figure 12)

In contrast to the above is the single-step form adopted in 1948 by Libby, McNeill & Libby. (See Figure 13)

Volume of Business

There was very little change in the manner of presenting the sales figure. About 9 per cent of the companies tabulated did not disclose the sales figure in either 1947 or 1948. "Net" sales was the figure with which most income statements began.

1948	1947	1946	
46	46	53	Sales or revenues not reported
7	7	..	No separate income statement
351	354	..	Sales or revenues reported—net
29	29	..	Sales or revenues reported—gross
80	77	..	Sales or revenues reported—net or gross not indicated
12	12	..	Sales or revenues reported—both gross and net
525	525		

The National Cash Register Company changed its practice ot recording sales from the time of shipment from the factory to the time of installation by local branch offices.

Figure 12. U. S. Hoffman Machinery Corporation

UNITED STATES HOFFMAN MACHINERY CORPORATION AND SUBSIDIARIES

Summary of Consolidated Income

Nine Months Ended September 30, 1948 and 1947, and Comparison

	1948	1947 (See Note 7)	INCREASE *DECREASE**
Net sales	$14,233,493	$18,857,275	*$4,623,782**
Cost of goods sold	10,297,199	13,754,560	*3,457,361**
Gross profit on sales—See Note 5	$ 3,936,294	$ 5,102,715	*$1,166,421**
Selling, administrative and general expenses	2,932,076	3,236,463	*304,387**
Profit from operations, before deducting depreciation and amortization	$ 1,004,218	$ 1,866,252	*$ 862,034**
Other income credits:			
Interest on instalment accounts, etc.—See Note 1	$ 188,257	$ 128,115	$ 60,142
Other	107,678	59,415	48,263
Total	$ 295,935	$ 187,530	$ 108,405
Gross income, before deducting depreciation and amortization	$ 1,300,153	$ 2,053,782	*$ 753,629**
Provision for depreciation and amortization of physical property	559,355	450,845	108,510
Gross income	$ 740,798	$ 1,602,937	*$ 862,139**
Income charges:			
Interest on bank loans, etc.	$ 184,139	$ 147,616	$ 36,523
Provision for:			
Doubtful accounts receivable		100,042	*100,042**
Obsolete and inactive material	75,000	18,000	57,000
Other	77,617	61,032	16,585
Total	$ 336,756	$ 326,690	$ 10,066
Net income prior to taxes, etc.	$ 404,042	$ 1,276,247	*$ 872,205**
Provision for Federal and foreign income taxes (estimated)—See Note 5	157,674	505,888	*348,214**
Net income for period	$ 246,368	$ 770,359	*$ 523,991**

The accompanying Notes to Financial Statements are an integral part of this statement.

Figure 13. Libby, McNeill & Libby

LIBBY, McNEILL & LIBBY

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

For the Fiscal Year February 28, 1948 to February 26, 1949

(Consolidating all Domestic and Canadian Subsidiaries)

NET SALES, including service revenues	$153,574,246	
Dividends received from foreign subsidiaries	342,864	
Other income—net	142,527	
Total		$154,059,637
LESS:		
Cost of sales and services	$127,731,595	
Selling and administrative expenses	17,249,253	
Contributions to Pension Trusts	1,111,545	
Net charge due to replacement in current year of "Lifo" inventories involuntarily liquidated during the war	330,228	
Interest on debentures	434,095	
Other interest	394,384	
Federal income taxes	2,668,584	
Other income taxes	330,020	
Total, including $2,448,259 depreciation		150,249,704
NET INCOME FOR THE YEAR		$ 3,809,933
Earned surplus, February 28, 1948	$ 16,556,377	
ADD:		
Reduction in accrual for prior years' Federal income taxes	1,500,000	
Net adjustment due to replacement in prior years of "Lifo" inventories involuntarily liquidated during the war	136,107	18,192,484
		$ 22,002,417
DEDUCT:		
Appropriation to Reserve for Price Declines	$ 1,500,000	
Dividends paid—75 cents per share	2,720,989	4,220,989
Earned surplus, February 26, 1949		$ 17,781,428

(See accompanying notes)

Figure 14. Bethlehem Steel Corporation

CONSOLIDATED INCOME STATEMENT	1948	1947
REVENUES:		
Net billing value of products shipped and other services	$1,312,556,417	$1,032,337,825
Interest, dividends and other income	2,632,119	2,518,619
TOTAL REVENUES	$1,315,188,536	$1,034,856,444
COSTS APPLIED TO BILLINGS AND OTHER SERVICES SHOWN ABOVE:		
Employment costs:		
Wages and salaries	$ 491,452,930	$ 411,406,096
Social security and other employee benefits	11,066,239	10,204,817
Pensions	3,544,738	6,430,543
	$ 506,063,907	$ 428,041,456
Materials, supplies, freight and other services	612,230,352	483,934,150
Depreciation and depletion	30,222,602	25,463,456
Interest and other charges	4,905,423	3,925,219
State, local and miscellaneous taxes	14,193,692	11,403,788
Federal income taxes	57,225,000	31,000,000
TOTAL	$1,224,840,976	$ 983,768,069
NET INCOME	$ 90,347,560	$ 51,088,375

Thompson Products Inc. keyed the figure for sales to a note on the possibility of renegotiation.

International Harvester Company showed sales to subsidiaries as a separate item.

Three companies mentioning in the income statement the types of deductions made before arriving at the net sales figure did so as follows:

"Net Sales—Gross Sales less Returns, Allowances, Freight Out and Certain Sales Taxes . . . " (Western Auto Supply Co.)

"Gross sales of trucks and cars, less allowances, discounts, returns, federal excise and state sales taxes . . . " (Diamond T. Motor Car Company)

"Net Sales (including $— to unconsolidated subsidiaries and affiliated companies; and after deducting returns, customer adjustments, discounts, etc.) . . . " (Reynolds Metals Co.)

Wages and Salaries (Employment Costs)

The trend noted last year towards increased disclosure as supplementary information of total wages and salaries was continued in 1948. Charts and uncertified statements showing the expenditure for wages and salaries were the most common methods of disclosure.

Five companies changed the form of their certified income statements so as to show employment costs separately, in most cases abandoning the traditional term "cost of goods sold." (See companies 29, 83, 102, 133, 348). Twenty-four companies are now following this practice in their certified income statements.

1948	1947	1946	
306	320	391	Employment costs not shown
194	184	122	Shown as supplementary information by means of uncertified statements, pie charts, or graphs, or mentioned elsewhere in the president's letter
24	19	10	Shown as a separate cost in the certified income statement
1	2	2	Shown parenthetically in the certified income statement
525	525	525	

The form adopted during 1948 by Bethelehem Steel Corporation for their certified income statement is illustrated in Figure 14.

The income statement of Clyde Porcelain Steel Corporation differed from the above in that the term "cost of products sold" was retained but broken down as in Figure 15.

Companies other than those tabulated which showed employment costs in the certified income statement were:

The Peoples Gas Light & Coke Co.
Underwood Corp.
Colt's Manufacturing Co.
Toro Manufacturing Corp. of Minnesota

Cost of Past Service Pension Credits

During 1948 there was a considerable reduction in the number of companies which wrote off the cost of past service pension credits to earned surplus. This perhaps can be attributed to the issuance of Accounting Research Bulletin No. 36, "Pension Plans-Accounting for Annuity Costs Based on Past Services" in November, 1948, in which the committee on accounting procedure of the American Institute of Accountants rendered the opinion that:

"(a) Costs of annuities based on past services should be allocated to current and future periods; provided, however, that if they are not sufficiently material in amount to distort the results of operations in a single period, they may be absorbed in the current year.

"(b) Costs of annuities based on past services should not be charged to surplus."

1948	1947	
28	22	Not separately shown but indicated in the footnotes or president's letter to be included in costs and expenses

Figure 15. Clyde Porcelain Steel Corporation

CLYDE PORCELAIN STEEL CORPORATION

Statement of Profit and Loss
For the Year Ended December 31, 1948

SALES AND OTHER INCOME:		
Appliance assembly	$ 2,444,213.79	
Porcelain products	3,072,262.04	
Miscellaneous	598,604.20	$ 6,115,080.03
COSTS AND EXPENSES:		
Costs of products sold—		
Plant wages and salaries	$ 3,402,000.88	
Materials, services and other costs	2,314,328.23	
Plant depreciation ($107,254.47) and amortization of tools and dies	143,747.91	
	$ 5,860,077.02	
Administration and general expenses	373,622.75	
Purchase and sales discounts, interest ($26,792.35), etc. (net)	22,340.76	6,256,040.53
Net loss before special loss deduction and Federal income tax credit		$ 140,960.50
SPECIAL LOSS DEDUCTION (Note 1)		509,792.73
Net loss before Federal income tax credit		$ 650,753.23
FEDERAL INCOME TAX CREDIT representing refundable portion of prior years' taxes by reason of carry-back of operating loss		315,800.00
Net loss transferred to earned surplus		$ 334,953.23

9	11	Combined with current pension costs, total thereof shown as a separate amount in the income statement
11	8	Shown separately as an operating expense
1	2	Remaining cost provided for in full by provision in income statement
..	1	Shown as last item in income statement after tax provision but before "net profit"
1	1	Included in income statement as pensions are paid
12	11	Charged to pension reserve
2	1	Transfer from contingency reserve to income statement in respect of past service cost or direct charge to contingency reserve
2	9	Charged to earned surplus
1	..	Payment charged after "income for year" in combined income and surplus statement, less one-tenth charged to income (West Virginia Pulp and Paper Company)
1	..	One-tenth of total cost of past service pensions charged to surplus, remainder set up as a deferred asset (Universal Leaf Tobacco Company, Inc.)
68	66	

The auditors of West Virginia Pulp and Paper Company took exception to making a charge to surplus, referring to Accounting Research Bulletin No. 36, "Pensions Plans—Accounting for Annuity Costs Based on Past Services," as follows:

"As explained in Note B to the financial statements, past service pension costs paid in 1948 under an extension of the pension plan in the amount of $4,976,079 were charged to income reinvested or retained in the business. This follows the policy adopted in the year ended October 31, 1947 when the unamortized cost of past service under the group annuity plan for salaried employees was charged to income reinvested or retained in the business. While this has been a recognized practice in the past, the accounting procedure committee of the American Institute of Accountants has now expressed a preference to allocate items of this character to future operations.

"In our opinion, except as stated in the preceding paragraph . . ."

While noting the inconsistency in practice between 1948 and 1947, the auditors of the May Department Stores Co. approved a change of policy which conformed with the recommendations of Accounting Research Bulletin No. 36:

"The accounting principles followed by the companies during the year have been consistent with those of the preceding year, except that payments of $867,534 under the employees' retirement plans applicable to services of prior years have been charged against earnings, whereas during the year ended January 31, 1948 such payments were charged against accumulated earnings retained in the business. If the payments under the plans had been charged to earnings for the preceding year, the reported net earnings of $17,231,481 applicable to the shares of the parent company would have been reduced by $518,790.

"It is estimated that the aggregate amount which may ultimately be paid in future years in respect of such services for prior years, if the plans continue, will approximate $4,850,000." (Footnote)

"The accounting principles followed by the companies during the year have been consistent with those of the preceding year, except that payments under the employees' retirement plans applicable to services of prior years have been charged to earnings, whereas in the prior year such payments were charged to accumulated earnings retained in the business; this change, which has our approval, is explained in Note G to the financial statements." (Auditor's report) (Also see Universal Leaf Tobacco Co. Inc.)

The president of Plymouth Cordage Company indicated that it had been decided to charge past service contributions to current operations rather than to "accumulated surplus" as previously planned.

American Viscose Corporation charged a special payment to the pension fund trustee in the income account prior to "profit for the year." The auditors' report commented on this treatment as follows:

"In 1948 the corporation charged to income $3,370,000 paid during the year for 'past service' pension costs which under the method previously followed would have been paid in installments and charged to income over several future years.

"In our opinion, the financial statements with the appended explanatory notes present fairly the position of American Viscose Corporation and its subsidiaries at December 31, 1948 and the results of their operations for the year in conformity with generally accepted accounting principles applied on a basis consistent, except as mentioned in the preceding paragraph, with those applied in the revised statements (printed herewith) for the preceding year."

An amendment to the retirement plan of Twentieth Century-Fox Film Corporation extending the funding period for past service costs to 40 years was described as follows:

"The retirement plan of the Corporation and its domestic subsidiaries (except the National Theatres group which has its own plan) was amended in 1948 so as to extend the period over which past service costs are to be funded from 11 years to 40 years, and to reduce the maximum annual salary on which benefits are to be computed from $50,000 to $30,000. As a result the cost of the plan in 1948 has been reduced to $1,485,500 as compared with the cost in 1947 of $2,214,600."

While the committee on accounting procedure of the American Institute of Accountants recommended that costs of annuities based on past services should be allocated to current and future periods, it further stated that it did not intend that its recommendations should require a change in policy calling for charges to income rather than charges to reserves previously provided. Twelve companies of the 525 tabulated are currently charging payments for past service annuity costs to reserves which have been set up, generally, by charges to earned surplus in prior years. In 1948 Pratt & Lambert, Inc., adopted a plan, effective as of January 1, 1948, whereby such a reserve was set up by a charge to surplus with the 1948 premium payments being charged thereto. The estimated premium to be paid in 1949 was shown as a current liability.

An interesting treatment of past service pension cost was that followed by American Bank Note Company. Charges were made in a combined income and surplus statement before the opening earned surplus balance under the heading "Income deductions" for "Appropriation for Pensions" and "Payment to Trustee under Employees' Pension Plan" and were described by the president as follows:

"During 1948 the company appropriated for employees' pensions a total of $576,220 of which $138,000 was paid to the Trustee under its Employees' Pension Plan on account of services rendered during the year. Of the remaining $438,220, representing approximately 20% of the estimated single sum cost of funding benefits for services rendered prior to the effective date of the Plan, $219,120 was paid to the Trustee under the Plan and $219,100 was added to appropriated surplus for employees' pensions. The latter amount has been added to appropriated surplus in order to insure that the company will receive the full tax benefit when it is ultimately paid to the Trustee. This appropriation reflects the continued belief that provision should be made for the funding of such past service benefits as rapidly as conditions permit. The subsidiary companies appropriated $106,280 for employees' pensions during the year."

The policy followed by Universal Leaf Tobacco Company, Inc., in regard to a plan which went into effect on January 1, 1948, was of interest because it was one of the few instances noted where the portion of the initial payment representing the cost of past service premiums was set up as a deferred asset. However, approximately one-tenth of the estimated total cost of accrued past service annuities was charged to surplus, rather than to the income statement.

The Wm. Wrigley, Jr., Company amended and liberalized their employees' retirement income plan in 1948. The complete cost of past service benefits was paid to an insurance carrier and was charged to accumulated earnings. A footnote stated that "while the statement of consolidated earnings is thus relieved of charges for annual portions of this payment, which for income tax purposes, must be spread over a period of approximately seven years, the effect on net earnings is not material for 1948 and should not be material in the future."

Allocation of Income Taxes

An aggregate decline in the total number of allocations, especially those involving charges and credits to reserve accounts, was noted in 1948 reports.

This was in part due to the almost complete elimination of war and postwar reserves and the return to normal peacetime production. Most of the 1948 allocations connected with charges to reserves arose from the payment of past service pension costs.

In the statistics below will be found information as to the various methods of handling allocations in the income statement.

In Accounting Series Release No. 53, the Securities and Exchange Commission indicated that it favored one of two alternative methods of presenting the tax effect of items charged to surplus and to a deferred-charge account. The presentation favored by the SEC was to show the tax provision at the actual amount legally due, and to include a charge in the income statement for a portion of the extraordinary item equal in amount to the tax reduction resulting therefrom. The presentation rejected was the showing of the tax provision as if the item in question were not deductible for tax purposes. Both of these methods were followed in 1948 reports as will be seen in the tabulations above.

When the presentation wherein the tax provision was shown as if the item charged to surplus were not deductible for tax purposes, Accounting Research Bulletin No. 23, "Accounting for Income Taxes" (December 1944) recommended that the estimated actual tax liability be clearly shown. It was found, however, that, where this method of presentation was used, in most cases the amount of taxes legally due was not specifically stated. Sometimes the item not charged or credited in the income statement was indicated in a surplus or reserve reconciliation to be "net of taxes," but there was generally no further indication to the reader not familiar with tax allocation that the provision for taxes in the income statement was not the amount legally payable.

1948	1947	
		Charges to Reserve, Net of Tax Effect
1	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 (The Lambert Co.)
3	4	Provision for income taxes shown as if charge were not deductible for tax purposes, the total amount of tax estimated to be legally due for the year or the tax effect of the special charge being indicated in a footnote (Marshall Field & Co.)
1	2	Amount equal to the 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." (General Electric Co.—footnote)
1	1	Tax effect of credit to reserve stated in footnote (Stewart-Warner Corp.)
		Charges to Surplus, Net of Tax Effect
4	10	Provision for income taxes shown as if charges were not deductible for tax purposes but amount of tax legally due not indicated either in the income statement or in footnotes (in two of the 1948 reports the tax effect was shown as part of wording of the surplus charges—Hazel-Atlas Glass Co.; Interstate Bakeries Corp.)
2	4	Separate charge included in the income statement equal to the tax reduction (Standard Brands, Inc.)
1	2	Provision for taxes shown in income statement as if charge were not deductible for tax purposes, but total amount of tax estimated to be legally due for the year indicated in footnote (The Yale & Towne Mfg. Co.)
		Credits to Surplus, Net of Tax Effect
6	5	Provision for taxes shown in income statement as if surplus credit were not taxable, and amount of tax legally due not indicated either in the income statement or in footnotes. (In all of the 1948 reports, however, the specific amount of the tax offset was stated in describing the surplus credit.) (Burlington Mills Corp.)
2	3	Provision for taxes shown in income statement as if surplus credit were not taxable, but total amount of tax estimated to be legally due for the year indicated in footnote (Koppers Co., Inc.)
1	..	Amount equal to tax reduction credited separately in the income statement after tax provision stated at amount legally payable (Sharon Steel Corp.)
1	..	Net adjustment due to replacement in prior year of LIFO inventories involuntarily liquidated during the war (Libby, McNeill & Libby)
1	..	Tax effect of capital surplus credit deducted separately from income statement provision (Park & Tilford, Inc.)
		Other Allocations
10	10	Extraordinary or non-operating costs or profits net of related tax

1948	1947	
		effect shown in the income statement before "net income," usually following the provision for federal income taxes, the latter being shown as if the extraordinary items were not deductible for tax purposes. (In three instances the charges preceded the provision for federal income taxes—Monsanto Chemical Co.; International Paper Co.; Colonial Stores, Inc.)
..	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 provision 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 Mfg. Corp.)
1	1	Reduction in current income taxes, resulting from payments for past service annuities previously charged to surplus reserves, treated as a general expense in the income statement and added to surplus (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 in fully amortized emergency facilities, transferred to the income statement (The W. L. Maxson Corp.)
1	..	Foreign subsidiaries reinstated. Portion of recovery equivalent to tax effect thereof credited to income—not clear where remaining credit was entered (General Motors Corp.)
3	..	Mention of difference between taxable and reported income (General Motors Corp.)
1	..	Difference in federal income taxes between LIFO and FIFO methods deferred (Caterpillar Tractor Co.)
1	..	Portion of loss on subsidiary bankruptcy equal to tax effect on 1948 return transferred to income and credited to investment account (Northrup Aircraft, Inc.)
1	..	Prior year adjustments less related taxes shown after net income (Scovill Mfg. Co.)
1	..	Excess of inventory reduction upon replacement of basic LIFO inventories over tax refund shown before federal income tax provision (California Packing Co.)
1	..	Extraordinary write-off of development expenditures charged off net of prior year tax provisions—after earnings from operations (California Packing Co.)
1	..	Tax effect of repairs and standby expense charged but not spent credited to tax provision (Corresponding debit apparently to reserve) (American Window Glass Co.)
1	..	"Deferred adjustments for federal taxes" (asset) adjusted for deductibility for tax purposes of prior year past service payment, losses and expenses charged to reserve, and non-deductibility for tax purposes of depreciation on fully amortized facilities (Revere Copper & Brass Inc.)

Accrual of Vacation Allowances

Twelve reports were noted in which there was disclosure of a change in policy with respect to vacation payrolls during 1948. These twelve companies had formerly accrued vacation allowances in the year in which paid. Because of changes in labor agreements and legal interpretations they decided to accrue vacation payrolls during the period in which employees were deemed to qualify for vacations. Nine of the twelve companies were in the steel industry.

The methods of making this change are described below:

1 Actual payments made in 1948 together with the accrual for 1949 were charged to the 1948 income statement—no reference to these changes appeared in the related auditors' reports. (See Companies 126, 187, 364, 401, 438, 501, 525)

2 Vacation wages earned in 1947 and paid in 1948 together with vacation wages paid

in 1947 were charged retroactively against 1947 income statements shown in the 1948 annual report. The estimated wages payable in 1949 were accrued in the 1948 statements. No references to this practice appeared in the auditors' reports. (See Companies 284, 517)

3 Vacation wages now considered earned in previous year were charged to surplus. In one report (Bethlehem Steel Corporation) the auditor noted and approved the change. (See also Companies 50, 256)

Republic Steel Corporation discussed its policy on vacation pay or allowances in a footnote as follows:

"The Corporation has followed the policy of considering vacation pay or allowances to be earned in the year in which they were paid, and has charged such payments to income of the year. During the year 1948, the principal labor agreement of the Corporation was re-examined and interpretations made of the provisions regarding vacation pay or allowances to determine if any cause existed to change the established policy. It was determined that no change was required; however, if upon further study and interpretation of the agreement, the policy is changed to recognize that such payments or allowances are earned in whole or in part in the year preceding the year in which payment is made, then it is considered that the retroactive charge therefor would be properly applicable to earned surplus. If a change in policy had been adopted for the year 1948, the effect on net income of the year would not have been significant."

Accelerated Depreciation and Plant Replacement Charges

The great majority of industrial corporations have made no change in their depreciation policies over the past several years.

Changes which have occurred have been limited to about 4 per cent of the number of corporations whose reports have been tabulated. The companies which did make changes were, in general, large corporations.

1948	1947	
21	17	Charge made prior to net income: 16—accelerated depreciation policy—no exception taken in auditor's report 3—charge stated to be in excess of amount allowable for tax deduction—no exception 1—exception to charge taken by auditor 1—special provision—no exception
14	22	Charge made as an appropriation of net income
11	5	Charge made directly to earned surplus
479	481	No increased charge shown
525	525	

Trend to Accelerated Depreciation

In last year's study, eleven auditors' reports stated that their clients had deviated from generally accepted accounting principles in making charges in the income statement because of excessive construction costs either already incurred or expected in the future.

In 1948, eight of these eleven companies adopted an accelerated depreciation policy which they applied retroactively to prior year(s); one company transferred the previous year's "appropriation" to earned surplus, making no such "appropriation" in the current year (California Packing Corp.); another made no charge in the current year, with the accountant again taking exception to the previous year's entry (Hercules Powder Co.); and the remaining company in 1948 showed the charge after net profit rather than in cost of sales as in the previous year, the 1948 auditor's report closing with "applied on a basis consistent with that of the preceding year." (Libbey-Owens-Ford Glass Co.)

In all, sixteen companies were noted which are now using variations of the accelerated plan, to which none of the auditors concerned have expressed disapproval.

Fourteen of these sixteen companies provided increased charges only on facilities acquired in the postwar period, there being considerable variations both in the starting date and in the formulae used in computing such additional charges.

The other two companies provided increased charges on all facilities based on the relationship between current plant activity and activity during a base period (Bigelow-Sanford Carpet Co., Inc., and General Railway Signal Co.)

Chrysler Corp. and General Motors Corporation continued policies adopted in 1947, while R. J. Reynolds Tobacco Company made no reference to the 1947 additional depreciation charge on account of the excessive construction cost of 1947 plant additions shown in that year's statement.

Three companies indicated that the depreciation charges in the income statement were in excess of the amounts allowed for tax purposes:

Sears, Roebuck & Company
Scovill Mfg. Company
Struthers Wells Corporation

The following excerpts from 1948 reports provide information on the accelerated depreciation policies adopted during the year:

(1) American Locomotive Company

"Like many other companies American Locomotive Company has found that depreciation allowances made in the past, based on original cost, have been inadequate to cover the cost of new facilities at present prices. Unlike many other companies, however, we have replaced a substantial part of our plant during the past eight years when $26,000,000, representing about half the cost of existing facilities, was spent—principally at Schenectady.

"Depreciation policies with respect to these newly acquired facilities recognize a greater risk of obsolescence through technological changes in both the tools we use and the products we make. The effect has been to accelerate depreciation charged to cost in income statements. During 1948, $1,882,000 was set aside for depreciation and obsolescence.

"Because your company retired completely from the production of steam locomotives during the year 1948, the value of patterns, drawings and dies was deleted from the Property Accounts through a charge of $1,760,000 to a reserve provided out of earnings in previous years to meet contingencies of this kind." (President's letter)

(2) American Viscose Corporation

"DEPRECIATION—In 1948 the corporation adopted, retroactive to January 1, 1947, the practice of accelerating the amortization of expenditures for plant facilities during the earlier years of their lives. The annual acceleration is 10 per cent of the expenditures in the year in which made and 10 per cent in the succeeding year except that the sum so determined for any year will be adjusted ratably as the average operating rate may vary between 90 and 80 per cent of capacity, no acceleration being made when operations are at 80 per cent or less of capacity. The accelerated amortization is in addition to the normal depreciation on such facilities but the total provision made over their expected lives will not exceed cost.

"The accelerated amortization of $3,980,000 for 1947 and $4,500,000 for 1948 is included in the depreciation charges to costs and expenses of those years and in the depreciation deduction from cost of plant assets. This accelerated amortization has not been taken into account in computing the provision for taxes on income." (Footnote)

(3) Allied Chemical & Dye Corporation

"Consistent with redistribution made of $10,000,000 provision for contingencies charged to income in 1947, which we approve, income of 1948 has been similarly charged with $4,775,854 for accelerated depreciation of postwar additions to Property Account, $3,231,156 for increased costs incurred during the year to replace inventory items on hand at beginning of year, and $1,500,000 for other costs applicable to the year." (Certificate)

"The provision for general contingencies of $10,000,000 charged to income in 1947 has been redistributed as follows: $3,581,969 representing accelerated depreciation on postwar additions has been transferred to depreciation reserve and $3,918,031 representing increased costs incurred to replace inventory items on hand at beginning of year disposed of during year has been transferred to inventory reserve; the remaining $2,500,000 to cover other costs applicable to the year has been left in the contingency reserve. Similar provisions out of 1948 income for accelerated depreciation of $4,775,854 and for inventories of $3,231,156 have been credited to depreciation and inventory reserves, and provision of $1,500,000 for other costs has been credited to contingency reserve. Total inventory reserves at end of 1948 have been deducted from Inventories." (Footnote)

"Accelerated depreciation on postwar additions to property account represents 5% of aggregate expenditures therefor in current and preceding year. In future, if operating rate declines, acceleration will be reduced ratably down to zero in event operating rate falls to 70% or less; total accelerated and normal depreciation over life of the facilities will not exceed cost thereof. The deductions from Gross Income enumerated above aggregating $9,507,010 have not been included as deductions for purpose of arriving at the amount of Federal Income Taxes for the year." (Footnote).

(4) Bigelow-Sanford Carpet Company, Inc.

"Effective January 1, 1947, the company with our approval changed its policy regarding depreciation so that, without change in estimated useful lives of the assets and resulting average rates of depreciation, it is recognizing variations in the annual rate of activity. The average annual rate of activity during the ten-year period ended December 31, 1940 has been used as a base and in comparison therewith the activity in the year 1948 results in depreciation of $563,280 in addition to that calculated on the basis used in 1946 and prior years.

"In our opinion . . . " (Auditor's report)

(5) E. I. du Pont de Nemours & Company

"Excessive Construction Costs and Accelerated Depreciation

"In 1947 the Company made provision for excessive construction costs in the amount of $20,900,000 which was deducted from net operating and other income in arriving at net income for the year. When certifying the financial statements the independent public accountants took exception to this deduction, stating '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.

"With concurrence of the independent public accountants the Company has adopted a policy effective from January 1, 1948, under which the cost of postwar constructed facilities, some of which came into production prior to 1948, is being depreciated at accelerated rates during the early years of production when their economic usefulness is greatest. In consequence the 1948 provision for depreciation and obsolescence includes $17,915,821 accelerated depreciation. The amount of accelerated depreciation has not been deducted in computing the provision for Federal taxes on income. The reserve for excessive construction costs set aside in 1947 is being held intact." (Footnote)

" . . . in conformity with generally accepted accounting principles applied on a basis consistent, except as stated in Note 6 to the financial statements, with that of the preceding year." (Certificate)

(6) General Railway Signal Company

"It is the policy of the company to depreciate fixed assets over their estimated useful lives. Effective January 1, 1948, however, instead of the straight-line method heretofore used, it has been decided to allocate depreciation over future years based upon activity of each year as related to 'normal' activity. For this purpose the average activity for the 20 years ended December 31, 1948 is $95,721 in excess of what the charge would have been if the previous policy had been continued." (Footnote)

(7) International Shoe Company

"During the year the International Shoe Company adopted a depreciation rate on a recent property addition which will result in writing off over a shorter period than usual abnormal construction costs. The amount of such additional depreciation for the year 1948 is not material.

" . . . in conformity with generally accepted accounting principles applied on a basis which is consistent in all material respects with that of the preceding year." (Certificate)

(8) Johnson & Johnson

"With our approval, the accounting policies regarding depreciation have been changed, as explained in Note 3 of the notes to financial statements, so that, in addition to normal depreciation, accelerated depreciation is charged on additions to buildings, machinery and equipment since December 31, 1945." (Certificate)

"Note 3. Normal depreciation is being charged at regular rates over the total estimated lives of the assets.

"Accelerated depreciation on cost of new buildings constructed and equipment installed by domestic companies since December 31, 1945, has been calculated for the years 1946, 1947, and 1948, in order to charge to the early years of their use the effect on such cost of the increases in price levels since December 31, 1945, based on published indices. Such accelerated depreciation is equivalent to a full year's normal depreciation in the year of construction or installation and in each of the two succeeding years. The amount is not deductible in determining current Federal income tax. Resulting adjustments for prior years reduce earned surplus as at December 31, 1947, by $25,000, and earned surplus as at December 31, 1946, by $235,000."

(9) National Steel Corporation

"In 1948 a special provision in the amount of $10,500,000 has been included in costs and expenses for accelerated depreciation on new facilities installed during the years 1946, 1947, and 1948, which is in addition to the normal depreciation. The method adopted in 1948 takes into consideration, among other things, the high rate of operations and the desirability of charging off a portion of the abnormally high costs during the early life of the assets. In making the method retroactive to cover additions since January 1, 1946, the amount of $3,500,000 provided in 1947 to compensate partially for higher cost of replacements, has been considered as applicable thereagainst, leaving a balance of $10,500,000 to be charged against income in 1948. This change in method, which we approve, had the effect of reducing income by the amount of $10,500,000 for the year 1948 (also $3,500,000 for 1947) below what the income would have been if no change had been made in the method of providing for depreciation prior to 1947. In other material respects the principles of accounting maintained by the companies during the year were consistent with those of the preceding year.

"In our opinion, the accompanying balance-sheet and statements of profit and loss and surplus present fairly the consolidated financial position of National Steel Corporation and its consolidated subsidiaries at December 31, 1948, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles." (Certificate)

(10) Republic Steel Corporation

"As set forth in the annual report for 1947, the corporation included in its costs and expenses and as a deduction in determining net income, the amount of $4,000,000 as a provision for excess cost of property replacements. During the year 1948 the corporation continued its study of the depreciation problem and adopted the policy, which has our approval and is effective retroactively to January 1, 1947, of providing for accelerated depreciation (not treated as deductible for federal income tax purposes) on property additions constructed after January 1, 1946. No change is required to be made in the net income for the year 1947, as the accelerated depreciation for that year is approximately equal to the provision of $4,000,000 previously made for excess cost of property replacements, and the technical exception which we made for the year 1947 relative to generally accepted accounting principles is therefore removed. Accelerated depreciation charged against income of the year 1948, amounted to $7,000,000, which had the effect of reducing income by that amount below what the income would have been if no change had been made in the method followed in providing for depreciation prior to 1947. In other respects, the principles of accounting maintained by the companies during the year were consistent with those of the preceding years.

"In our opinion . . . ." (Certificate)

(11) Sun Oil Company

"The Company has adopted a policy effective as of January 1, 1947, which provides for an acceleration of depreciation of a portion of the cost of postwar facilities over the period when the economic usefulness is greatest, with depreciation of the balance of cost over the full operating life. Accordingly, there have been included in operating expenses the amounts of $7,000,000 in 1948, and $4,800,000 in 1947, for additional depreciation required over and above the amounts provided on the basis of normal rates. In the accompanying comparative statement of income, the results of operations for 1947 have been restated to give effect to the accelerated depreciation policy, and the additional depreciation expense for that year was computed to be approximately equal to the amount of $4,800,000 previously appropriated from net income as a reserve for the replacement of fixed assets. The accelerated depreciation method has the concurrence of the Company's auditors . . . . as conforming with generally accepted accounting principles, but the additional expense resulting therefrom has not been considered an income deduction in computing the current provision for federal income taxes." (Notes)

(12) Timken Roller Bearing Company

"The principles of accounting maintained by the companies during the year were consistent with those of the preceding periods except for a change in the method of providing for depreciation. In 1948 the Company adopted a method of providing for accelerated depreciation on facilities acquired since January 1, 1946, which results in charging a greater portion of the abnormally high costs against the earlier years for the use of the facilities. This change in method, which we approve, had the effect of reducing income for the year by the amount of $1,249,081 below what it would have been had there been no change in the method of providing for depreciation followed prior to the year 1947. The special provision of $1,250,000 for the year 1947, referred to in the annual report for that year, has been used to apply the new method retroactively to January 1, 1946." (Certificate)

(13) United States Steel Corporation

"During the year 1948 (as stated in the notes to the accounts) the Corporation adopted a policy, which we approve, of accelerating depreciation on the cost of new facilities retroactive to January 1, 1947. Under this policy the accelerated depreciation for the year 1947 is $28,975,094 or $2,675,094 more than the amount reported for the year as depreciation added to cover replacement cost. The amount of $55,335,444 provided for accelerated depreciation in 1948 includes this adjustment of $2,675,094. In all other respects the accounting principles were applied during the year on a basis consistent with that of the preceding year.

"In our opinion . . . " (Certificate)

"*Wear and Exhaustion of Facilities*. A method of accelerated depreciation on cost was adopted in 1948, as explained on pages 4 and 5, and was made retroactive to January 1, 1947. Wear and exhaustion of facilities in 1948 includes accelerated depreciation of $55,335,444, including a deficiency of $2,675,094 in the amount of $26,300,000 reported in 1947 as depreciation added to cover replacement cost. Such accelerated depreciation is not presently deductible for Federal income tax purposes.

"The accelerated depreciation is applicable to the cost of postwar facilities in the first few years of their lives, when the economic usefulness is greatest. The amount thereof is related to the excess of current operating rate over U. S. Steel's long-term peacetime average rate of 70 per cent of capacity. The annual accelerated amount is 10 per cent of the cost of facilities in the year in which the expenditures are made and 10 per cent in the succeeding year, except that this amount is reduced ratably as the operating rate may drop, no acceleration being made at 70 per cent or lower operations. The accelerated depreciation is in addition to the normal depreciation no such facilities but the total depreciation over their expected lives will not exceed the cost of the facilities." (Footnote)

(14) Universal-Cyclops Steel Corporation

"As stated in the note on page 7, the company changed its method of computing depreciation, effective January 1, 1948. This change, which we approve, resulted in an increase of $152,488 in the depreciation provision for the year 1948 and a corresponding decrease in net income for the year.

" . . . applied on a basis consistent with that of the preceding year, except for the change in method of computing depreciation referred to in the preceding paragraph." (Certificate)

"Note: Method of Computing Depreciation:

"Effective January 1, 1948, the company adopted a method of providing for depreciation on buildings, machinery, and equipment by (1) computing an amount at fixed rates on the straight-line basis (as used for income tax purposes) plus (2) 5% per annum of gross additions to these properties in the year of installation and in the year following, and (3) increasing or decreasing the sum of the amounts determined under (1) and (2) according to a sliding scale which provides for a maximum increase or decrease of 50%. The sliding scale is based upon the rate of plant activity measured by comparing current year's sales with a ten-year moving average of dollar sales volume."

Other Treatments

The California Packing Corporation changed its policy from the previous year to conform with the position of the American Institute of Accountants. The president discussed such changes as follows:

"It is generally acknowledged that accepted rates of depreciation, based on historical costs and estimated useful lives of assets, do not provide sufficient recognition in current operating statements of the increased replacement costs of long-term facilities which are being worn out or exhausted in production. Your management feels that an amount of approximately $1,300,000 should have been provided for this purpose with respect to the current year. However, in view of the position taken by the American Institute of Accountants and the Securities and Exchange Commission that such an appropriation may not be charged against income, no appropriation has been made during the current year; furthermore, the amount of $1,250,000 provided the previous year has been restored to unappropriated earnings." (President's letter)

A similar conformity with Bulletin No. 33 is described by the president of Armstrong Cork Company:

"Your Company's midyear report issued August 20, 1948 showed this inadequacy of depreciation for the first six months of 1948 as a deduction from the net profit before transfer of the remainder of the profit to earned surplus. Late in 1948, following discussions with representatives of various regulatory bodies, the American Institute of Accountants' Committee on Accounting Procedure issued a statement disapproving the practice of showing such an item as a deduction from current profits. This Committee recommends that if provision is made for the replacement of existing low-cost fixed assets at current high costs, it be reflected in the financial statements by direct charges to earned surplus. Accordingly, in this report for the full year 1948, your Company has shown the inadequacy of the accrued depreciation charges for machinery and buildings by a charge to earned surplus in the amount of $2,185,000. It is an arresting fact that this reserve of $2,185,000 is equivalent to $3,524,000 of earnings before income taxes at current rates. The regular depreciation charge for 1948 was $3,918,931." (President's letter)

Acme Steel Company stated that:

"Because of the present high replacement costs, some companies charge additional amounts for depreciation of buildings and machinery over and above amounts allowable on income tax returns. Your Company after consideration of this problem does not believe that such action is warranted in its case and the depreciation shown in the income statement is in conformity with the amount used for income tax purposes." (Footnote)

Pittsburgh Steel Company did not feel that it should take additional depreciation. The president said:

"Provision for depreciation and depletion was made in the amount of $1,924,922 compared to $1,813,965 in the previous year. This Provision was determined by the application of normal rates, notwithstanding the fact that, under today's conditions, machinery and equipment that must be purchased to replace fully depreciated and worn-out units cost from two to three times as much as they did prior to 1940.

While some companies in the industry are providing for this factor by taking additional depreciation, it is our opinion that, until such time as the Department of Internal Revenue recognizes such extra depreciation as a proper deduction for income tax purposes or until such time as the American Institute of Accountants changes its policy of adhering to the general concept of depreciation on original cost, this Company should not take such additional depreciation. However, we are deeply impressed with the necessity of maintaining adequate cash reserves to enable the Company to meet this additional burden in making necessary replacements and other capital expenditures."

The Caterpillar Tractor Company, in addition to discussing the question of depreciation on replacement values, provided a dollar estimate of the difference between depreciation figured on replacement value and on original cost:

"Basis of Allocating Cost of Facilities to Operations

"The generally accepted accounting principle followed with respect to buildings, machinery and equipment is the allocation to each year's operations of a proper portion of the *original* cost of these facilities based upon their expected useful service life. In accordance with that principle there was allocated to 1948 operations the amount of $3,777,800. The plant assets currently in use by the Company were, however, acquired over many years at cost levels which varied from year to year and which were lower than the levels of current costs. The portion of the original cost of these assets allocated to 1948 and used in determining profit was therefore substantially lower than it would have been if the allocation had been based on current replacement cost. It is contended by many recognized authorities in the fields of accounting, business and economics that business income should be determined by making provision for depreciation of capital assets on the basis of their current replacement cost. Use of such a basis is not presently regarded as a generally accepted accounting principle nor is it available for purposes of federal income tax determination. Had this basis been adopted for 1948 with respect to the properties summarized on statement 6, it is estimated that the depreciation charge allocated to the year would have been increased by approximately $1,500,000, and on the assumption that such increased depreciation would have been allowable for tax purposes, the reported profit after income tax woud have been reduced by about $930,000." (Footnote)
[See president's letter, J. J. Newberry Co., for similar estimate.]

The auditors of Hercules Powder Company, in the 1948 report took an exception to the deduction of a reserve for excessive construction costs from fixed assets, and to charging a provision therefore to income in 1947 as follows:

"The reserve for depreciation includes approximately $1,300,000 representing the portion of the provision for depreciation in 1947 equivalent to construction costs in that year which were deemed excessive. Inasmuch as charging this amount to income in 1947 is considered by us not to be in accordance with generally accepted accounting principles, this portion of the reserve for depreciation, in our opinion, should not be deducted from fixed assets but should be treated as a surplus reserve and included in the reserve section of the company's consolidated balance sheet.

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

The auditors of American Asphalt Roof Corporation took exception to the charging against operations of an additional provision computed on replacement cost as follows:

"The net income for the years 1948 and 1947, as shown by the accompanying statement of operations, is after 'additional provision for estimated cost of wear and exhaustion of facilities computed on the basis of present replacement cost.' According to presently accepted accounting principles, the foregoing 'provisions' are appropriations of income invested in the business, instead of charges against operations.

"In our opinion, subject to the exception indicated in the preceding paragraph . . . "

Reporting of Earnings Per Share in the President's Letter When Appropiation (or Reversal Thereof) Was Shown as the Last Deduction (or Credit) in the Income Statement

The appropriations tabulated below were mainly for general contingencies, possible future inventory price decline, or plant replacements. Only three credits from such reserves were included.

Accounting Research Bulletin No. 35, "Income and Earned Surplus," stated that items excluded from the determination of net income under Bulletins 28, 31, 32, and 33 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 amounts shown on the income statement after the deduction or addition of such charges or credits.

While there were a good many reports which in 1948 showed appropriations after net income, the number was considerably less than in the preceding year, with a noticeable reduction in the number of reports in which the president's letter reported earnings per share based on the balance after the deduction of appropriations.

1948	1947	
474	452	No such appropriation shown
		Appropriations shown:
19	45	Earnings per share based on balance after appropriation
14	10	Earnings per share quoted on both "net income" and balance remaining after appropriation

9	8	Earnings per share based on amount of net income
5	1	Earnings per share not quoted, but net income reported by the president
3	3	No earnings figure quoted by the president
1	6	Earnings per share not quoted, but amount after appropriation mentioned by the president
525	525	

The following excerpt from the 1948 report of Colgate-Palmolive-Peet Company illustrates the reporting of earnings per share both before and after transfers to and from reserves for inventory price declines:

"Net income for the year 1948 amounted to $7,557,450 or $3.56 per share of common stock. In addition, the reserve for inventory price decline was reduced by $4,250,000, which amount added to net income made a total of $11,807,450 or $5.69 per share transferred to earned surplus. In 1947 the balance of net income, after deducting an appropriation of $3,750,000 for the reserve for inventory price decline, was $19,014,494 or $9.30 per share. Net income for 1948 was unfavorably affected by the decline in sales, generally increased operating expenses and the absorption of losses arising from the decline in the market price of fats and oils.

	1947		1948	
	Amount	*Per Share*	*Amount*	*Per Share*
Net income	$22,764,494	$11.17	$ 7,557,450	$3.56
Appropriation in 1947 and reduction in 1948 in reserve for inventory price decline	*3,750,000**	*1.87**	4,250,000	2.13
Transferred to earned surplus	$19,014,494	$ 9.30	$11,807,450	$5.69"

**Denotes deduction*

(Colgate-Palmolive-Peet Co.—President's letter)

In reporting net earning in its 1948 report, Swift & Company stated as follows:

"Before provision for high cost additions to fixed assets—1947—$12,000,000; 1948—$10,000,000. To conform with reports to the Securities and Exchange Commission, earnings are shown before the special provision instead of after, the method used last year."

In the statistical summary for five years presented by Pittsburgh Plate Glass Co., net income for 1948 was shown as $32.7 million and earnings per share $3.65, each amount shown with an asterisk to a note which stated "Management believes true Net Income is $29.9 million and earnings per share are $3.33." Net income in the certified income statement was shown as follows:

"Net Income	$32,748,900
Disposition of Net Income:	
Appropriation of income to increase charges for depreciation to a replacement cost rather than an original cost basis	2,865,700
Remainder, before dividends	$29,883,200"

Accounting Research Bulletin No. 35, "Presentation of Income and Earned Surplus" (October 1948)

This bulletin recommended that items excluded from the determination of net income under Bulletins Nos. 28, 31, 32, and 33 should be displayed in the surplus statement rather than in the income statement after the amount designated as net income.

While 1948 reports showed a marked reduction in the number of inventory, contingency, and plant replacement charges shown at the foot of the income statement and an increase in the number of such items charged and credited to surplus, there were still a considerable number of 1948 reports which did not adhere to the bulletins' recommendations. In this regard some allowance has to be made for the short period between issuance of the bulletin and the preparation of 1948 reports. Some of the reports included in the tabulations had fiscal year closings prior to December 31, 1948.

The instances in which Bulletin No. 35 was not followed involved charges to the income statement in the great majority of cases, credits generally being shown to earned surplus rather than to the income statement.

About one-third of the charges or credits which were deemed to be in violation of Bulletin No. 35 were contained in combined income and surplus statements. Such items were shown deducted or added after net income for the year but prior to the opening earned surplus balance.

Of the four previous bulletins which were referred to in Accounting Research Bulletin No. 35, Bulletin No. 31, "Inventory Reserves," dealt with charges for possible future inventory price decline, Bulletin No. 33, "Depreciation and High Cost," dealt with increased charges for plant replacement, and it was in connection with charges discussed under these two bulletins that the greatest number of Bulletin No. 35 violations occurred. "General Contingency" provisions (Bulletin No. 28) and "extraordinary items which would impair the significance of net income" were more often shown in the surplus statement than after "Net Income." A number of extraordinary items appeared before "Net Income." (See next section.)

Most auditors' reports did not take an exception in the opinion paragraphs of their reports to violations of Accounting Research Bulletin No. 35. Seven instances were noted wherein attention was called to the treatment followed, four of them mentioning such treatment in a separate paragraph preceding the opinion paragraph (see Section on Accountant's Report—Exceptions) while three also modified the opinion paragraph.

1948	
	Charges or Credits Shown After Net Income:
25	Future inventory price declines
14	Plant replacement
9	Contingencies
1	Research and development
2	Possible foreign losses
5	Extraordinary or prior year adjustments
	Related Charges or Credits to Surplus:
24	Future inventory price declines
12	Plant replacement
41	Contingencies

Several reports were noted which showed charges after net income in the income statement and also showed both net income and the same charge in the surplus statement (e.g., American Safety Razor Corporation).

Three companies were noted which presented separate statements of "Disposition of Net Profit" wherein they showed appropriations deducted from net income for the year, carrying the balance to earned surplus. (Granite City Steel Company, International Paper Company, and Wesson Oil & Snowdrift Company, Inc.)

Material Extraordinary Items Shown Separately in the Income Statement

(Excluding charges, appropriations, and credits in connection with contingency, future inventory price decline, and plant replacement reserves, and items not in excess of 5 per cent of net income.)

1948	
37	Profit or loss on disposal of assets (plant, real estate, securities, etc.)
5	Transfer of excess reserves or provisions:
	3 tax provisions (Newport News Shipbuilding & Drydock Co., National Biscuit Co., Park & Tilford, Inc.)
	1 loss on a production (Radio-Keith-Orpheum Corp.)
	1 contingent liability under government contract (National Company)
8	Prior year adjustments (taxes, depreciation, etc.)
5	Transfer from reserves to offset special costs:
	Estimated loss on shipbuilding contract (Bath Iron Works)
	Higher replacement costs of inventories depleted during the war (U. S. Steel Corp.)
	Cost of standardization of product (Walworth Company)
	Abnormal personnel training expenses, pre-opening expenses of postwar store locations and losses in connection with store closings and rehabilitation. (Rexall Drug, Inc.)
	Past service pension contribution and pensions paid outside Employees' Retirement Plan (The Lambert Company)
9	Employees participation in profits—bonus and profit-sharing plans (Chrysler Corp.)
5	Provision for loss on investments and advances to subsidiaries (American Safety Razor Corp.)
3	Provision to reduce inventories to LIFO basis (Crane Co.)
3	Undistributed net profits of foreign subsidiaries (IBM Corp.)
2	Office and plant movement and rearrangement expenses (United Aircraft Corp.)
3	Proceeds of life insurance policies (May Dept. Stores Co.)
1	Loss on foreign exchange (National Paper & Type Co.)
1	Losses on investments in productions (RKO Corp.)
1	Proportion of undistributed net profits less proportion of net loss of affiliates partly owned (United Artists Theatre Circuit, Inc.)
1	Flood loss (Crown Zellerbach Corp.)
3	Income from settlement of insurance claims (United Merchants and Manufacturers, Inc.)
1	Loss on operations and liquidation of division (Atlas Powder Co.)
1	Recovery under war Subcontract Claim (Armstrong Cork Co.)
1	Special provision against decline in exchange rates (Lone Star Cement Corp.)

1	Inactive mill property expenses, net including depreciation (American Writing Paper Company)
1	Numerous prior year charges and credits combined as one income credit (Douglas Aircraft Co., Inc.)
1	Provision for profit limitation on government contracts (Lockheed Aircraft Corp.)
1	Write-down of inventories, idle plant, service, experimental and development expenses, etc. (R. G. LeTourneau, Inc.)
1	Provision in respect of foreign exploratory activities of subsidiaries (Standard Oil Company of California)

The compilation above lists various types of material charges and credits appearing in the income statement. While most of these items appeared prior to "net income for the year," seven excerpts where charges or credits appeared after net income are shown below:

		1948	1947
(1)	"Net income for the year	$ 151,875	$7,121,707
	Prior Years' Adjustments (Net)	860,862	..
	Total to Undistributed Earnings in Use in the Business	$1,012,737	$7,121,707"

(The Cudahy Packing Company—The prior years' adjustments were also reported in the surplus statement.)

(2)	"Earnings for Year	$3,258,646
	Add adjustments of earnings for 1945, 1946, and 1947 consisting primarily of the capitalization of prior years' expenses less related tax adjustments and interest—net	416,159
	Balance	$3,674,805"

(Scovill Manufacturing Company)

(3)	"Operating loss for the year	($1,036,901)
	Gain on sale of plant at Burlington, Vermont	689,779
	Net loss charged to earned surplus	($347,122)"

(Bell Aircraft Corporation—combined income and surplus statement)

(4)	"Income for the Year	$10,842,169
	Realized from Sales of Timber from company's woodlands, less federal tax applicable thereto	1,356,021
		12,198,190
	Past service costs paid in 1948 under extension of pension plan, less one-tenth charged to income	4,976,079
	Balance for Year, after special charges and credits	$7,222,111"

(West Virginia Pulp & Paper Company—combined income and earned surplus statement)

(5)	"Net income for the year before extraordinary income	$21,313,736
	Transferred from Reserve for Federal and Foreign Taxes on Income (Note 3)	1,400,000
	Net Income for the Year including extraordinary income	$22,713,736"

(National Biscuit Company—combined income and surplus statement)

(6)	"Net income for the year	$6,891,882
	Provision for research and development expense (net) (Note 3)	528,225
	Balance of net income transferred to earned surplus	$6,363,657"

(A. O. Smith Corporation—combined income and surplus statement)

(7)	"Net Income for the Year		$30,595,518
	Loss arising from devaluation of currencies in Latin American countries—	$1,930,000	
	Deduct: Reserve for foreign investments previously appropriated	$1,930,000	
	Appropriation of net income for possible further loss on foreign investments		6,500,000
	Balance Carried to Earned Surplus		$24,095,518"

(The Goodyear Tire & Rubber Company)

Section 4: SURPLUS

"Earned Surplus" Terminology

The trend toward using other terminology for "earned surplus," evident since 1946, was continued during 1948.

While there were a great variety of substitute terms, the phrase "retained in the business" appears in a majority of them. This phrase was generally used in conjunction with the words "earnings," "income," or "profits" (see below).

1948	1947	1946	
329	361	..	Earned surplus
63	73	..	Earned surplus from a specific date
11	8	..	Earned surplus—appropriated and unappropriated
21	20	..	Surplus
1	1	..	Surplus—undivided profits
1	1	..	Further surplus
3	3	..	Operating surplus or surplus from operations
4	5	..	Earned surplus (deficit)
1	1	..	Deficit
19	9	1	(Net) earnings *retained* (for use) in the business
10	7	4	(Net) income *retained* (for use) in the business
4	3	..	Earnings *retained* and invested in the business
3	1	..	Accumulated earnings *retained* (for use) in the business
3	1	..	Earnings *retained* and used (in use) in the business
3	1	..	Income *retained* and invested in the business
2	1	..	Profits *retained* in the business
2	1	..	Earnings *retained* and employed in the business
1	1	..	Profits *retained* in the business less amounts transferred to capital stock account
1	1	..	Other capital and income *retained* in the business
1	1	1	Earnings accumulated since inception, *retained* and invested for the conduct of the business
..	1	1	Income accumulated and *retained* in the enterprize
3	1	2	Earnings *reinvested* in the business
3	1	1	Earnings *reinvested*
2	2	2	Income *reinvested* in the business
1	1	1	Earnings *reinvested* and employed
4	1	..	Earnings *reinvested* or retained in the business
3	2	1	Income *invested* in the business
1	1	..	Earnings *invested* in plant facilities and working capital
1	..	..	Accumulated earnings *invested* in the business
2	1	..	Earnings *invested* (for use) in the business
7	6	1	Accumulated earnings
6	3	..	Earnings *employed* in the business
2	..	..	Accumulated earnings *employed* in the business
1	1	1	Net income *employed* in the business

1948	1947	1946	
1	2	1	Profit *employed* in the business
2	1	..	Earnings *used* in the business
2	..	..	Undistributed earnings *in use* in the business
1	1	..	Undivided profits
525	525		

Of the 329 companies which retained the term "earned surplus" in 1948, twelve companies were noted which added a parenthetic alternative description after this term. They apparently felt that the complete elimination of the term "earned surplus" was not advantageous, although they were also prepared to offer an alternative description.

On the other hand, Gulf Oil Corporation used this presentation:

"Earnings employed in the business (Earned Surplus)."

R. H. Macy & Co. and the May Department Stores Co. pointed out in footnotes that prior year stock dividends had transferred portions of earnings retained or reinvested in the business to the capital account.

Phelps Dodge Corporation and Remington Arms Co., Inc., did not segregate capital surplus from earned surplus. The former company explained this fact in a footnote while treatment by the latter company was described in the auditor's report. Both excerpts are shown below:

"The Company and its subsidiaries have never differentiated in their accounting for surplus as between paid in or capital surplus and earned surplus and the Company is unable to state what part of the consolidated surplus is in the nature of earned surplus." (Phelps Dodge Corp.—footnote)

"Surplus has been recorded in one account in the books since incorporation of the company in 1920. Lacking a definitive and authoritative basis upon which to make retrospective allocations of the various charges which have been made to surplus, we have not derived separate balances for the respective classes of surplus as of December 31, 1948. We report, however, that in the latter part of 1933, following the acquisition of a controlling interest in the capital stock of the company by E. I. du Pont de Nemours & Company, substantial adjustments were made in asset, reserve and capital accounts. Subsequent thereto, the recorded earnings exceeded by approximately $9,200,000 the sum of the dividends paid and other charges (not considered significant) to surplus." (Remington Arms Co., Inc.—auditor's report)

A parenthetic note to the final balance of "Income Retained For Use in the Business" shown by The B. F. Goodrich Co. stated: "Both years include $45,532 profit from sale of treasury common stock."

The Underwood Corporation used the term "Accumulated Employed Earnings."

Pullman Inc., presented the following footnote headed "Composition of Surplus":

"Surplus of $33,665,776 at December 31, 1948, is made up of a net amount of $84,632,077 arising in connection with capital transactions (excess of value of property acquired by issue of capital stock over the stated value thereof, amount arising from subsequent reduction in the stated value in the capital stock, etc.), plus profits earned since date of reorganization April 30, 1927, aggregating $159,212,673, less dividends paid since date of reorganization amounting to $209,178,974."

Terminology for "Surplus" Other Than "Earned"

While not as pronounced as the use of new terminology to replace "earned surplus," there were a number of companies which in 1948 adopted phrases which eliminated the use of the term "surplus" as it was formerly used in "capital surplus" and "paid-in surplus." The new terms most favored were:

"Additional paid-in capital" (See companies 355, 150, 87, 322, 330, 502, 343, 492, 436)

"Capital in excess of par value" (See companies 92, 245, 506, 201, 380, 460)

1948	1947	1946	
140	140	129	None shown
260	273	300	Capital surplus
65	71	82	Paid-in surplus
2	2	5	Capital in excess of stated amount
7	5	4	Capital surplus—paid-in
5	5	3	Surplus arising from revaluation of property (appraisal or appreciation surplus)
1	1	2	Capital paid for common stock in excess of par value
3	4	2	Combined with capital stock
1	1	1	Capital paid-in, in addition to capital stock
1	1	1	Initial and capital surplus
1	1	1	Further surplus
3	3	1	(Capital) surplus arising from retirement of stock
1	1	1	Initial surplus (earned surplus also shown)
1	1	1	Surplus arising from acquisition of certain wholly-owned subsidiaries

1	1	..	Other capital (and income retained in the business)
11	2	..	Additional paid-in capital
1	2	..	Excess of net capital invested by stockholders over par value of outstanding capital stock (paid-in surplus)
2	3	..	Paid-in and (other) capital surplus
2	2	..	Capital contributed (by stockholders) in excess of par value of securities
1	1	..	Other capital (excess of stated capital over net assets in 1939 plus subsequent additions)
..	1	..	Paid-in surplus—excess of proceeds from common stock issued in 1947 over par value thereof
2	1	..	Amount paid the company for capital stock in excess of par value
2	2	..	Surplus - capital — arising from reduction of capital
1	1	..	Capital (paid-in) surplus
2	2	..	Capital paid-in (by stockholders) in excess of par value of capital stock
1	1	..	Capital (principally paid-in) in excess of amounts shown for capital stock above
1	1	..	Surplus from conversion of preferred stock
..	1	..	Surplus arising from conversion of bonds
1	1	..	Excess of amounts received over stated capital
1	1	..	Paid-in and capital surplus
2	4	..	Amount in excess of par value
1	1	..	Surplus paid in by stockholders (in excess of par value of capital stocks, less financing expenses)
1	1	..	Capital—donated and paid in
1	1	..	Surplus available except for dividends on common stock
2	1	..	Amount received in excess of par value of capital stock
1	1	..	Stockholders' investment in excess of par value of common stock
7	1	..	Capital in excess of par value (of stock issued)
1	1	..	Premium on sale of common shares
..	1	..	Exchange adjustments in consolidation in suspense
1	1	..	Surplus arising from transfer of nickel properties in Finland
..	1	..	Surplus applied against stock held in treasury
1	..	..	Amount received (net) for capital stock in excess of par value (paid-in surplus)
1	..	..	Capital in excess of stated value of common stock
1	1	..	Excess of assets of consolidated companies acquired over cost
1	..	..	Amount paid in by stockholders in excess of par value
1	..	..	Further amounts paid in by stockholders
1	..	..	Additional capital from issued shares (paid-in capital)
1	..	..	Additional amounts received for shares issued in excess of fixed amount and discounts on repurchase of preferred stock (capital surplus)
1	..	..	Additional capital (capital surplus)
545	547	533	

A few companies, while still using the terms "capital surplus" and "paid-in surplus," added a further explanation on the balance sheet. For example:

"Capital Surplus—excess of par value over cost of capital stock acquired and cancelled" (Mohawk Carpet Mills, Inc.)

"Capital surplus (representing surplus established at inception of the Company and subsequent adjustments arising through the acquisition of capital stock of subsidiary companies)" (Houdaille-Hershey Corp.)

"Capital surplus—excess of net proceeds received from sale of 27,955 shares of capital stock formerly held in the treasury over the cost thereof" (S. S. Kresge Company)

"Paid-in surplus—arising from sale of stock for amounts in excess of pàr value" (U. S. Gypsum Company)

Earned Surplus Charges and Credits

Of the 525 reports tabulated for 1948, 263 (50 per cent) showed no charges or credits to earned surplus other than for dividends and net income for the year. This was approximately the same number of companies which showed no charges or credits in 1947.

Earned Surplus Charges (Excluding Dividends)

An aggregate reduction in the number of items charged to earned surplus in 1948 compared with 1947 was particularly noticeable with respect to "prior year adjustments," "write-off of intangibles," and "capital stock transactions."

1948	1947	1946	
358	340	..	None shown
40	60	65	Prior year adjustments
42	60	62	Capital stock transactions
60	39	27	To reserves
17	31	32	Write-off of intangibles
..	3	8	Bond discount—write-off
3	4	7	Recapitalization expenses
9	9	6	Consolidation and merger expenses
40	40	17	Miscellaneous
7	2	3	Unusual losses

On the other hand, charges to surplus for the purpose of creating or increasing reserves were much more frequent in 1948 than in the preceding year.

Prior Year Adjustments

The decline in prior year adjustments was due primarily to fewer charges for past service pension cost (which was in accord with the recommendation made in Accounting Research Bulletin No. 36) and fewer charges for renegotiation and contract termination.

Reserve Increases

The types of reserves which reflected the most change in 1948 over 1947 by reason of earned surplus charges were "contingency reserves" and "plant replacement reserves." (It seems likely that the recommendations contained in Accounting Research Bulletins No. 28, "Accounting Treatment of General Purpose Contingency Reserves," No. 33, "Depreciation and High Costs," and No. 35, "Presentation of Income and Earned Surplus" have been responsible for increases in this type of charge to earned surplus.)

Write-Off of Intangibles

A decrease in the number of write-offs of goodwill arising from consolidation was mainly responsible for the decline under this heading.

Capitalization of Earned Surplus

Attention is invited to those companies which transferred earned surplus to the capital account. In most of these reports it was merely stated that such action had been sanctioned by the board of directors (e.g., Worthington Pump & Machinery Corp., Archer-Daniels-Midland Co., Spencer Kellogg & Sons, Inc., Douglas Aircraft Co., Inc.).

A detailed breakdown of the above classifications for 1948 and 1947 follows:

Prior Year Adjustments

1948	1947	
18	22	Taxes (Park & Tilford, Inc.)
2	8	Renegotiation & contract termination (Collins & Aikman Corp.)
3	3	Depreciation & amortization (Johnson & Johnson)
2	9	Past service pension cost (Wm. Wrigley, Jr. Co.)
3	2	Inventories (W. T. Grant Co.)
..	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.)
1	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	1	Provision for prior years' vacation wages less tax (Hazel-Atlas Glass Co.)
..	1	Prior year income & tax adjustments (Cessna Aircraft Co.)

..	1	Transfer from capital stock account of expenses incident to stock sale in 1946, in accordance with the accounting requirements of CAB (Chicago & Southern Airlines, Inc.)
1	1	Additional amortization of bond discount and expenses (Roberts & Oake, Inc., 1947)
..	1	Additional customer credits (The Moxie Co.)
..	1	Depletion, royalties & miscellaneous adjustments (Argo Oil Co.)
2	1	Adjustments to reserves for depreciation, depletion & bad debts (or other reserves—American Window Glass Co.)
..	1	Adjustment pertaining to exchange of stock (The Colorado Fuel & Iron Corp.)
1	..	Single premium principally to provide death benefits for employees under contributory pension plan (Devoe & Raynolds Co., Inc.)
1	..	Payments due U. S. Dept. of Agriculture on 1945 commodity credit corporation contract (The Drackett Co.)
1	..	Deficiency in depletion reserve of properties at time of acquisition (Cities Service Co.)
1	..	Interest applicable to prior years (O'Sullivan Rubber Corp.)
1	..	Six items separately listed (Pathe Industries, Inc.)
1	..	Adjustment of wage inequities (Jessop Steel Co.)
1	..	Managers' bonus (The Super-Cold Corp.)

Capital Stock Transactions

1948	1947	
10	19	Premiums on stock retirement charged in total to earned surplus (less discounts—Cities Service Co.)
8	5	Expense of stock issue charged in total to earned surplus (commissions, discounts & expenses—Colonial Stores Inc.)
10	13	Premium on purchase of treasury stock charged in total to earned surplus (Miller & Hart, Inc.)
2	7	Adjustments repurchase sale or retirement of stock resulting in entries to both earned and capital surplus (United Merchants & Mfgrs. Inc.)
1	1	Adjustment of stated value of preferred stock to call or liquidation value (Continental Baking Co.)
3	3	Premium on stock retirement in excess of amount charged to capital surplus (Interstate Bakeries Inc.)
4	2	Cost of treasury stock purchased during year (Time, Inc.) ("restored to unissued status"—Archer-Daniels-Midland Co.)
1	1	Book value of treasury stock less amount previously charged to surplus (F. W. Woolworth Co.)
1	1	Expense of stock issue in excess of premium received (remainder to capital surplus) (The Dow Chemical Co.)
..	1	Discount on preferred stock acquired for sinking fund resulted in charge to earned surplus and credit to capital surplus (The 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 (The Pittston Co.)
..	1	Discount and expense on original issue of preferred stock of subsidiary written off (Cities Service Co.)
1	2	Expenses incurred in connection with issuance of new common stock (Armstrong Cork Co.—preferred stock, 1948)
1	..	Excess of cost of treasury stock over proceeds from resale (The Bay Petroleum Corp.)

To Reserves

1948	1947	
11	10	Future inventory losses (shown also below net income—Buffalo Bolt Co.)

..	1	Special reserves for obsolescence (deducted from fixed assets) (American Sugar Refining Co.)
1	2	Pension fund reserve (American Sugar Refining Co.)
13	4	Contingencies (surplus appropriation—Bucyrus-Erie Co.) (insurance & other contingencies—The Quaker Oats Co.)
4	2	Appropriation to statutory reserves of South American subsidiary (United Merchants & Mfgrs. Inc.)
..	1	Specific reserves for bottles & cases (net) (Jacob Ruppert)
1	1	Unexpired subscriptions (McGraw-Hill Publishing Co., Inc.)
1	1	Abandonments & replacements of real estate, plant & equipment (The Champion Paper & Fibre Co.)
..	1	Possible loss on foreign subsidiary (equal to reinstated cost of investment) (Corn Products Refining Co.)
1	1	Special addition to reserve for depreciation (The Buckeye Steel Castings Co.)
11	1	Replacement of fixed assets at higher than original costs (Swift & Co.) and contingencies (The Youngstown Sheet & Tube 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	1	Reserve for federal income taxes (and tax refunds for prior years) (Hearst Consolidated Publications, Inc.—and other contingencies)
..	1	Capital expenditures (Chicago Railway Equipment Co.)
..	1	Reinstatement of reserves for repossession losses and doubtful accounts (The Super-Cold Corp.)
..	1	Reserve for debenture retirement sinking fund (American Wringer Co., Inc.)
2	1	Possible inventory decline (deducted both in income and surplus) (Deere & Co.)
2	1	Appropriation as sinking fund for preferred stock (O'Sullivan Rubber Corp.)
..	1	Appropriation as reserve for sinking fund (shown in surplus) (United Artists Theatre Circuit, Inc.)
1	1	Development (plant expansion—Gleaner Harvester Corp.)
..	1	Increase in surplus reserve (The Amalgamated Sugar Co.)
..	1	Addition to metal inventory reserve (The American Metal Co., Ltd.)
..	1	Appropriation to reserve for contractual risks (The American Metal Co., Ltd.)
..	1	"Other" reserves (The Quaker Oats Co.)
1	..	Bad accounts (The E. Kahn's Sons Co.)
2	..	Insurance (Bethlehem Steel Corp.)
1	..	Possible loss on foreign affiliate (American Safety Razor Corp.)
1	..	Devaluation of foreign currencies (Johnson & Johnson)
1	..	Crop hazards & other contingencies (Consolidated Cigar Corp.)
1	..	Employees' recreational & welfare facilities (Endicott Johnson Corp.)
1	..	Contingent reserve for development (U. S. Smelting Refining & Mining Co.)
2	..	Past service pension costs (after deducting amount applicable to minority interests—Pratt & Lambert, Inc.)
1	..	Investments (Air Reduction Co., Inc.)

Write-Off of Intangibles

1948	1947	
5	2	Goodwill (nature not described) (Pet Milk Co.)
8	17	Difference between cost of investment and book value of investment at time of acquisition (tangible value of assets—National Distillers Products Corp.)
1	2	Goodwill of acquired companies written off during the year (DeVoe & Raynolds Co., Inc.)
1	2	Goodwill purchased during year (The Borden Co.)
1	1	Excess cost of assets acquired over book value thereof (Arden Farms 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 (The Buckeye Steel Castings Co.)
..	1	Formulae and patents (American Asphalt Roof Corp.)
..	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., Inc.)
1	..	Patents and development written down to nominal amount (General Railway Signal Co.)

Recapitalization Expenses

1948	1947	
3	1	Refinancing and recapitalization expenses (Pet Milk Co.)
..	1	Premium and dividends on preferred stock redeemed—and cost of recapitalization (The Moxie Co.)
..	1	Recapitalization charges (Geo. E. Keith Co.)
..	1	Excess of principal amount of debentures issued in exchange for preferred stock (Cities Service Co.)

Consolidation & Merger Adjustments

1948	1947	
4	1	Adjustments in connection with merger (Alan Wood Steel Co.)
1	1	Acquisition of minority interests in stock of subsidiaries (United Merchants & Mfgrs., 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	1	Adjustments of provision for minority interests in subsidiary company (The Bay Petroleum Corp.)
1	1	Surplus of subsidiary no longer consolidated (Paramount Pictures, Inc.)
..	1	Balance of earned surplus (undistributed profits) of companies in which 50 per cent interest was sold (Reynolds Metal Co.)
1	..	Exclusion of minority interest (formerly included) in surplus upon dissolution (Mid-Continent Petroleum Corp.)
1	..	Expenses in connection with merger (The Dow Chemical Co.)

Miscellaneous

1948	1947	
6	4	Transfer to capital surplus (adjustment of previous entry—The Pittston Co.)
..	2	Premium on bond retirement (Armour & Co.)
2	4	Exchange adjustment (and special provision against decline in exchange rates—Lone Star Cement Corp.)
1	1	Wisconsin privilege dividend tax paid for stockholders (Nash-Kelvinator Corp.)
3	4	Transfer to capital stock because of increase in aggregate par value after stock split (The Dow Chemical Co.)
..	1	Write-off of deferred research and experimental expenses upon change in policy (Celanese Corp. of America)
5	1	Write-down of investment in nonconsolidated subsidiary (affiliate—Food Machinery & Chemical Corp.)
3	1	Change from cash to accrual—vacation pay (Bethlehem Steel Co.)
1	4	Decrease in market value of marketable securities (Union Carbide & Carbon Corp.)
..	1	Write-off of organization expenses (Kimberly-Clark Corp.)
..	1	Write-off of bookplates (McGraw-Hill Publishing Co.)
5	2	Transfer to capital stock (United Fruit Co.)

..	2	Quoted price of stock issued as stock dividend (Pacific Mills)
..	2	Income statement charges (taxes and depreciation) repeated in earned surplus account (The 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 (The W. L. Maxson Corp.)
1	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.)
2	1	Transfer to capital stock upon conversion of no par to par value stock (and issue of two for one—Mack Trucks, Inc.)
1	..	Transfer to capital stock to increase stated value (after exhausting capital surplus) (U. S. Steel Corp.)
1	..	Accumulated earnings to January 1, 1948, of foreign subsidiaries and branches outside of the Western Hemisphere (The National Cash Register Co.)
1	..	Unamortized debt expense, and premium and expense on retirement of bonds (net of tax—Interstate Bakeries Corp.)
1	..	Write-off of unrecovered balance of investment in foreign subsidiary (Pure Oil Co.)
1	1	Depletion (Phelps Dodge Corp.)
1	..	Factory appreciation adjustment (The Amalgamated Sugar Co.)
1	..	Expenses of Provincial Wood Co. (Universal Match Corp.)
1	..	Adjustments not described (Sun Oil Co.)
1	..	Cost of moving machinery, equipment and inventories acquired from another company to company's plant (net of taxes) (Weston Electrical Instrument Corp.)
1	..	Adjustment in value of investments (net) (Westinghouse Electric Corp.)
1	..	Plant acquisition adjustments written off (Cities Service Co.)

Unusual Losses

1948	1947	
3	1	Loss on sale of assets (net of gain on others—Standard Brands, Inc.)
1	1	Adjustments resulting from sale of stock of former subsidiary (Miller Mfg. Co.)
1	..	Loss on discarded equipment (The Yale & Towne Mfg. Co.)
1	..	Cost of moving into new plants (The Yale & Towne Mfg. Co.)
1	..	Net loss on sale of both subsidiary and other investments—offset (Cities Service Co.)

Earned Surplus Credits (Excluding Net Income for the Year)

The aggregate number of credits to earned surplus in 1948 was slightly in excess of such credits in the two preceding years.

Transfers From Reserves

As in the preceding year, most 1948 reserve transfers to earned surplus were from "contingency" reserves.

There were not as many transfers from "war" and "postwar" reserves in 1948 as in 1947 because the great majority of these had been previously disposed of.

An increased number of "inventory price decline" reserves were transferred to earned surplus.

Prior Year Adjustments

The most pronounced change during the year was the increase in the number of prior year tax adjustment credits to earned surplus.

1948	1947	1946	
356	372	..	None shown
95	98	92	From reserves
73	53	69	Prior year adjustments
16	17	18	Unusual gains
17	8	17	Consolidation and merger adjustments
5	7	5	Adjustment of investment in subsidiaries
5	4	4	Capital stock transactions
..	..	2	Negative goodwill
25	20	19	Miscellaneous

A detailed breakdown of the above classifications for 1948 and 1947 follows:

From Reserves:

1948	1947	
28	28	Contingencies (also shown at foot of income statement—The Best Foods, Inc.) (current liability—Park & Tilford, Inc.) (and postwar adjustments—National Co., Inc.)
3	20	"War" and "postwar" reserves (Jones & Lamson Machine Co.)
..	2	Deferred maintenance (Swift & Co.)
1	2	Coke oven rebuilding (Colorado Fuel & Iron Corp.)
2	2	Operating reserves (Westinghouse Electric Corp.)
1	1	Investments and advances to foreign subsidiaries (Armstrong Cork Co.)
2	1	Depreciation (The Diamond Match Co.)
1	1	Sundry reserves for insurance and contingencies (Addressograph-Multigraph Corp.)
1	1	Reserve for valuation of "other" property (previously created from surplus) (Jacob Ruppert)
..	2	N. Y. State workmen's compensation insurance (West Virginia Pulp & Paper Co.)
6	7	Reduction of tax accrual or tax reserve of prior years (Libby, McNeill & Libby)
12	3	Future inventory price declines (and other contingencies) (Mohawk Carpet Mills, Inc.)
1	2	Adjustments under cost-plus-fixed-fee contracts (Northrop Aircraft, Inc.)
3	1	Marketable securities (Union Carbide & Carbon Corp.)
3	3	Taxes and contingencies (current liability—The Sperry Corp., called "provision")
2	1	Not named (Anderson Clayton & Co.)
..	1	Valuation of investment real estate (Camden Forge Co.)
2	1	Pensions (Employee Benefit Plans—Pullman Inc.) (Employee Retirement Plan—Simmons Co.)
..	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	1	Decline in value of investments of a subsidiary (City Stores Co.)
..	1	Cancellation of reserve for pensions (Craddock-Terry Shoe Corp.)
1	1	Restoration of amount reserved for payment of dividend on redeemed preferred stock (George E. Keith Co.)
..	1	Plant dismantlement (General Box Co.)
..	1	Inventory obsolescence (Niles-Bement-Pond Co.)
..	1	Loss on notes receivable (Cannon Mills Co.)
..	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.)
2	1	Renegotiation of government contracts (current liability) (Borg-Warner Corp.)
..	1	Repairs (American Metal Co., Ltd.)
..	1	Exploration (American Metal Co., Ltd.)
1	..	Wage adjustments (The E. Kahn's Sons Co.)
1	..	Reserves of dissolved subsidiaries no longer required, and other reserves restored (Continental Steel Corp.)
6	..	Investments and/or securities (Allied Chemical & Dye Corp.) (General Electric Co.)
1	..	Rehabilitation of foreign business (Ingersoll-Rand Co.)
1	..	Expenses in revision of manufacturing program (Ingersoll-Rand Co.)
1	..	Losses arising from operations in foreign countries (Sharp & Dohme, Inc.)
1	..	Specific reserve for bottles and cases (net) (Jacob Ruppert)

1	..	Pending legislation and other contingencies (Skelly Oil Co.)
1	..	Reserve for decline in market value of basic metal inventories (Bridgeport Brass Co.)
2	..	General (American Writing Paper Co.) (security profits—General Electric Co.)
1	..	Reserves to reduce inventories below LIFO cost or market (Scovill Mfg. Co.)
2	..	Insurance (Curtiss-Wright Corp.)
1	..	Officers' and employees' profit-sharing bonus (West Virginia Pulp & Paper Co.)
1	..	Reserve for liquidation (Argo Oil Corp.)
1	..	Excess cost of plant and equipment (Art Metal Construction Co.)
1	..	Doubtful accounts and taxes—branch in England (Art Metal Construction Co.)

Prior Year Adjustments

1948	1947	
39	27	Taxes—prior years' provisions or reserves excessive (722 claim—General Bottlers, Inc.); (refund—excess profits—Peoples Drug Stores, Inc.); (claim for refund—Park & Tilford, Inc.; U. S. Smelting Refining & Mining Co.); (net refund—LIFO replacement 1947 and prior—The National Supply Co.); (and other credits—Cities Service Co.)
8	7	Depreciation and amortization to tax basis (net of taxes—Burlington Mills Corp.)
6	5	Renegotiation and contract termination (Republic Aviation Corp.)
..	1	Correction of 1946 charge for dividends not paid (Monsanto Chemical Co.)
..	1	Deferred rental income (Ex-Cell-O 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.)
3	1	Amounts capitalized by Bureau of Internal Revenue (less interest for prior years on taxes, net of 1948 reduction—Chicago Railway Equipment 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.)
3	1	Not specified
..	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.)
1	..	Reversal of provisions made in prior years for amortization of emergency facilities disallowed as a federal tax deduction (Bethlehem Steel Corp.)
2	..	Excess provision for retirement income plan as modified in 1948 (American Woolen Co.)
1	..	Reduction of previously recorded estimated liabilities (Bath Iron Works Corp.)
1	..	Additional compensation under labor escalation clause of government contract (net) (Bath Iron Works Corp.)
1	..	Adjustment of the net book value of property resulting from an inventory of the properties in prior years (Pittsburgh Plate Glass Co.)
1	..	Unused provision for loss on commodity contracts (E. J. Brach & Sons)
1	..	Net adjustment due to replacement in prior years of LIFO inventories involuntarily liquidated during the war (Libby, McNeill & Libby)
2	..	Retroactive mail pay (Chicago & Southern Airlines, Inc.) (net of taxes—Mid-Continent Airlines, Inc.)
1	..	Exploration expenses previously written off for which stock is currently received (Kennecott Copper Corp.)

1	..	Transfer of unused current liabilities of prior years (legal expenses—Square D Co.)
1	..	Transfer of charges made in prior years representing excess of par value of new shares issued, in a prior year, over stated value of old shares exchanged (Clyde Porcelain Steel Corp.)
1	..	Accounts receivable adjustment (Clyde Porcelain Steel Corp.)

Unusual Gains

1948	1947	
5	2	Liquidation of subsidiary or investment therein (The Moxie Co.)
7	5	Sale of plant, property, or equipment—net of related taxes (taxes not mentioned—Yale & Towne Mfg. Co.)
1	1	Sale of marketable securities—net profit on (less tax applicable) (Koppers Co., Inc.)
2	2	Proceeds from life insurance, excess over cash surrender value (E. Kahn's Sons Co.)
..	1	Excess of equity in net assets over cash and securities given therefor
..	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	1	Settlement of claim for damages (net of tax) (patent infringement—Dixie Cup Co.)

Consolidation and Merger Adjustments

8	2	Surplus of subsidiary upon consolidation (with charge to capital surplus—Burlington Mills Corp.)
1	1	Surplus upon merger (Food Machinery & Chemical Corp.)
1	2	Accumulated earnings of wholly owned non-consolidated subsidiary liquidated (Republic Steel Corp.)
5	1	Equity in earnings of subsidiaries (now wholly owned and consolidated) during period of partial ownership or at date merged (The Cuneo Press, Inc.)
2	1	Credit arising through acquisition of minority held stock (earned surplus only—American Metal Co., Ltd.)
..	1	Adjustment of minority interest in other company (U. S. Finishing Co.)

Adjustment of Investment in Subsidiaries

1	1	Revaluation of investments in affiliates for differences between net income or losses and dividends paid (General Electric Co.)
2	3	Undistributed net profits for prior years of foreign subsidiaries (Raybestos-Manhattan, Inc.)
..	1	Dividend received from Canadian subsidiary from earnings subsequent to January 1, 1937 (Chicago Pneumatic Tool Co.)
2	2	Valuation assigned to investment formerly carried at no value (Pathe Industries, Inc.)

Capital Stock Transactions

..	1	Premium received on preferred stock issue offset against expense thereof (Food Machinery Corp.)
1	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.)
2	1	Restoration of amount previously charged to earned surplus (Buffalo Bolt Co.)
1	..	Excess of stated value over cost of preferred treasury stock charged in total to earned surplus (Electric Boat Co.)
1	..	Adjustment credit for cancellation of stock and accumulated dividends of predecessor companies (Argo Oil Co.)

Miscellaneous

1948	1947	
1	1	Accrual for wage inequities in excess of requirements less additional federal income taxes (Bethlehem Steel Corp.)
..	1	Amount contributed by community transferred from capital surplus on completion of contract (Brown Shoe Co., Inc.)

..	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.)
3	4	Transfer from appreciation surplus (Argo Oil Co.)
2	1	Unrealized foreign exchange gain from conversion of foreign net assets to dollars (S. S. Kresge Co.)
1	2	Discount on reacquired debentures (A. P. W. Products Co., Inc.)
1	1	Recovery of foreign investments written off in war (The B. F. Goodrich Co.)
1	1	Restricted earnings from pipe line operations (Standard Oil Co. of New Jersey)
5	5	Sundry minor items
..	1	From capital surplus—unexplained (Adolph Gobel Inc.)
1	..	Increase in market value of marketable securities (Union Carbide & Carbon Corp.)
1	..	Cancellation of deferred liabilities under government contracts (Union Carbide & Carbon Corp.)
1	..	Reduction in income taxes, resulting from deductible payment for purchase of past service annuities (S. S. Kresge Co.)
3	..	Adjustment arising from refinements in method of valuing inventories (net of taxes) (Clark Equipment Co.)
1	..	Adjustment of deferred contingent compensation to reflect estimated tax deductions at time of payment (Gimbel Bros., Inc.)
1	..	Excess of stated value over cost of treasury stock (D. Emil Klein Co., Inc.)
1	..	Transfer of deficit to capital surplus (The United Piece Dye Works)
1	..	Transfer from capital surplus upon disposition of property acquired in merger and liquidation of former subsidiary (H. K. Porter Co., Inc.)
1	..	Accumulated unpaid dividends, unclaimed five years after reorganization, reverting per U. S. District Court order (McKesson & Robbins, Inc.)

Capital Surplus Charges

There has been a decreasing number of charges to capital surplus over the past three years, as the comparative statistics below indicate:

1948	1947	1946	
27	46	51	Resulting from purchase and sale of stock
12	5	18	Transfers to capital stock
3	11	15	Write-off of goodwill
3	8	6	Transfers to earned surplus
1	3	3	Appropriations
5	6	5	Consolidation, merger, and recapitalization entries
9	7	3	Miscellaneous
60	86	101	

A detailed breakdown of the above summary follows:

Resulting From Purchase and Sale of Stock

1948	1947	
3	7	Expenses in connection with sale of stock charged entirely to capital surplus (Hayes Mfg. Corp.)
5	6	Premium on treasury stock purchased, charged entirely to capital surplus (Colgate-Palmolive-Peet Co.)
9	11	Premium on retirement of stock, charged entirely to capital surplus (Johnson & Johnson)
3	2	Adjustments incident to transactions in own capital stock (The Firestone Tire & Rubber Co.)
..	1	Adjustment of excess of proceeds from disposition of treasury stock in prior year over cost thereof (Arden Farms)
1	5	Premium on retirement of stock in part to earned surplus (The Cuneo Press, Inc.)

1	1	Cost of preferred stock purchased (Twentieth Century-Fox Film Corp.)
..	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 (The 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.)
		Capital stock transactions with charges split between earned surplus and capital surplus (Interstate Bakeries Corp.)
1	..	Excess of par of stock received upon merger over stated value of stock issued in exchange therefor (Food Machinery & Chemical Corp.)
1	..	Loss on sale of treasury stock—entirely to capital surplus (Consolidated Vultee Aircraft Corp.)
1	..	Excess of stated value of preferred stock over sales price to underwriters (Monsanto Chemical Co.)

Transfers to Capital Stock

..	2	Stock split-up (Food Machinery and Chemical 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.)
3	..	Stock dividend—remainder charged to earned surplus (Argo Oil Corp.)
5	..	Increase in stated value of common stock, eliminating capital surplus and charged in part to earned surplus (U. S. Steel Corp.)
1	..	Reclassification of preferred stock (in part to earned surplus—The American Metal Co., Ltd.)
1	..	To increase to $5 par value certain shares formerly stated at $2 (Philip Morris & Co., Ltd. Inc.)
1	..	In connection with merger (earned surplus also transferred—The Dow Chemical Co.)
1	..	Stock has no par or stated value—but aggregate amount increased (Archer-Daniels-Midland Co.)

Write-Offs of Goodwill (See Accounting Research Bulletin No. 24, page 200)

2	3	Goodwill (Revere Copper & Brass, Inc.—$1 charge only)
..	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.)
1	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 (The Pittston Co.)

Transfers to Earned Surplus

2	4	Transfer from appreciation surplus (Art Metal Construction Co.)
..	2	Correction entries
..	1	Transfer of donated surplus (Brown Shoe Co.)

..	1	Unexplained (Stewart-Warner Corp.)
1	..	Transfer of charges made in prior years to earned surplus representing excess of par value of shares issued over stated value of shares exchanged (Clyde Porcelain Steel Corp.)

Appropriations

1	1	Provision for retirement of preferred shares ($100,000) less amount restored to capital surplus shown as charge, with a credit to capital surplus (Interchemical Corp.)
..	2	Appropriation for preferred stock retirement fund (Twentieth Century-Fox Film Corp.)

Consolidation, Merger, and Recapitalization Entries

1948	1947	
..	1	Stated value of preferred stock issued in conversion of other preferred stock (Interstate Bakeries Corp.)
1	2	Recapitalization expense (in part to earned surplus—The Dow Chemical Co.)
..	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.)
1	..	Charge to capital surplus in conjunction with credit to earned surplus for surplus of subsidiary upon consolidation (Burlington Mills Corp.)
1	..	Adjustments (net) arising from change in ownership of various companies consolidated (Standard Oil Co. of New Jersey)
1	..	Adjustment of subsidiary's prior year taxes affecting net book value at acquisition (H. K. Porter Co., Inc.)
1	..	Transfer to goodwill (in consolidation) of capital surplus which resulted from acquisition of entire capital stock of company in 1946 (Sprague Electric Co.)

Miscellaneous

..	1	Additional organization expenses (Roberts & Mander Corp.)
..	1	Dividends (in part to earned surplus) (Polaroid Corp.)
1	1	Amortization of appreciation (Universal Match Corp.)
1	1	Additional assessment of prior year taxes due by subsidiary (Hayes Mfg. Corp.)
4	3	Minor adjustments (The Goodyear Tire & Rubber Co.)
1	..	Transfer to reserve for contingencies (current—Park & Tilford, Inc.)
1	..	Transfer of earned surplus (deficit) (The United Piece Dye Works)
1	..	Excess of cost over market of dividend in stock of affiliate (Byrndun Co.)

Capital Surplus Credits

The most noticeable change in the number of capital surplus credits was an increase in 1948 in the credits resulting from stock dividends.

1948	1947	1946	
53	48	79	Premium on issuance of capital stock
17	17	26	Conversion of capital stock into another issue of same company
3	4	13	Exchange of capital stock for that of other company
38	27	26	Treasury stock—purchase and retirement (and issuance in 1946)
8	14	..	Treasury stock—sale and distribution
5	12	20	Stock options and warrants
6	6	11	Restoration or realization of assets previously written off
8	8	10	Merger and consolidation adjustments
10	6	7	Transferred from reserves
5	8	6	Negative goodwill
20	8	5	Stock dividends

1	2	5	Change in equity in unconsolidated subsidiary
6	3	3	Transfers from earned surplus
17	18	8	Miscellaneous
197	181	219	

A detailed breakdown of the above summary for 1948 and 1947 follows:

Premium on Insurance of Capital Stock

1948	1947	
28	32	Excess of sales price over par or stated value (subscription agreements — General American Transportation Corp.)
3	4	Excess of net assets of subsidiary over par value of stock issued therefor (Burlington Mills Corp.)
1	1	Excess over par of stock issued for property (National Lead Co.)
1	4	Excess of assigned value (market quotations) over par of stock issued (for net assets and business) (McGraw Electric Co.)
1	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 (Continental Motors Corp.)
2	2	Excess of market over par (Burlington Mills Corp.)
1	1	Excess of purchase price over par value of stock issued therefor (Federated Dept. Stores, Inc.)
1	1	Credit with respect to warrants exercised (Follansbee Steel Corp.)
..	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.)
5	..	Excess of "calculated market value" (or assigned value) over par (stock dividend—National Steel Corp.)
1	..	Excess of "issue price" over par—employees' bonus (E. I. du Pont de Nemours & Co.)
2	..	Excess of fair value over par of stock issued in exchange for other stock (Follansbee Steel Corp.)
1	..	Excess of valuation placed on assets over par of stock issued therefor (Armco Steel Corp.)
2	..	Amount received in excess of par—sales under employe options (Spiegel, Inc.)
1	..	Excess of quoted market of stock issued for stock of other company over stated value of shares issued (Blaw-Knox Co.)
1	..	Transactions in the capital stock of subsidiaries (Coca-Cola Corp.)
1	..	Fair value over par—for services (Northrup Aircraft Inc.)
1	..	Excess of consideration over par in acquisition of subsidiary (the May Department Stores Co.)

Conversion of Capital Stock Into Another Issue Of Same Company

1948	1947	
9	9	Excess of par (stated) of one class over par (stated) of another class—all to capital surplus (Burlington Mills Corp.)
1	1	Excess of face amount of debentures over par of stock issued therefor (Pathé Industries, Inc.)
..	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	5	Surplus arising from conversion of preferred stock to common (General Cable Corp.)
1	1	Surplus arising from conversion of funded debt into capital stock (A. P. W. Products Co., Inc.)
1	..	Excess of stated value of common over aggregate par value of new common shares issued therefor under Merger Agreement (Alan Wood Steel Co.)

Treasury Stock—Purchase and Retirement

1948	1947	
13	10	Excess of book, par, or stated value over cost of shares acquired—all to capital surplus (Thompson Products, Inc.)
11	6	Excess of par or stated value of shares reacquired and retired

1948	1947	
		over cost (discount)—all to capital surplus (Beatrice Foods Co.)
8	5	Discount (excess of par over cost) on stock purchased—all to capital surplus (The National Supply Co.)
5	4	Arising from retirement of treasury shares (Stewart-Warner Corp.)
..	1	Discount on preferred stock acquired for sinking fund resulting in credit to capital surplus and charge to earned surplus (The National Supply Co.)
..	1	Amount arising from acquisition of treasury stock (Brockway Motor Co. Inc.)
1	..	Par value of scrip certificates cancelled (Willys-Overland Motors, Inc.)

Treasury Stock—Sale and Distribution

1948	1947	
4	8	Excess of proceeds from disposition of treasury stock over cost thereof (S. S. Kresge Co.)
1	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 acount (E. I. du Pont de Nemours & Co.)
..	1	Excess of sales price over book value (Stewart-Warner Corp.)
2	1	Excess of market over cost of treasury stock distributed to employees (Hercules Powder Co.)
..	1	Excess over cost of treasury stock issued for acquisition of minority interest (Burlington Mills Corp.)
1	..	Adjustments arising from purchase, sale and retirement of treasury stock (with charge to earned surplus) (United Merchants & Manufacturers, Inc.)

Stock Options and Warrants

1948	1947	
..	5	Excess of proceeds received from sales of common stock under option agreements over the par value (Barber Asphalt Corp.)
2	1	Excess of proceeds over par (stated) value of common stock issued for warrants (Ward Baking Co.)
1	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 (Rexall Drug, Inc.)
1	1	Excess of consideration received (including services) over cost of shares of treasury stock issued to officer under option agreement (American Bakeries Co.)
1	1	Capital surplus arising from sale of shares of common stock in accordance with option agreements (Bendix Home Appliances, Inc.)

Restoration or Realization of Assets Previously Written Off

1948	1947	
1	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	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 acquisition (Miller Mfg. Co.)
..	1	Miscellaneous recovery (Penn Coal & Coke Corp.)
..	1	Appraisal write-down recovered through sale of shipyard properties and other assets (American Republics Corp.)
1	1	Proceeds from disposition of idle properties (Booth Fisheries Corp.)
2	..	Restoration of previous mark-down of investment (The Baldwin Locomotive Works)
1	..	Adjustment to opening balance to conform with report filed with SEC (A. S. Campbell Co., Inc.) (transfer from earned surplus)

Merger and Consolidation Adjustments

1948	1947	
1	1	Cancellation (or adjustment) of balance of (property) reserve on books of subsidiary at date of acquisition (Dresser Industries, Inc.)
..	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	1	Surplus arising from acquisition of additional interest in subsidiary (The Cuneo Press, Inc.)
1	2	Adjustments (net) arising from changes in ownership of various companies consolidated (Stokely Van Camp, Inc.)
..	1	Adjustments 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.)
1	..	Adjustment resulting from revaluation of investment in General Motors Corp. (E. I. du Pont de Nemours & Co.)
1	..	Capital surplus at date of merger (Food Machinery & Chemical Corp.)
1	..	Excess of value assigned by directors (approximately market) over par value of stock issued in connection with merger (Continental Oil Co.)
1	..	Adjustment of acquisition surplus of subsidiary (H. H. Robertson Co.)
1	..	Surplus of subsidiary at date of acquisition (Remington Rand, Inc.)

Transferred from Reserves

1948	1947	
3	2	General contingencies (or contingencies) (Lawrence Portland Cement Co.)
1	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	1	Restoration of reserve for contingencies appropriated (in prior year) from capital surplus (Hayes Mfg. Corp.)
1	1	Rebuilding coke ovens—as of date of reorganization (Colorado Fuel & Iron Corp.—June 30, 1948)
1	..	Adjustment of predecessor's operating reserve (Koppers Co., Inc.)
1	..	Reserve for property valuation no longer required (Chrysler Corp.)
1	..	Adjustment of reserve for doubtful accounts (Argo Oil Corp.)
1	..	Administration expenses of predecessor corporation transferred upon discharge of trustee (Adolph Gobel, Inc.)

Negative Goodwill

1948	1947	
3	3	Excess of net assets over par, stated value or cost of stock issued therefor (Owens-Illinois Glass Co.)
..	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.)
1	2	Excess of book equities applicable to shares of stock purchased over amounts paid therefor (The Pittston Co.)
..	1	Excess of net assets of subsidiary over cost or common stock consideration (Burlington Mills Corp.)
1	..	Excess of equity in net assets of affiliate over cash cost thereof (The May Dept. Stores Co.)

Stock Dividends

1948	1947	
12	4	Excess of market over stated or par (Pacific Mills)
..	1	Reversal of charge previously made for excess of cost over par of treasury stock reissued as stock dividend (National Cylinder Gas Co.)

1	2	Dollar credit per share stated (Artloom Corp.)
5	1	Capitalization of stock dividend—excess over par (Hudson Motor Car Co.) (in part to earned surplus—Argo Oil Corp.)
1	..	Stock dividend declared by subsidiary (corresponding charge to earned surplus) (Johnson & Johnson)
1	..	Two for one stock split-up in form of stock dividend doubles both stated value and capital surplus (Emerson Radio & Phonograph Corp.)

Miscellaneous

1948	1947	
6	3	Transfer from earned surplus (increase in number of shares at reduced par value—Sprague Electric Co.)
1	1	Reduction in stated value of common stock (Buffalo Bolt Co.)
2	7	Capital adjustments (minor)
..	1	Proceeds from sale of warrants (Follansbee Steel Corp.)
1	1	Amount of reserve 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	1	Realization of postwar refund of foreign excess profits taxes restricted by foreign statute (Gillette Safety Razor Corp.)
1	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	Release of escrow funds upon sale of subsidiary (Universal Match Corp.)
6	..	Nature not disclosed (The E. Kahn's Sons Co.)
1	..	Adjustments re purchase of subsidiaries, stock (with charge to earned surplus—United Merchants & Manufacturers, Inc.)
..	1	Liquidation of subsidiary (Regal Shoe Co.)
1	..	Net credits resulting from transactions under employee stock plan (Libby-Owens-Ford Glass Co.)
1	..	Adjustment of depreciation and taxes for years prior to dating of surplus (Ward Baking Co.)
1	..	Amount transferred from stated capital upon change from stated to par value (The Harshaw Chemical Co.)
1	..	Adjustments relating to pre-reorganization securities of the company, unclaimed dividends, interest and other funds, and scrip certificates issued in lieu of company's new stock not presented for exchange or settlement reverting to the company per U.S. District Court final decree (McKesson & Robbins, Inc.)

Dividends—Where Charged

Eight companies which had formerly charged dividends on common stock in the earned surplus statement in 1948 showed them deducted from net income prior to the opening earned surplus balance in combined income and surplus statements.

Several other companies deducted dividends on preferred stock from net income and either (a) deducted both preferred and common in the earned surplus statement (American Cyanamid Co.) or (b) deducted only the dividends on common stock from earned surplus (American Tobacco Co.). The practice of deducting preferred dividends from net income was common in the tobacco processing companies. (See also Liggett & Myers Tobacco Co. and R. J. Reynolds Tobacco Co.)

It was noted that the R. J. Reynolds Tobacco Co. paid dividends on its own stock held in the Retirement and Insurance Investment Fund. This stock was shown as a fully reserved asset on the balance sheet.

1948	1947	
462	465	"Earned surplus," "surplus," or equivalent

23	31	None paid or deducted
17	15	Charged at foot of separate income statement
21	12	Deducted after net income but before earned surplus opening balance in combined income and surplus statements
2	...	Deducted in separate statement of disposition of net profit
...	2	Divided between capital surplus and earned surplus
525	525	

Stock Dividends

These were noted in thirty-five of the 525 reports tabulated. Seven of the thirty-five appeared in the reports of oil companies.

Two oil companies in addition to the seven above paid dividends in stock other than their own (Gulf Oil Corp., Standard Oil Co. of Indiana). These dividends were charged to earned surplus at their "carrying value," market value at time of distribution being shown parenthetically.

Three companies were noted which declared stock dividends payable after the balance sheet date. In each instance, a charge was made to earned surplus with corresponding credits to items shown in the capital stock section such as "To be issued November 5, 1948 as stock dividend" (Gleaner Harvester Corp.) or similar. (See also Standard Oil Co. of California and Wagner Electric Corp.)

Stock dividends declared by subsidiaries of Johnson & Johnson were charged to earned surplus with an equal credit to capital surplus. On the other hand, the Continental Can Co., Inc., stated in a footnote that "the amount of earned surplus appearing on the attached consolidated balance sheet includes . . . $400,000 earned surplus of a Canadian subsidiary which was capitalized by that company through the payment of stock dividends."

Earned Surplus Restrictions

Restrictions on earned surplus mentioned in annual reports have shown a considerable increase each year since 1946 due to the number of companies resorting to outside borrowing to obtain needed working capital. These companies have consequently mentioned their new financing arrangements for the first time. The new methods of financing have consisted chiefly of loan agreements and bond indentures.

1948	1947	1946	
298	322		None indicated
114	146	110	Loan agreements and
69			Bond indentures
36	37	41	Preferred stock provisions
15	17	19	Purchase of treasury stock
15			Restrictions established by certificate of incorporation
9			Oil company earnings restricted by Elkins Act
4			Dividends in arrears or preferred stock

Section 5: ACCOUNTANT'S REPORT

Statements on Auditing Procedure No. 24: "Revision in Short-Form Accountant's Report or Certificate" (October 1948)

The Committee on Auditing Procedure in October, 1948, recommended that the first paragraph of the short-form report or certificate should be amended in the following respects:

"(a) Exclude reference to the examination of the system of internal control.
(b) Exclude reference to the omission of a detailed audit of the transactions.
(c) Correct the inconsistent expression relating to auditing standards applicable in the circumstances."

The recommended revised short-form is shown below:

"We have examined the balance-sheet of X Company as of December 31, 19– and the related statement(s) of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"In our opinion, the accompanying balance-sheet and statement(s) of income and surplus present fairly the financial position of X Company at December 31, 19–, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

Of those accountant's certificates included in the 525 tabulated reports which had formerly used the recommended standard short-form of certificate, only eleven with fiscal closing dates December 31, 1948, or later, had not made the changes in form recommended in Statement on Auditing Procedure No. 24.

Unusual Wording in Auditors' Reports

Since the standard short-form of auditor's report was adapted by the great majority of accountants whose reports appeared with published financial statements in corporate annual reports, that form was used as a criterion in selecting the following variations therefrom and modification thereof:

(1) "Our audit has revealed no irregularities in the accounts for the period reviewed. We found the books and records were well maintained and we wish to acknowledge our appreciation of the cooperation of your entire staff." (Union Stock Yards Co. of Omaha (Ltd.))

(2) "We have examined the books and records of Brandon Corporation, Greenville, South Carolina, for the year ended August 31, 1948. Inventories of cotton and waste have been valued at market which was lower than cost. Mill supplies are carried at a standard valuation as has been the practice in the past. The reserve for income taxes has been reduced by the realizable value of short-term United States Government securities set aside by the management for payment of this liability. The reserve provides for possible tax deficiencies when years subsequent to August 31, 1948 are examined by the United States Treasury Department. Subject to the foregoing, in our opinion, the above balance sheet fairly reflects the financial condition of Brandon Corporation at August 31, 1948 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles." (Brandon Corp.)

(3) "We have examined the Balance Sheet of NEWMONT MINING CORPORATION as at December 31, 1948, the Schedules supplemental thereto, and the Statements of Profit and Loss and Earned Surplus for the year then ended.

"In connection therewith, we made an examination of the accounting records and of minutes of the meetings of the directors and stockholders of the Corporation. Our examination included confirmation of cash, notes receivable and securities by inspection or other supporting evidence.

"We obtained all the information and explanations we required and, in our opinion, . . ." (Newmont Mining Corp.)

(4) "We have prepared the accompanying balance sheet, income and profit and loss statement after making an audit of your available records for the year ending December 31, 1948.

"We have verified the amount of cash in banks, the amount of ore on hand and in transit, and have made a reasonable check of your accounts receivable. We have examined detailed lists of your supply inventories which were taken at the lower of cost or market. Your fixed assets were carried at cost and have been properly depreciated or amortized. Your liabilities consist of accrued taxes, current accounts payable and December payroll.

"During the year 1948 it was decided to abandon the tunnel being driven to explore and develop, provide drainage and ventilation for your mine, and the unamortized portion of this tunnel was written off. The amortization of other mine assets in this year was relatively heavy. The net value of your property, plant and equipment was reduced from $164,127.18 at the end of 1947 to $113,064.18 at the end of 1948.

"Gross ore receipts were slightly higher in 1948 than in 1947, but no premium payments were received in 1948 and these amounted to $55,297.67 in 1947. Actual mining and overhead expenses were comparable with 1947, but losses due to abandonment of the tunnel and heavy amortization tended to materially reduce net income over that of the previous year.

"During the year 1948 all Federal taxes up to and including the year 1946 were definitely settled for an additional tax payment of $894.77, and this made it possible to return the $30,000 Contingency Reserve to Surplus. However, this addition to surplus, plus income for the year of $52,-105.73, was not sufficient to completely meet the dividend of $90,000 which was paid.

"Subject to the above, we certify that in our opinion the attached balance sheet and income statement fairly present, in accordance with accepted principles of accounting consistently maintained by your company during the year, the balance sheet position of your company as of December 31, 1948, and the income for the year 1948." (Clayton Silver Mines)

(5) "I have made an examination of the accounts and accounting records of The Dobeckmun Company for the year ended December 31, 1948, and submit herewith my report which includes the following statements relating to position and operations:

Balance Sheet as of December 31, 1948.
Statement of Income and Profit and Loss for the Year Ended December 31, 1948.
Paid-in Surplus.
Earned Surplus.

". . . I have further reviewed the report and work papers of............................independent Certified Public Accountants, who have certified to me in connection with the examination of the West Coast Division at Berkeley, California, and it is my opinion that the examination was made in accordance with generally accepted auditing standards applicable in the circumstances and without omission of any auditing procedures they deemed necessary." (The Dobeckmun Company)

(6) "We have audited the books of the National Paper and Type Company for the fiscal year ended August 31, 1948, as kept by their General Office in New York, and have incorporated therewith the Assets and Liabilities carried at the Company's Foreign Subsidiaries and Branches, which we have accepted as correct in accordance with signed reports received from the Subsidiaries and Branches by the General Office. In our opinion, the foregoing Balance Sheet exhibits a true statement of the Company's affairs as reflected by the books and reports. The Inventories of Stock on Hand have been approved by the General Office." (National Paper and Type Company)

Minor Wording Variations— Accountant's Report

"In our opinion, based upon our examinations and upon the report of the independent accountants referred to above, *together with the foregoing comments* and the notes to the consolidated financial statements . . ." (Electric Boat Co.)

"We have examined the balance sheet of U. S. Potash Co. (*No Stockholders' Liability*) . . ."

"Certain notes to the financial statements which were included in the financial statements submitted to the stockholders and filed with the Securities and Exchange Commission and the New York Curb Exchange have been omitted." (Regal Shoe Co.—final sentence)

"Applied on a basis consistent *in all material respects* with those of the preceding year . . ." (Anaconda Copper Mining Co., Diana Stores Corp., Chili Copper Co.)

"We examined the balance sheet . . . *as at the close of business*, December 31, 1948 . . ." (Doehler-Jarvis Corp.)

". . . *and were prepared* in conformity with generally accepted accounting principles." (Newport News Shipbuilding & Dry Dock Co., Montgomery Ward Co.)

"We have examined—Cramp Shipbuilding Co. (*not currently engaged in shipbuilding, ship repairs, or manufacturing activities*) . . ."

"We have examined *the accompanying financial statements* of the Budd Co. for the year 1948 . . ." (The Budd Co.)

Signing the Auditor's Certificate

In published annual reports the auditor's firm name was generally typed at the bottom of the certificate, with no written signature either in the firm name or that of an individual.

Other variations noted were:

(1) In some instances a hand-written signature in the firm name was used instead of the typed name.

(2) The typed firm name was followed by the typed name of an individual member of the firm (see Peoples Drug Stores, Inc.—Central Aguirre Sugar Co.).

Audit of Inventories

Auditing Procedures Followed

Twelve reports of 524 tabulated (one company not audited) made some reference to inventory auditing procedures followed, which were all apparently in the interests of clear disclosure, no reservation or qualification appearing in the opinion paragraph. Such explanations varied considerably both in their length and in the information provided but all appeared without comment thereon in the opinion paragraph. Two contrasting explanations follow:

(1) "The inventory quantities at June 30, 1949 were based upon continuous book records verified from time to time by physical inventories taken by employees of the companies. We have reviewed the book records and the related inventory procedures and have satisfied ourselves that the methods of inventory taking were satisfactory and that they were carried out effectively. We also made by inspection substantial test checks of the inventory quantities. The basis of pricing and the clerical accuracy of the inventories were thoroughly tested by us and, in addition, the quantities and condition of the inventories were certified to us by responsible officials of the companies. We also communicated with a majority of the companies' customers having open balances at June 30, 1949, and received replies confirming about 90% of the total of receivables as of that date." (American Hide and Leather Company)

(2) "Our examination of inventories included physical tests of quantities" (Alpha Portland Cement Co.)

An interesting case where 15 per cent of the inventory was not physically inspected was described by the auditors as follows:

"The inventories were checked physically by the company's employees at various times during the year and at the close of the year all items of substantial value were verified physically. We were present at the company's plant at Syracuse, New York, at the close of the year when the inventories were being checked physically, and observed the work of the company's employees in that connection. We reviewed the methods used in taking and compiling the inventories and made tests sufficient to satisfy ourselves as to the substantial accuracy of the inventory quantities. All other inventories located outside the company's Syracuse plant, which represented approximately 15 per cent of the total inventory, were included on the basis of reports from the several branch offices and we did not physically inspect these inventories. We made extensive tests of the pricing of the inventories and satisfied ourselves as to the substantial accuracy thereof.

"In our opinion, the accompanying . . ." (Lamson Corporation of Delaware)

In the following two instances, it was disclosed that inventory-taking involved communicating with third parties:

"We made tests of trade accounts receivable by communication with the debtors. We also observed methods employed in determination of inventory quantities and made tests of such quantities, except as to inventories (carried at $2,049,888.93) located in public warehouses, which were confirmed to us by the custodians." (Welch Grape Juice Company)

"We tested the authenticity and balances of accounts with customers by communicating directly with them. We also observed procedures employed in the taking of inventories, and made test checks of inventory quantities by count or by communication with lessees or other custodians of voting machines not in the company's possession." (Automatic Voting Machine Corporation)

Two instances were noted in which inventory audit procedures were described in footnotes to the financial statements. (Burlington Mills Corporation and United Merchants and Manufacturers, Inc.)

Procedures Omitted

While the accountant has considerable discretion as to whether he should disclose auditing procedures followed, when auditing procedures are omitted the question he has to decide is (1) whether such omission is important enough to require disclosure in the scope paragraph of his report, and (2) whether or not an exception or qualification in the opinion paragraph is also required.

The eight excerpts from auditors' reports which follow describe varying reasons why inventories (in whole or in part) were not verified by the accountant. In the first two reports, the opinion paragraph takes no exception, whereas in the final four reports an exception is taken therein. Willys-Overland Motors, Inc., however, takes an exception in the opening paragraph with a consistency reference in the opinion paragraph. (See (2) below)

(1) ". . . and such other auditing procedures as we considered necessary in the circumstances, except that it was not practicable for us to make physical tests of inventories of materials and supplies located in Alaska, amounting to $553,181.59, but we examined the accounts and records relative thereto." (Alaska Pacific Salmon Company)

(2) "We have examined the consolidated balance sheet of Willys-Overland Motors, Inc., (a Delaware Corporation of Toledo, Ohio) and its wholly owned subsidiaries as of September 30, 1948, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Except as commented on in the succeeding paragraph, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"During the year physical inventories were taken of approximately 52% of the value of the companies' inventories, but all other inventories are based on book records, therefore, our observation of the taking of the inventories and the test-check of quantities was confined to those departments where physical inventories were taken. We employed supplemental and extended procedures in checking the book inventories and satisfied ourselves that they are reasonably stated at September 30, 1948.

"In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, taken in conjunction with the comments in notes to the consolidated financial statements, present fairly the consolidated position of Willys-Overland Motors, Inc., and its wholly owned subsidiaries at September 30, 1948, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent, except as explained in the preceding paragraph, with that of the preceding year." (Willys-Overland Motors, Inc.)

(3) ". . . 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 in the case of one plant on physical inventories taken at the year end and in the case of other plants on book inventories which were only partially confirmed during the year by physical checks of quanties 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 our observations of the physical counts were limited to those made at the plant at which a complete physical inventory was taken.

"In our opinion, with the explanation regarding the limitation of the scope of our examination of inventories as explained in the preceding paragraph . . ." (Chicago Railway Equipment Company)

(4) "We have examined the Consolidated Balance Sheet of The Electric Auto-Lite Company and Subsidiary Companies as of December 31, 1948 and the related statements of Profit and Loss and Surplus for the year then ended. Except as commented on in the succeeding paragraph, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"Because of the long standing shortages and insistent demand for necessary stocks for replacement markets as well as the large requirements of the automobile manufacturers for original equipment, the management again deemed it essential that production schedules in certain plants be maintained at the highest possible levels uninterrupted by shutdowns required for the taking of physical inventories. The book inventories at the plants at which no physical inventories have been taken since December 31, 1946, constituted 35% of the total inventory. We made studies based upon extensive tests of the records and accounting procedures during the two years and have satisfied ourselves as far as possible, without physical counts, that the book inventories are fairly stated. Physical inventories were taken at all other plants during the year, and our examination included the usual observation of inventory taking and checking of pricing and computations.

"In our opinion, subject to the confirmation of all inventories by physical counts, the accompanying Consolidated Balance Sheet and related Statements of Profit and Loss and Surplus present fairly . . ." (The Electric Auto-Lite Co.)

(5) "To avoid suspension of operations and the consequent interruption of production and delivery schedules for important customers in the automobile industry, the company omitted its customary practice of taking a physical inventory during the year. The inventory at September 30, 1948 is stated in accordance with ledger balances, not supported by physical counts at that date, which balances are based on the last previous physical inventory, taken June 30, 1947, plus the cost of materials purchased and labor and manufacturing expenses incurred in the interim, and minus the cost of products sold as determined through operation of the cost records. We reviewed the cost accounting procedures and records and made tests of the transactions reflected thereby for the year; we also took note of the substantial correctness of ledger inventory balances over a period of seven preceding years, demonstrated by comparison with annual physical inventories. Based on such review and tests we have no reason to believe that the ledger balances at September 30, 1948 should not be considered a fair representation of the inventory valuation at that date.

"In our opinion, subject to the foregoing explanations regarding the method of determination of the inventories and our examination pertaining thereto, the accompanying . . ." (Gemmer Manufacturing Company)

(6) "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 we were unable to make the usual inventory auditing tests at December 31, 1947 and 1946 since no physical inventory was taken by the company at either date. However, we did test the physical inventory taken at June 30, 1947 at which date the book inventory was adjusted.

"In our opinion, subject to the accuracy of the book inventory at December 31, 1947, the accompanying balance sheet presents fairly the financial position of the Pyle-National Company at that date, and subject to the accuracy of the opening and closing book inventories and any adjustments that may result from final settlement of the claim and Federal taxes incident to alleged irregularities (see Note 1 to the balance sheet) the related statements of income and expenses and earned surplus present fairly the results of operations for the year ended December 31, 1947. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with the preceding year." (Pyle-National Company)

The above quotation is from the Pyle-National Company's 1947 report. Here is the reference thereto from their 1948 report:

"Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary except that we were unable to make the usual inventory auditing tests at December 31, 1947 since no physical inventory was taken by the company at that date. However, we did test the physical inventories taken at June 30, 1947 and December 31, 1948 at which dates the book inventories were adjusted." (auditor's report)

(7) ". . . and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except that the scope of our examination did not include verification of inventory quantities and values; such quantities and values are as stated by the companies.

"In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and surplus, subject to the limitation of the scope of our examination, present fairly . . ." (George E. Keith & Company)

(8) "We have examined the consolidated balance sheet of H. K. Porter Company, Inc., and its subsidiary, as of December 31, 1948, and the consolidated statements of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances with the exception of physical inventories.

"Records supporting the changes in inventories at one of the divisions between the date of the last physical inventory, namely, October 31, 1948, and the end of the company's accounting year, December 31, 1948, were not completed and in proper order for satisfactory verification. The detailed observations and verifications made by us indicate the possibility that a further reduction might have been found necessary. This reduction would not, in our opinion, exceed $20,000 to $30,000.

"In our opinion, except as to the effect of the final determination of Federal income taxes, the final settlement of contingent liabilities and the further qualification as explained above with respect to inventories, the accompanying balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of H. K. Porter Company, Inc., and its subsidiary, at December 31, 1948, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, with the exception of items referred to in Notes B, C, and F to the financial statements." (H. K. Porter Company, Inc.)

An interesting opinion is that accompanying the Alabama Fuel and Iron Company report. No modification is made of the opinion paragraph, which is preceded by the following paragraph:

"Inventories of coal, merchandise and supplies are stated in accordance with the corporation's records without examination by us as to quantities, prices or condition; confirmation of accounts and notes receivable was not obtained by direct correspondence with the debtors but we satisfied ourselves by other means as to these items."

Audit of Accounts Receivable

Auditing Procedures Followed

A few companies mentioned that accounts receivable were confirmed (e. g., American Colortype Co., and American Hide and Leather Co.; the latter quoted in the preceding section). Such disclosures were usually made in conjunction with brief explanatory references to inventory procedures.

Auditing Procedures Omitted

The following excerpts illustrate cases where the auditor did not consider it practicable or reasonable to verify accounts receivable by direct correspondence. No qualifications appeared in the opinion paragraphs:

(1) "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, consist 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.)

(2) "It was not practicable to confirm receivables from certain chain store companies, as to which we have satisfied ourselves by means of other auditing procedures." (Adams-Millis Corp.)

(3) "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 best check of the records supporting these balances indicated that they were properly stated." (American Bank Note Co.—see also Archer-Daniels-Midland Co.)

In contrast to the above cases where no exception was taken in the opinion paragraph was the accountant's report on the Chicago Athletic Association:

"Auditing tests and checks of accounts and records concerning accounts receivable have been made but no direct communication with debtors was made.

"In our opinion, subject to the exceptions in the foregoing paragraph relating to the limitations of the scope of our examination . . ."

Footnotes to the report of A. B. Farquhar Co. stated as follows:

"Note 1—Accounts Receivable.
Accounts Receivable were confirmed by direct correspondence with the debtors as at October 31, 1948."

"Note 4—Accounts Payable.
Confirmations were not requested of creditors' accounts as at December 31, 1948."

Government Receivables

There has been a steady decline since 1946 in the number of reports which mention the inability to confirm accounts receivable from the U. S. Government, and the use of alternative procedures. Of twenty-two instances noted, in no case was the opinion paragraph qualified, and of these twenty-two cases, twelve were found in the reports of aviation manufacturing companies. (See report of International Telephone and Telegraph Corp. for impracticability of confirming receivables from certain governments.)

Audit of Subsidiaries and Investments

Audit by Others

Sixty-four reports of the 524 examined indicated that subsidiaries had been audited by other accountants.

Of these sixty-four references, in forty-one cases the opinion paragraph of the auditor's report was modified, whereas in twenty-three cases there was no such reference therein.

Incomplete Audits by Others

Two instances were noted in which independent accountants in foreign countries had omitted generally accepted auditing procedures with respect to accounts receivable and inventories of foreign subsidiaries and branches. The two such omissions were described as follows:

(1) "We have examined the consolidated balance sheet of MacAndrews & Forbes Company and its Wholly Owned Subsidiaries as of December 31, 1948 and the related consolidated statements of income and surplus for the year then ended. We have received reports of chartered accountants upon their examinations of financial statements of the company's foreign branches as of September 30, 1948 and its wholly owned subsidiaries as of December 31, 1948. Opinions expressed in the reports of the chartered accountants are qualified as to scope of their examinations which omitted generally accepted auditing procedures of confirming accounts receivable and making physical tests of inventories. Our examination at the domestic offices of the company was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"Assets and liabilities of the company's foreign branches have been included in the accompanying financial statements based upon unaudited branch reports as of December 31, 1948. Changes in assets, liabilities and results of operations of these branches during the three months ended December 31, 1948 reflected in such reports were not material in relation to the consolidated totals.

"In our opinion, based upon such examination, foreign branch reports and reports of chartered accountants, the accompanying balance sheet and statements of income and surplus present fairly the consolidated financial position of MacAndrews & Forbes Company and its wholly owned subsidiaries at December 31, 1948 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (MacAndrews & Forbes Company)

(2) "The financial statements of the parent company's branch in England have been included herein (in United States dollars) as reported upon by other independent accountants. The examination made by those accountants as of December 31, 1948 omitted generally accepted auditing procedures with respect to tests of accounts receivable by communication with debtors and observation of procedures employed in determining inventory quantities. Net assets of the branch in England at December 31, 1948 amounted to $1,490,930.59 and the net profit of such branch for the year amounted to $446,544.65.

"The accounts (not significant in the consolidated totals) of a minor subsidiary are included as shown by financial statements of that subsidiary.

"In our opinion, subject to the limitation of the scope of the examination of other accountants with respect to the receivables and inventories of the branch in England as stated in the foregoing paragraph, the accompanying . . ." (Art Metal Construction Company)

Subsidiaries Not Examined

Certain subsidiaries of the following companies were not audited by independent accountants. The following excerpts from auditors' certificates indicate how such situations were handled therein:

(1) "We accepted, after review, the report of independent auditors on the account of the Canadian subsidiary and the available financial statements, mainly the company's own statements supplemented by cable information, on the accounts of non-consolidated foreign subsidiaries and branches." (International Business Machines Corp.—no qualification in opinion paragraph)

(2) "We have examined the Statement of Financial Condition of International Harvester Company as of October 31, 1948, the related Summary of Income and Summary of Net Income Retained for Use in the Business for the year ended that date, and the supplemental schedules appearing on pages 21 and 22 herein. Our examination was made in accordance with generally accepted auditing standards and included such tests of the Company's accounting records and such other auditing procedures as we considered necessary in the circumstances.

"We have made similar examinations with respect to the Company's subsidiaries except seven subsidiaries having approximately 29.2% and 21.6%, respectively, of the aggregate net assets and the aggregate 1948 net income of all subsidiaries set forth in Note B to the schedule of Investment in Subsidiary Companies. The amounts included therein as to six of the subsidiaries not examined by us are based on reports of other accountants; the amounts included for the remaining subsidiary (approximating 4% of the respective totals) are based on unaudited financial statements.

"In our opinion, which as to the information presented with respect to subsidiaries is based on reports of other accountants and unaudited financial statements to the extent stated in the immediately preceding paragraph . . ." (International Harvester Company)

(3) "The accounts of foreign subsidiaries (except in four countries with total net assets of $397,166) were examined or tested by independent public accountants in the respective foreign countries as of August 31, 1948 in accordance with program which we prepared. We have reviewed their reports relating to such examinations, have had no exceptions to take to the adequacy and sufficiency of the examinations and tests made by such other accountants, have accepted such work in the same manner as if it had been done by us, and have reviewed the reports as of August 31, 1948 from the four subsidiaries not examined, and have accepted them as a proper basis for consolidating the accounts of foreign subsidiaries with the accounts of the domestic companies as of August 31, 1948. Current asset and current liability ac-

counts of foreign subsidiaries and other current accounts in foreign moneys have been included at prevailing exchange rates, at rates lower than nominally quoted, or at rates of current remittances." (Loew's Incorporated—no qualification in opinion paragraph)

(4) "Our examination of the balance sheet of the non-consolidated Mexican subsidiary, The Tiger Mining Company, S.A., attached hereto as Appendix I, was limited to the inspection of available records maintained in the Kansas City, Missouri, office of The Lucky Tiger-Combination Gold Mining Company.

"Subject to the valuation of the investment in the Mexican subsidiary explained in Note I, in our opinion . . ." (The Lucky Tiger-Combination Gold Mining Company)

(5) "In our opinion, the accompanying balance sheet and statements of income and earned surplus—unappropriated present fairly the financial condition of the Company at December 31, 1948, based upon the ledger values of the investments in affiliated and other companies, and the results of its operations for the year ended that date, in conformity with the accounting requirements prescribed by the Interstate Commerce Commission." (The Nashville, Chattanooga & St. Louis Railway)

(6) "We examined or tested those accounting records of the companies which are kept in New York, which constitute the general financial accounts of Pacific Tin Consolidated Corporation as to property, general cash, investments, receivables and payables, capital stock, surplus, etc. (other than operating items and the accounts for repairs and rehabilitation). As to the other accounting records of the companies, which are kept in Malaya and constitute the operating accounts of Pacific Tin Consolidated Corporation and the complete accounts of the two Malayan subsidiaries, we reviewed companies' reports, independent public accountants' reports, and other supporting evidence, including confirmations of bank balances in the United States and England. We received explanations from officers and employes of the companies and made a general review of the accounting methods and of the operating and income accounts for the year, but without making a detailed audit of all transactions.

"We believe that as to the accounts kept in Malaya, the detailed financial and operating reports of the companies, reports of independent public accountants and other supporting evidence, which we reviewed, were sufficiently comprehensive to provide an adequate basis for the expression of our opinion with regard to the related accounts. Further, we were satisfied that accounting procedures which were generally accepted in that country were being followed consistently. Such accounts have been included in the statements herewith after appropriate adjustments to bring them into conformity with accepted accounting procedures in the United States." (Pacific Tin Consolidated Corporation)

(7) "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 Continental Europe (other than Sweden and Switzerland) have not been consolidated, but the investments in these companies have been segregated in the consolidated balance sheet.

"In our opinion, subject to the exception indicated in the preceding paragraph regarding the accounts of subsidiary companies not examined by us, the accompanying . . ." (Gillette Safety Razor Company)

(8) "The amounts at which such of the Company's foreign subsidiaries and branches, as are not audited by us or by other independent accountants, are carried in the accompanying balance sheet, represent one per cent of the Company's consolidated net assets." (Socony-Vacuum Oil Company, Inc.)

(9) "We have not audited the accounts of all the affiliated companies (not wholly owned) and equities therein as stated in footnotes herewith are as analyzed by us from financial statements furnished us." (Universal Leaf Tobacco Company, Inc.)

(10) "We have examined the consolidated balance sheet of Monsanto Chemical Company and its subsidiary companies (exclusive of the British and Australian Companies) . . ."

Other References to Audit of Subsidiaries and Branches

The following additional mention of subsidiaries were also found in 1948 auditors' reports:

(1) "We have examined or tested the accounting records of the corporations consolidated and other supporting evidence, or, in the case of certain subsidiaries of relatively minor importance, have received and reviewed the reports of other independent public accountants. Such examination has included review of records and accounts at all the major mining or other properties and plants, confirmation of cash and securities and confirmation or tests of inventories and accounts receivable, to the extent we deemed appropriate." (Kennecott Copper Corporation)

(2) ". . . We also have made similar examinations with respect to the Canadian and domestic subsidiary companies not consolidated." (Bendix Aviation Corporation)

(3) "We have also examined the balance sheet as of October 31, 1948 of the subsidiary not consolidated and its statement of profit and loss for the ten months then ended." (Bayuk Cigars, Inc.—parent company statements dated December 31, 1948)

(4) "We have also examined the financial statements of the more important South American branches of the Company as at July 31, 1948, and, as heretofore, the operations and accounts of such branches as of that date are included in the attached balance sheet." (J. I. Case Company)

(5) "We have examined the consolidated balance-sheet of Hart Schaffner & Marx and its subsidiary companies as at November 30, 1948, and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and, accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1948, and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as of November 30, 1948, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmation in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the

financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income." (Hart Schaffner & Marx)

The auditor of Central and South West Corporation examined the statements of five public utilities and the consolidated group. In the second paragraph of his report he states:

"The examinations of the companies included in the consolidated group were completed between January 13th and February 11th, 1949."

Audit of Investments

The auditor's report accompanying the statements of The Byrndun Corporation is shown below because of its interesting references to the audit of investments and their valuation basis:

"We have examined the balance sheet of The Byrndun Corporation (a New York Corporation) as at December 31, 1948 and the income and surplus accounts for the year then ended, have reviewed the system of internal control and the accounting procedures of the company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable and included all procedures which we considered necessary in the circumstances. The investments of your Corporation in stocks of United States Hat Machinery Corporation and Hat Corporation of America were verified by physical count and inspection.

"Investments are stated herein at book value at December 31, 1948.

"Subject to the preceding paragraphs, in our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of The Byrndun Corporation as at December 31, 1948, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." (Byrndun Corp.)

The International Telephone and Telegraph Corporation were unable to confirm certain investments and receivables in countries under military control.

"Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except that we were unable to confirm investments and receivables aggregating $2,700,000 in countries under military control, and that it was not practicable to confirm receivables from certain governments; as to the latter, however, we have satisfied ourselves by other auditing procedures. We had previously made a similar examination for the year ended December 31, 1947. Financial statements of certain foreign subsidiaries included in the consolidated statements were not examined by us but we were furnished with reports of other auditors thereon." (International Telephone and Telegraph Corporation)

The following references made to the existence and valuation of investments appeared in 1948 auditors' reports:

(1) "The list of securities certified by the depository as being in its custody on December 31, 1948 agrees with the records of the Corporation." (No further reference in opinion paragraph—Carriers & General Corp.)

(2) "In our opinion, subject to the realizability of the amounts at which investments in and advances to two partly owned domestic subsidiaries are carried on the balance sheet (see Notes B & C thereon) . . ." (American-LaFrance-Foamite Corp.)

(3) "We have formed no opinion respecting the market value of mining investments included at their cost." (No further reference in opinion paragraph—Bunker Hill and Sullivan Mining and Concentrating Company)

Exceptions or Qualifications in Opinion Paragraph with Respect to Client's Accounting Treatments

In three 1948 reports the exceptions or qualifications were similar to those appearing in the related 1947 reports:

International Nickel Co. of Canada—see "Reserves" section.
National Lead Co.—Deviation from normal stock principle in 1946. No deviation in 1947 or 1948.
United Artists Theatre Circuit, Inc.—accruing of undistributed profits of affiliated company.

Excerpts from the auditors' reports containing exceptions or qualifications are to be found in other sections of this report, as indicated below:

Name of Company	Section
Ingersoll Rand Co.	Pension Plans
American Asphalt Roofing Co.	Increased Depreciation
Hercules Powder Co.	Increased Depreciation
American Locomotive Co.	Intangibles
West Virginia Pulp & Paper Co.	Past Service Pension Cost

Accounting Research Bulletin No. 35

Four auditors' certificates of seven noted in which there were explanations or exceptions in connection with charges or credits shown in the income statement after net income for the year are shown below.

In the first three excerpts an explanation was given in a separate paragraph preceding the opinion paragraph with no reference thereto in the latter paragraph. In the last report, there was some modification of the opinion paragraph:

(1) "During 1948 $6,500,000 was appropriated for possible further loss on foreign investments and has been deducted from the net income for the year shown in the consolidated income statement." (The Goodyear Tire & Rubber Co.)

(2) "During the year 1948, the reserve for contingencies was reversed. This reversal is reported in the accompanying statement of net earnings as an addition to, but after the determination of, the net earnings for the year. While this method of reporting has been recognized in the past, the Committee on Accounting Procedure of the American Institute of Accountants recently has recommended that items of this nature should not be shown in the statement of net earnings, but should be dealt with only in the statement of net earnings retained for use in the business. In our opinion, such treatment would have been preferable in this case." (The Arundel Corp.)

(3) "During the year $4,500,000 was appropriated as an additional reserve for unusual market conditions and other contingencies, and this appropriation has been deducted from the profit for the year in the accompanying statement of profit and loss." (Ely & Walker Dry Goods Co.) (see Borg-Warner Corp. for treatment similar to those above)

(4) "During the period an amount of $5,000,000 was appropriated as a reserve for inventory contingencies; this amount is shown as a deduction from net profit in the attached statement of consolidated profit and loss and is included in the reserve for inventory contingencies deducted from the merchandise inventories on the balance sheet.

"In our opinion, based upon our examination and the reports of other independent public accountants referred to in the second paragraph, and subject to the comment in the preceding paragraph . . ." (Burlington Mills Corp.) (See also American Chicle Co. & Universal-Cyclops Steel Corporation for treatment similar to Burlington Mills Corp.)

Bulletin No. 32

An exception referring to Accounting Research Bulletin No. 32 was found in the auditor's opinion on the statements of the W. L. Maxson Corp.:

"During the year 1943 the corporation received royalties in the amount of $350,000 under a license agreement which required that the royalties be repaid by the corporation unless it fulfilled a condition in the agreement requiring final allowance of a patent claim and/or issuance of a patent. In August, 1948 such patent was granted by the United States Patent Office and the royalties, which theretofore had been treated as a deferred credit in the corporation's accounts, were credited to income. It is our opinion that, in accordance with the recommendation of the American Institute of Accountants' committee on accounting procedure and consistent with the treatment accorded to extraordinary items in the corporation's accounts for the year 1947, these royalties, after deduction of applicable expenses of $31,095 and Federal income tax of $48,000, should have been credited directly to earned surplus in the net amount of $270,905 instead of to income.

"In our opinion, except as set forth in the preceding paragraph and subject to the ultimate outcome of the litigation referred to in Note 4, the accompanying consolidated balance sheet . . ." (The W. L. Maxson Corp.)

Other Exceptions

The following exception deals with the inadequacy of the reserve for depreciation:

"In our opinion, the current provision for depreciation made by the company is adequate; the reserve accumulated for depreciation is not considered to be fully adequate.

"Except for the effect of the matter set forth in the preceding paragraph, in our opinion . . ." (Kentucky Utilities Co.)

Inconsistencies with Prior Year's Treatments Mentioned in Accountants' Reports with no Disapproval Being Indicated Therein

Inconsistencies were generally mentioned at the end of the opinion paragraph of the auditor's report. This contrasts with those items classed as exceptions or qualifications and described in the preceding section, which were generally mentioned after the opening words "In our opinion . . ." at the beginning of the opinion paragraph. The changes in policy which gave rise to these inconsistencies were usually described in detail either in a footnote or in a separate paragraph of the auditor's report preceding the opinion paragraph. The inconsistencies noted in the 524 reports tabulated (one report was uncertified) are classified by subjects and described below:

Inventories—9

Four of these references were to the adoption of the LIFO method (see previous references thereto in "Method of Determining Cost").

Phillips Petroleum Company computed manufacturing cost on the relative value method rather than the by-product method.

RKO Radio Pictures, Inc., wrote off to profit and loss the cost of certain stories and continuities which would previously have been included in inventories of production.

The Ohio Match Company, in order to conform with Treasury Department findings, adjusted inventories from standard to actual cost.

Clark Equipment Company made a change in its method of computing overhead.

H. K. Porter Company, Inc., was not able to ascertain the market value of a small portion of its inventory at December 31, 1948, so that inventory pricing was inconsistent to that extent.

Anderson-Prichard Oil Corporation changed its method of determining the market or realization values of certain products for use in allocating crude oil costs.

Depreciation—12

Eight companies referred to inconsistencies in connection with the adoption of accelerated depreciation policies. These inconsistencies were usually mentioned where no retroactive application of the policy was made. Where in the 1948 report, the reported 1947 comparative statement had been adjusted retroactively, no consistency reference was required. (See the section on "Increased Depreciation" and reports of Companies Index Nos. 364, 419, 501, 503, 480, 222, 282, 184)

California Packing Company mentioned as an inconsistency the fact that in 1948 there was no appropriation from earnings as there had been in 1947 to cover a portion of the estimated increase in cost of future replacements of plant and equipment. (See section on "Increased Depreciation")

Marmon-Herrington Company, Inc., recomputed depreciation charges for 1946, 1947, and 1948 based on increased estimates of the remaining useful lives of restored fully-amortized war facilities, crediting the difference for 1946 and 1947 to earned surplus.

The Quaker Oats Company (6/30/48) capitalized furniture and fixtures and minor equipment, having formerly expensed such items. This change was made retroactive to January 1, 1942.

Lawrence Portland Cement Company adjusted buildings, machinery and equipment and related reserves to their income tax basis.

Past Service Pension Cost—2

The May Department Stores Company charged payments applicable to prior years' services to earnings, whereas similar payments in prior years had been charged to accumulated earnings retained in the business.

The American Viscose Company charged to income a special payment made in 1948 to the pension fund trustee. Under the method previously followed this amount would have been paid in installments and charged to income over several future years.

Consolidation Policy

Continental Motors Corporation, California Packing Corporation, and Sinclair Oil Corporation included specific subsidiaries for the first time. (Paramount Pictures Inc. excluded subsidiaries operating in foreign countries other than Canada, but restated the financial statements of the previous year accordingly.)

Taxes—2

American Window Glass Company made a change in accounting policy involving a tax allocation in connection with the provision for Repairs and Stand-by Expenses.

General Electric Company discontinued making provisions for taxes or undistributed earnings of affiliates because such distributions were unlikely and the amount of the tax involved was not significant.

Non-Producing Leaseholds—2

Gulf Oil Corporation established a reserve in 1948 by a special charge to income against which will be charged the costs of such leases and mineral fees as are surrendered or otherwise disposed of. This reserve will be maintained by charges to income. Previous policy had been to charge income in the year of surrender with the costs of surrendered leases.

Phillips Petroleum Company in 1948 charged to expense dry hole costs and concessions released in Venezuela which were capitalized in prior years. Similar amounts capitalized in prior years were also charged to expense in 1948.

Miscellaneous

1 Continental Baking Company charged goodwill to earned surplus.

1 General Electric Company transferred to earned surplus a portion of the reserve for investments and a portion of the general reserve.

1 Expenditures during 1948 in developing and acquiring certain manufacturing facilities were capitalized by H. K. Porter Co., Inc. In 1947, similar expenditures were charged to operating expenses. In addition, profit on sales of certain property sold prior to 1948 were taken into income in 1948.

1 Lawrence Portland Cement Company transferred to capital surplus the balance remaining in the reserve for contingencies.

1 Liberty Products Corporation in 1948 took finance revenue on customers' installment notes into income on an earned basis rather than upon execution of the installment contract.

1 Safeway Stores Inc. included certain items of costs and expenses incidental to the company's manufacturing and warehousing operations in cost of sales in 1948 rather than, as formerly, in operating and administrative expenses.

1 Twentieth Century-Fox Film Corporation adopted a policy in 1948 whereby appropriations for preferred stock retirement were recorded in the same year as that in which earnings were recorded. In previous years, appropriations were not recorded until authorized by the Board of Directors.

1 National Cast Register Company in 1948 (1) recorded sales at the time of installation by local branch offices, instead of at the time of shipment from the factory, and (2) deducted net income of subsidiaries and branches outside of the Western Hemisphere in arriving at net income for the year.

1 Bethlehem Steel Corporation provided for vacation payments in the year in which they were considered earned rather than in the year of payment.

1 Pathe Industries, Inc., (1) changed its rate of amortization of released productions, (2) wrote off certain excessive costs that could not be recovered, (3) charged certain direct advertising expenses to income as incurred rather than on a basis of expected future income, and (4) created an additional reserve from surplus for advances to other producers.

1 The California Oregon Power Company in June, 1947, had charged to earned surplus the unamortized redemption premium and expense at May 31, 1947, on bonds redeemed in 1944. Such change in practice was noted in the 1948 report as an inconsistency.

1 Materials and supplies were formerly included as foreign currency working capital and revalued at the rates of exchange prevailing at the end of each period. In 1948 such items were excluded from foreign currency working capital in the computation of exchange adjustments. (American & Foreign Power Company, Inc.)

Opinion Rendered Subject to Future Eventualities

A number of cases were noted in which the opinion paragraphs of the auditor's report were modified because of matters (chiefly taxes) which remained unsettled or pending at the time such report was written.

Variations in the manner of expressing such modifications made it difficult to classify such reports. For this reason the phrasing of the opinion paragraph in so far as it pertains to certain of these modifications is shown below:

(1) "In our opinion, subject to the possibility of additional Federal income taxes for the years 1938 to 1942 . . ." (Air Reduction Co., Inc.)

(2) "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.)

(3) "In our opinion, subject to the possible adjustment of the future estimated loss on the Convair-Liner Project, as explained in Note 3 to the financial statements . . ." (Consolidated Vultee Aircraft Corp.)

(4) "In our opinion, subject to the effect of renegotiation proceedings for the year 1945 (see Note D to financial statements) . . ." (The Glenn L. Martin Co.)

(5) "In our opinion, subject to such adjustments, if any, as may be necessary upon completion of price-revision proceedings (see Note 1) . . ." (North American Aviation, Inc.)

(6) "In our opinion, except as to the effect of the final determination of Federal income taxes, the final settlement of contingent liabilities and the further qualification as explained above with respect to inventories . . ." (H. K. Porter Co., Inc.)

(7) "In our opinion, except as set forth in the preceding paragraph and subject to the ultimate outcome of the litigation referred to in Note 4 . . ." (The W. L. Maxson Corp.)

(8) "In our opinion, subject to the effect of the Government's anti-trust litigation mentioned in Note E to the consolidated balance sheet . . ." (United Artists Theatre Circuit, Inc.)

(9) "In our opinion, based upon our examination and on the accounts and information furnished to us and subject to the adjustments which may ultimately be required to be made in respect of recording the original cost of gas plant, as explained in Note 2 to the financial statements . . ." (Cities Service Co.)

(10) "As indicated in the accompanying notes, the financial statements do not reflect possible recoveries under claims for just compensation from the United States Govment, nor the effect, if any, of the renegotiation of war contracts and the final determination of tax liabilities.

"In our opinion, subject to the comments in the preceding paragraph . . ." (American-Hawaiian Steamship Co.)

Opinion Expressed with Reservation as To Particular Item

The certificates quoted below are differentiated from those classed as exceptions or qualifications because in the following cases the auditor states that he is unable to pass on or substantiate certain items which may or may not be valid (italics ours):

(1) "In our opinion, subject to the adequacy of the companies' provisions for property retirement (the basis for which is set forth in the statement on pages 22 and 23), *as to which we are not in a position to express an opinion,* the accompanying balance sheets and related statements of income and summaries of earned surplus, with their footnotes and explanations, present fairly the financial position of the companies at December 31, 1948 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year except for the change as to foreign exchange conversions referred to on page 22, which change we approve." (American & Foreign Power Company, Inc.)

(2) "The customary auditing procedure in connection with the examination of the statements of the Alaska Juneau Gold Mining Company has been to audit the records of the mine office during the summer; an audit is planned for the summer of 1949. The limitations of the examination to the records of the San Francisco office means that *we can express no opinion at the present time as to the supply inventory, Juneau cash accounts, miscellaneous receivables and certain accrued liabilities; should any differences develop we will report thereon at a later date.*

"In our opinion, the accompanying . . ." (Alaska Juneau Gold Mining Co.)

(3) "The investments stated to us by the custodians as being in their custody on December 31, 1948 agree with the records of the corporation.

"Assets totaling $12,122,617 are carried in the accompanying statement of financial condition on the basis of management's valuations. *We are not in a position to substantiate these valuations but we have no information that would lead us to question them.*

"Based upon our examination and upon the management's valuations of assets referred to above, in our opinion, the accompanying . . ." (Atlas Corp.)

(4) "*Sufficient evidence as to future realizability has not been available to us to permit us to pass upon the propriety of including as assets the amounts referred to in Notes A to D to the financial statements.*

"Except as stated in the preceding paragraph, it is our opinion that the accompanying balance-sheet and related statements of profit and loss and surplus present fairly the consolidated financial position of Harvill Corporation and its subsidiaries at October 31, 1948 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied, except as stated in Note A, on a basis consistent with that of the preceding year." (Harvill Corp.)

The notes referred to are shown below:

"Note A—Costs of tooling manufactured for certain customers, in excess of prices paid therefor by customers, were deferred at the balance-sheet date to be charged against orders on hand or anticipated future production in which such tooling will be used. Such deferred costs amounted to $43,244.69, of which $22,370.86 is chargeable against production under customers' orders on hand and $20,873.83 is to be charged against production under anticipated orders. Had such costs been absorbed in operations, as in previous years, the net loss for the year would have been increased $43,244.69.

"Note D—Settlement of the account of a bankrupt debtor was made by accepting dies and tooling in lieu of the balance of $23,528.79 due on the debtor's account. The debtor's business has been sold and it is expected that sales of parts to the new owner will permit the amortization of this amount."

(5) "In view of the circumstances stated in Note C of the Notes to Accounts, *we are unable to express an opinion on the federal and state income tax liabilities of a subsidiary company for certain years prior to 1948.*

"In our opinion, *which is reserved with respect to the liabilities referred to in the preceding paragraph, the accompanying . . .*" (Follansbee Steel Corp.)

(6) "As stated in Note C to the financial statements, the company transferred from its railway plant accounts to Deferred Debits an amount which represented the book cost, less retirement reserve and salvage, of abandoned street railway property and, pending the determination of a fair value for bus franchises, is amortizing such amount by charges to income over the remaining life of the franchises; further, as motorization of the presently operated railway lines is completed, similar treatment is to be given to the then book cost, less retirement reserve, of railway property.

"*Pending the determination of fair value for bus franchises, we are not in a position to express an opinion as to the appropriateness of the amount deferred or to be deferred in respect of abandoned railway property or the amortization thereof.* In all other respects, except for:

"(1) the classification as current assets of special deposits and funds in the amount of $1,581,402.49 which, in our opinion are noncurrent,

"(2) the classification as a reserve of $721,843.60 (of which $190,721.09 was paid in April 1949) of retroactive wage claims which in our opinion, is a current liability,

"(3) the probable inadequacy of the provisions for retirement (depreciation), and

"(4) the effect of such adjustments as may be required upon determination of the liabilities involved in the matters referred to in Note K to the financial statements,

in our opinion, the accompanying financial statements pages (10 to 15) present the assets and liabilities of Third Avenue Transit Corporation and its subsidiary companies at December 31, 1948, and the revenues, expenses and income deductions for the consolidated group for the year 1948, in conformity with generally accepted accounting principles applied, except for the change in providing for depreciation of buses explained in Note D to the financial statements, which change we approve, on a basis consistent with that of the preceding year."

Opinion Not Expressed on Statements As a Whole

A few instances were found in which the auditors did not express an opinion on all or part of the financial statements.

The auditors of R. G. LeTourneau, Inc., presented a certificate but did not express an opinion on the financial statements. Their certificate follows:

"We have examined the consolidated balance-sheet of R. G. LeTourneau, Inc. and its wholly owned subsidiaries as of December 31, 1948 and the related consolidated statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

"The inventories include substantial amounts in respect of slow-moving and possibly obsolete items, and equipment requiring further engineering and development. The management, assisted by a firm of outside engineers, is presently engaged in a survey of the company's products and potential markets, and pending completion of this survey we are unable to determine the amount of inventories which might be classified as non-current and also to form an opinion as to the marketability of the inventories at the values at which they are carried in the balance-sheet.

"During the year 1948 expenditures approximating $1,200,000 were made in connection with unusual servicing of products in the field. Further expenditures in this respect will be incurred in 1949 but in the opinion of the management in lesser amount. It is not possible to estimate the liability for servicing existing at December 31, 1948 and no provision has been made therefor in the accounts.

"We believe that the materiality of the matters dealt with in the two preceding paragraphs precludes our expressing an opinion on the financial position of the Companies as at December 31, 1948 and on the results of their operations for the year then ended. Except for the effect of the foregoing, the consolidated balance sheet and related consolidated statement of profit and loss and earned surplus have been prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

The auditors of FitzSimons and Connell Dredge & Dock Co. expressed an opinion only on the balance sheet. Following this they quoted the amount of "net profit carried to surplus" in a final paragraph. The company presented a "Condensed Statement of Income and Earned Surplus" which did not show sales or cost of sales.

Accountant Indicates Preferred Treatment

The following excerpts from auditors' reports illustrate the expression of a preference by the accountant for treatments other than that followed by their clients in 1948:

(1) "Long terms notes receivable include $629,707.06 arising from the sale of distribution rights to prior years' productions as more fully described in Note 5 to the financial statements. Liquidation of these notes depends on the future sales ability of the buyer and while this has been demonstrated in the past by the substantial liquidation of the first note, it is not expected that all the notes will be fully paid for several years. *Under these circumstances we believe it would be preferable to take into income only the amounts realized.*

"In our opinion, subject to the comment in the next preceding paragraph . . ." (Pathe Industries, Inc.)

(2) "In accordance with the plan of accounting previously followed by the companies and as explained in Notes 1 and 4, profits on sales of metals in the net amount of $1,561,418.03 during 1948 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. The companies' methods of accounting with respect to profits from metal price fluctuations are, in our opinion, acceptable, *although under alternative practice such items might be included in profit and loss.*

"In our opinion, subject to the remarks in the preceding paragraph, the accompanying . . ." (U. S. Smelting Refining & Mining Co.)

(3) "In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of Chicago South Shore and South Bend Railroad as of December 31, 1948 and the results of its operations for the year then ended, in conformity with principles of accounting prescribed by the Interstate Commerce Commission, applied on a basis consistent with that of the preceding year. *However, in our opinion, the aggregate amount, classified in the accompanying balance sheet of the company as reorganization adjustments of capital and as paid-in surplus arising from the reduction in capital stock, should preferably be classified as a general property reserve.*" (Chicago South Shore and South Bend Railroad)

(4) "It is the company's practice to record dividend income on a payment date basis in order to conform the income account to the taxable status of the company's dividend income prescribed in a U. S. Treasury Department ruling; consistent with this basis, dividends (on the company's investments) declared, but not payable within the period, are reflected in unrealized appreciation or depreciation of security investments rather than in undistributed income. *The preferable accounting treatments, in our opinion, would be to record dividend income on the ex-dividend date basis.*

"In our opinion, with the explanation in the preceding paragraph, the accompanying financial statements . . ." (Group Securities, Inc.)

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-FoamiteCorp.
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. Armco Steel Corp.
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. Avco Manufacturing 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 Co.
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 & Reynolds 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. du Pont 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 and Chemical 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 Morrel & 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 Calif.
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 Co.
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.