1922

Balance sheets and profit and loss statements: analyzed and defined for business executives

Boston Chamber of Commerce. Bureau of Commercial and Industrial Affairs Committee on Industrial Accounting and Executive Reports

BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS

ANALYZED AND DEFINED FOR BUSINESS EXECUTIVES

BUREAU OF

COMMERCIAL AND INDUSTRIAL AFFAIRS

COMMITTEE ON INDUSTRIAL ACCOUNTING AND EXECUTIVE REPORTS

BOSTON CHAMBER OF COMMERCE

BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS

ANALYZED AND DEFINED FOR BUSINESS EXECUTIVES

BUREAU OF

COMMERCIAL AND INDUSTRIAL AFFAIRS

COMMITTEE ON INDUSTRIAL ACCOUNTING AND EXECUTIVE REPORTS

BOSTON CHAMBER OF COMMERCE

BUREAU OF COMMERCIAL AND INDUSTRIAL AFFAIRS

OF THE BOSTON CHAMBER OF COMMERCE

MELVILLE D. LIMING, *Manager*

ZORA P. WILKINS, *Assistant*

Organized to co-operate with existing establishments in promoting better management methods; to bring to Boston and New England additional industries and greater volume of trade, and to furnish reliable information regarding industrial conditions.

Personnel of the Committee on Commercial and Industrial Affairs:

HOWARD COONLEY, *Chairman*, Walworth Manufacturing Company

PHILIP R. ALLEN, Bird & Son, Inc.

CHARLES S. BIGSBY, C. S. Bigsby Company

FRED I. BROWN, Brown-Howland Company

HARRY L. BROWN, Waltham Watch Company

DURWARD E. BURCHELL, Graduate School of Business Administration, Harvard University

CHARLES B. BURLEIGH, General Electric Company

HENRY S. DENNISON, Dennison Manufacturing Company

HARRY B. GILMORE, Western Electric Company

ROBERT A. LEESON, Universal Winding Company

NORMAN H. MAYO, Aberthaw Construction Company

EDGAR C. RUST, E. H. Rollins & Sons

BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS

ANALYZED AND DEFINED FOR BUSINESS EXECUTIVES

BUREAU OF

COMMERCIAL AND INDUSTRIAL AFFAIRS

COMMITTEE ON INDUSTRIAL ACCOUNTING AND EXECUTIVE REPORTS

BOSTON CHAMBER OF COMMERCE

COMMITTEE ON INDUSTRIAL ACCOUNTING AND EXECUTIVE REPORTS

CHARLES L. TALBOT, *Chairman,* Lockwood, Greene & Company, Inc.

DURWARD E. BURCHELL, Graduate School of Business Administration, Harvard University

E. STEWART FREEMAN, Dennison Manufacturing Company

J. ARTHUR GIBSON, Simplex Wire & Cable Company

WILLIAM V. LINDBLOM, Walworth Manufacturing Company

FRANK H. ROWSON, Thomas G. Plant Company

CHARLES S. REARDON, Lever Brothers Company

BENJAMIN THOMAS, Hood Rubber Company

WILLIAM H. WALKER, General Electric Company

MELVILLE D. LIMING, *Secretary,* Bureau of Commercial and Industrial Affairs

BUREAU OF COMMERCIAL AND INDUSTRIAL AFFAIRS
BOSTON CHAMBER OF COMMERCE

BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS

ANALYZED AND DEFINED FOR BUSINESS EXECUTIVES

BUREAU OF

COMMERCIAL AND INDUSTRIAL AFFAIRS

COMMITTEE ON INDUSTRIAL ACCOUNTING AND EXECUTIVE REPORTS

BOSTON CHAMBER OF COMMERCE

Table of Contents

FOREWORD

FACTS AS AN AID TO JUDGMENT:

Good judgment on any question consists in securing all relevant information about it, and assigning correct weight to each fact. A business executive can have no confidence, therefore, in a judgment based on partial or unreliable data. The first requisite for making good decisions is a trustworthy method of ascertaining facts and of bringing them before those who must decide. In the smaller business the chief executive finds most of the necessary data easily accessible, but as the business grows larger and more complex, it becomes at the same time more difficult to get full information and more dangerous to do without it.

AIDING THE EXECUTIVE TO GET THE FACTS:

The active, creative type of executive usually found at the head of large concerns rarely has a bent for research and detailed analysis. He may be aware of the danger of acting on "hunches," but he rarely has the time to go deeply into basic information for his conclusions. He likes to have facts sifted in a preliminary way and served up to him in a palatable form, so that he can digest and assimilate them with the minimum of time and effort. To meet this requirement, which is the primary aim of executive reports, there must be much thought given to the manner of constructing and interpreting such reports.

CLASSIFICATION OF REPORTS:

The Sub-Committee on Industrial Accounting and Executive Reports of the Boston Chamber of Commerce has held a series of meetings for the purpose of discussing this subject. It has made the following classification of executive reports, and proposes to take them up in the order named:

Internal Business Reports

(a) Administrative.
(b) Financial.
(c) Sales.
(d) Production.

External Business Reports

(e) Economic.
(f) Technical.

Methods of Interpretation

(g) Graphic Charts.
(h) Tables.

This analysis, which is the first of the series which the Committee will issue, deals with administrative reports on balance sheets and statements of profit and loss.

The Committee acknowledges the valuable services rendered by Mr. F. R. Carnegie Steele of Boston in reading and criticising the manuscript of this report.

Balance Sheets and Profit and Loss Statements

Analyzed and Defined for Business Executives

ADMINISTRATIVE REPORTS

BASIC CHIEF EXECUTIVE REPORTS:

The two basic reports which the chief executives of any business enterprise should receive currently are:

1. The Balance Sheet, and
2. The Statement of Profit and Loss.

The Balance Sheet represents the financial condition of a business at a given date, and the Statement of Profit and Loss explains the change in net worth resulting from the industrial or business operations during a given period. The Balance Sheet and the Statement of Profit and Loss are prepared not only for those who operate the business, but also for those who own it.

These statements are useful from at least three viewpoints, in each of which the executives should be interested:

1. Efficiency of Operations and Management.
2. Credit Risk.
3. Investment Standpoint.

The Balance Sheet with a proper analysis and construction of Profit and Loss and an intelligent classification of assets and liabilities should give adequate information with respect to credit risk and the investment point of view, and clearly indicate the result of operations and management. The Committee has endeavored to study and analyze these basic executive reports comprising the Balance Sheet and the Statement of Profit and Loss solely from the point of view of an executive.

It has not been considered the function of the Committee to determine for all industrial businesses an inflexible standardized Balance Sheet or Statement of Profit and Loss; neither has the Committee attempted to use a terminology which is not interchangeable. Each business must be allowed certain latitude in matters of terminology so long as that terminology does not violate sound accounting or business principles.

It will be assumed that the readers of this report are, in general, familiar with these two basic statements known as the Balance Sheet and the Statement of Profit and Loss. Hence the Committee has attempted to set forth merely:

1. An arrangement and classification of those accounts which are involved in a more intelligent construction of the Balance Sheet and the Statement of Profit and Loss.
2. An interpretation of the Balance Sheet and the Statement of Profit and Loss so as to enable an executive to understand and follow the trend of his business.

THE BALANCE SHEET

THE BALANCE SHEET DEFINED:

As previously stated, the Balance Sheet is a statement of the financial condition of a business, and must necessarily set forth information as to solvency and net worth. The Balance Sheet states the amount of capital invested in the business, its character, its source, the nature of the assets, liabilities and reserves.

The difference in net worth shown by the Balance Sheet at the beginning and at the end of a given period does not necessarily disclose the net result of the business operations during that period. There are other transactions affecting net worth which do not come within the purview of a Statement of Profit and Loss. These transactions should be separately stated, so that all additions to or deductions from net worth may be followed. The purpose of the Statement of Profit and Loss is to show the amount and nature of the business income and the amount and nature of the various costs and expenses which made the business income possible. The net result of these transactions is an addition to or a subtraction from net worth which, on the Balance Sheet, is the sum of the capital stock outstanding, the accumulated profit and the surplus.

The Balance Sheet may also be defined as a statement of assets, liabilities and ownership. It is customary to analyze these principal factors of the Balance Sheet into certain main groups. The items which fall within the several groups will vary according to the nature of the business.

BALANCE SHEET ACCOUNTS:

The Balance Sheet accounts may be grouped under a comparatively few headings, for instance, the Balance Sheet account groups are:

1. *Assets*
   - (a) Current Assets.
   - (b) Sinking Fund Assets and Investment of Reserves.*
   - (c) Fixed Tangible Assets.
   - (d) Fixed Intangible Assets.
   - (e) Advances and Deferred Charges to Operations.
   - (f) Miscellaneous.
2. *Liabilities*
   - (a) Current Liabilities.
   - (b) Accrued U. S., State and Local Taxes.
   - (c) Funded Liabilities.
   - (d) Contingent Liabilities.

*Where Sinking Fund Assets include bonds or other securities held for Trustees of those securities, the securities so held should not be grouped with securities held free from liens, but should be grouped separately.

3. *Net Worth*
   - (a) Capital Stock Outstanding.
   - (b) Accumulated Profits and Surplus.
   - (c) Surplus Reserves.

Another subsidiary grouping of accounts is also used which should be deducted from either the assets or the liabilities grouped above. The purpose of these deductions is to obtain a remainder which is the current value of the asset or the net outstanding liability, as the case may be. These accounts may be grouped as follows:

4. *Reserves for Depreciation of Assets*
   - (a) Reserve for Notes Receivable deductible from 1 (a).
   - (b) Reserve for Accounts Receivable deductible from 1 (a).
   - (c) Reserves for the depreciation of other assets, such as merchandise, securities, etc., deductible from 1 (a).
   - (d) Allowances for depreciation, deductible from 1 (c).
5. *Amounts expended in the acquisition or reduction of*
   - (a) Funded Liabilities deductible from 2 (c).
   - (b) Outstanding Capital Stock deductible from 3 (a).

While Reserves for notes and accounts receivable appear under the same classification as allowances for depreciation, the cause and purpose of these reserves are not the same. Allowances for depreciation represent a sustained loss in the invested value of the corresponding assets, while reserves for notes and accounts receivable indicate probable losses upon realization of those assets into cash. The conservative executive will provide ahead against this probability by an immediate charge to the surplus or profit and loss account.

> Among current assets will be included such investments as Liberty Bonds, Treasury Notes and other Federal or Municipal Securities. Many businesses invest temporarily in this class of security as a satisfactory means of utilizing funds not immediately required in manufacturing operations. These investments would be included under the group 1 (b) above.
>
> During the past few years there has been quite an increase in the number of Preferred Stock issues with Sinking Fund provisions. Stock is bought under the terms of those provisions in anticipation of Sinking Fund requirements and carried in the meantime as stock in the Treasury. This stock would also be included under the group 1 (b) above.

The foregoing simply suggests certain group titles; the accounts or items falling under the respective titles are set forth in detail in a complete supplement which contains an extensive classification and definition of accounts adapted to industrial accounting. A copy of this supplement may be obtained from the Boston Chamber of Commerce upon application. For immediate reference, a general idea of classification is given in the following table:

CLASSIFICATION OF BALANCE SHEET ACCOUNT GROUPS

ASSETS

Current Assets	Sinking Fund Assets and Investment of Reserves*	Fixed Intangible Assets	Securities Held as Permanent Investment in Other Corporations	Fixed Tangible Assets	Advances and Deferred Charges to Operations	Miscellaneous
Cash Marketable Securities Notes Receivable Accounts Receivable Merchandise Inventories (including materials and supplies).	Investments in Company's own: 1. Stocks 2. Long-time Notes or Bonds Other Securities (*These accounts should be deducted from corresponding items of funded liabilities or net worth respectively.)	Leases Patents Trademarks Goodwill		Land Buildings Machinery Furniture and Fixtures Drawings and Patterns Miscellaneous Equipment	Advances Prepaid Expenses Claims	Organization Expense Discount on Stocks Sold Discount on Bonds Sold Premium on Treasury Stock

If any assets appearing in any of the above groups are pledged as collateral or used in any way to secure loans or debts, a notation thereof should be made on the Balance Sheet. If this is not done, a general creditor will not be correctly informed regarding the collectibility or value of his claim, while the executive may overlook the effect of the pledge upon the general credit of the business. Accounts Receivable or Notes Receivable that may be due from controlled or affiliated organizations or from officers, partners or employees should not be merged with Items Receivable from independent organizations, but should be separately shown.

RESERVES FOR DEPRECIATION OF ASSETS

Deductible from accounts as they appear in the corresponding columns above.

Reserve for: Notes Receivable Accounts Receivable Depreciation of Inventories		Reserve for Expiration of: Leases Patents		Reserve for Depreciation of: Buildings Machinery Furniture and Fixtures Drawings and Patterns Miscellaneous Equipment		Reserve for: writing down organization expenses Discount on Treasury Stock

CLASSIFICATION OF BALANCE SHEET ACCOUNT GROUPS

LIABILITIES

Current Liabilities	Accrued U. S. State and Local Taxes	Funded Liabilities	Contingent Liabilities
Acceptances Payable Notes Payable Drafts Payable Against Letters of Credit Accounts or Vouchers Payable Accrued Expenses Dividends Payable	U. S. Income Tax U. S. Capital Stock Tax State Excise Tax Local Property Taxes Other Statutory or Municipal Taxes	Long Term Notes Mortgage Notes Debentures Other Bonds	Notes Receivable Discounted Endorsements or Guaranty Forward Commitments for Merchandise Unused Letters of Credit

Liabilities that are secured or that are entitled to preference should not be merged with unsecured liabilities. Secured liabilities have a distinct bearing upon the question of solvency, and on the Balance Sheet they should be shown separately.

> NOTE: Contingent liabilities should be stated in memoranda on the Balance Sheet. To include them as a direct liability would not necessarily show a correct current financial status, as the contingency may never resolve itself into a definite claim against the business.

NET WORTH:

The net worth of any business is represented by the sum of the capital stock outstanding, the accumulated profit, and the surplus. It is that amount which is the difference between the sum of all the assets and the liabilities. If the sum of the liabilities, exclusive of the capital stock outstanding, the accumulated profit and the surplus, exceeds the sum of the assets, the difference is the amount by which capital stock outstanding is impaired. Net worth is usually classified under a separate group as follows:

NET WORTH GROUP:

Capital Stock Outstanding, which, less the stock held in treasury and shown above in second column of assets, gives stock outstanding.

Surplus and (or) Accumulated Profits.

Surplus Reserves.

If a deficit exists, Net Worth is arrived at by deducting the deficit from Capital Stock outstanding.

BOOK VALUE OF STOCKS:

Net worth, determined by adding together the Capital Stock outstanding, Surplus and Accumulated Profits and Surplus Reserves, indicates the total book value of the shares of stock outstanding.

The Balance Sheet which follows on pages 13-14 shows two elements in Net Worth:

Capital Stock issued	$500,000
Surplus	440,000
Net Worth or Total Book Value of shares outstanding	$940,000

If we assume that the shares issued are each $100 par, there is outstanding 5,000 shares, dividing the Net Worth of $940,000 by 5,000, we arrive at a book value per share of $188.00.

The table below indicates the alternative method of arriving at the total book value of the shares outstanding. The total book value of the shares outstanding is the difference between the sum of the assets and the sum of the funded and current liabilities. Liabilities used in this sense is exclusive of Capital Stock, Surplus and Undivided Profits, and Surplus Reserves.

Total Assets (see Balance Sheet, page 14)		$1,520,000
Less: Liabilities:		
Current Liabilities (page 13)	$230,000	
Funded Liabilities (page 13)	350,000	
		580,000
Net Worth or Total Book Value as above		$ 940,000

If we consider a business which has two classes of stock, viz.: Preferred and Common, each of $100 par value, the book value of each class of stock must be computed separately.

Referring again to the Balance Sheet below, we will vary the elements of Net Worth as follows:

Preferred Stock issued	$200,000	
Common Stock issued	300,000	
		$ 500,000
Surplus		440,000
		$940,000
In order to compute the book value of the Common Stock we will deduct from the total book value of		$ 940,000
2,000 shares of Preferred Stock at par		200,000
Balance applicable to 3,000 shares of Common Stock		$ 740,000
Book Value per share of 3,000 shares of Common Stock is arrived at by dividing $740,000 by 3,000=		$ 246.66

In cases where no par value stock is involved the divisor, instead of representing a given number of shares of a par value, represents the sum of the shares of participation or interest in the Net Worth of the business. When a business has appropriated from its general Surplus Account certain sums to an undesignated reserve against which no immediate contingency lies, such appropriations are still a part of the Net Worth of the business, and should be included when figuring the book value of its stock or the amount of its capital.

ARRANGEMENT OF BALANCE SHEET:

A Balance Sheet constructed so as to reflect substantially the above classification of assets, liabilities and net worth follows on pages 13-14.

THE BALANCE SHEET

ARRANGEMENT OF BALANCE SHEET:

A sample balance sheet so constructed as to show substantially the classification of accounts set forth on pages 8-9 is given on pages 13-14.

All the items appearing under the group "Current Assets" suggest an element of ease with which those not already converted into cash may be converted. Each item has a very definite relation to cash in obvious sequential order. The arrangement also indicates the possibilities of the current assets in terms of liquidity. It seems logical to place current liabilities first among the liabilities for comparison with current assets. This brings the question of solvency immediately to notice, and is considered a convenient arrangement when the Balance Sheet is to be used as a basis of credit. The importance of the assets of a business is not necessarily determined by the order of the assets on the Balance Sheet. It is essential, however, to recognize the relation of the several groups of assets to the several groups of liabilities and capitalization. Whatever plan of grouping is followed, the order on the liability side of the Balance Sheet should correspond with the order given to the assets on the other side of the Balance Sheet, *i. e.*, current assets should appear opposite current liabilities, and fixed assets opposite to funded debt and capitalization.

In this sample Balance Sheet, current liabilities of $230,000 compare with current assets of $528,000. If it is assumed that there are no contingent liabilities and that no assets are subject to liens or preferences, this comparison, together with the surplus given at the bottom, shows that the company is solvent. The amount of cash on hand is small when compared with the liabilities; it probably will be necessary to borrow money temporarily from the banks or sell some of the marketable securities to pay the declared dividend.

The sample Balance Sheet does not purport to show all the items classified on pages 8 and 9. Where a business has such assets as Sinking Fund Investments; Securities held as permanent investments in other corporations; items receivable from parent, controlled or affiliated organizations; assets subject to liens or preferences; secured liabilities; contingent liabilities for notes receivable discounted; or contingent liabilities of any kind, all such items should be separately stated on the Balance Sheet. If such items appear among the accounts of a business, the question of solvency cannot be determined if they are grouped purely as current assets or current liabilities.

The statements of a single proprietor or of a partnership would be subject to the same suggestions regarding construction and analysis, differing only in those items representing the capital of the enterprise.

Pages 15 and 16 show the form of Balance Sheet recommended by the Federal Reserve Board. This sets out in more detail what items and groups of accounts should generally appear upon a Balance Sheet.

THE BALANCE SHEET OF THE BLANK MANUFACTURING CO.

as of ....

ASSETS

CURRENT ASSETS			
Cash		$ 50,000.00	
Marketable Securities..		100,000.00	
Notes Receivable	$ 5,000.00		
Less—Reserve therefor	1,250.00		
Net Value		3,750.00	
Accounts Receivable ..	77,000.00		
Less—Reserve therefor	3,500.00		
Net Value		73,500.00	
Merchandise Inventories			
Raw Materials	75,000.00		
Goods in Process....	100,000.00		
Finished Goods	125,750.00		
Total		**300,750.00**	
Total Current Assets.			**$528,000.00**
FIXED TANGIBLE ASSETS			
Land		$ 25,000.00	
Buildings	$350,000.00		
Less—Reserve for Depreciation	35,000.00		
		315,000.00	
Carried forward		$340,000.00	**$528,000.00**

LIABILITIES

CURRENT LIABILITIES			
Acceptances Payable ..		$ 75,000.00	
Notes Payable (Banks)		50,000.00	
Accounts Payable		25,000.00	
Accrued Expenses		5,000.00	
Dividends Payable		50,000.00	
Total Current Liabilities		$205,000.00	
ACCRUED TAXES ...		25,000.00	
Total Current and Accrued Liabilities			**230,000.00**
FUNDED LIABILITIES			
10-Year 6% First Mortgage Bonds			**350,000.00**
NET WORTH			
Capital Stock authorized ($750,000.00) Issued		**500,000.00**	
Surplus, Jan. 1........	$240,000.00		
Add—Net Profit for Current Year	250,000.00		
Total	$490,000.00		
Carried forward	$490,000.00	**$500,000.00**	**$580,000.00**

Brought forward		**$340,000.00**	**$528,000.00**
Machinery	$500,000.00		
Less—Reserve for Depreciation	100,000.00		
		400,000.00	
Misc. Equipment	*25,000.00*		
Less—Reserve for Depreciation	2,500.00		
		22,500.00	
Furniture *and* Fixtures	5,000.00		
Less—Reserve for Depreciation	1,500.00		
		3,500.00	
			766,000.00
FIXED INTANGIBLE ASSETS			
Patents		$ 6,000.00	
Goodwill		200,000.00	
Total			**206,000.00**
ADVANCES AND DEFERRED CHARGES TO OPERATIONS			
Prepaid Insurance		3,000.00	
Prepaid Interest		2,000.00	
Total			5,000.00
MISC. ASSETS			
Organization Expense			15,000.00
Total Assets			$1,520,000.00

Brought forward	$490,000.00	**$500,000.00**	**$580,000.00**
Less — Dividends Declared	50,000.00		
Surplus, Dec. 31.......		440,000.00	
Total Net Worth......			**940,000.00**
Total Liabilities and Net Worth			$1,520,000.00

FORM OF BALANCE SHEET RECOMMENDED BY FEDERAL RESERVE BOARD

ASSETS

CASH:		
1a. Cash on hand—currency and coin............	$........	$........
1b. Cash in bank..............................	....	....
NOTES AND ACCOUNTS RECEIVABLE:		
3. Notes receivable of customers on hand (not past due)	....	
5. Notes receivable discounted or sold with indorsement or guaranty..................	....	
7. Accounts receivable, customers(not past due)	....	
9. Notes receivable, customers, past due (cash value $........)	....	
11. Accounts receivable, customers, past due (cash value $........)	....	
Less:		
13. Provisions for bad debts........... $........	....	
15. Provisions for discounts, freights, allowances..	....	$........
INVENTORIES:		
17. Raw material on hand......................	$........	
19. Goods in process..........................	....	
21. Uncompleted contracts .... $........		
Less—Payments on account thereof...........	....	
23. Finished goods on hand.....................	....	....
OTHER QUICK ASSETS (describe fully)...........	....	....
Total Quick Assets (excluding all investments)	....	$........
SECURITIES:		
25. Securities readily marketable and salable without impairing the business................	$........	
27. Notes given by officers, stockholders, or employees	....	
29. Accounts due from officers, stockholders, or employees	....	....
Total Current Assets..................................		$........
FIXED ASSETS:		
31. Land used for plant........................	$........	
33. Buildings used for plant...................	....	
35. Machinery	....	
37. Tools and plant equipment..................	....	
39. Patterns and drawings......................	....	
41. Office furniture and fixtures.................	....	
43. Other fixed assets, if any (describe fully).....	....	
Less:	$........	
45. Reserves for depreciation....................	....	
Total Fixed Assets.........................	$........	$........
DEFERRED CHARGES:		
47. Prepaid expenses, interest, insurance, taxes, etc.	$........	....
OTHER ASSETS (49).........................	....	....
Total Assets		$........

FORM OF BALANCE SHEET RECOMMENDED BY FEDERAL RESERVE BOARD

LIABILITIES

BILLS, NOTES AND ACCOUNTS PAYABLE:			
Unsecured Bills and Notes:			
2. Acceptances made for merchandise or raw material purchased		$........	
4. Notes given for merchandise or raw material purchased		....	
6. Notes given to banks for money borrowed.....		....	
8. Notes sold through brokers..................		....	
10. Notes given for machinery, additions to plant, etc.		....	
12. Notes due to stockholders, officers or employees		....	
			$........
Unsecured Accounts:			
14. Accounts payable for purchases (not yet due)		$........	
16. Accounts payable for purchases (past due)...		....	
18. Accounts payable to stockholders, officers, or employees		....	
Secured Liabilities:			$........
20a. Notes receivable discounted or sold with indorsement or guaranty (contra)..........		$........	
20b. Customers' accounts discounted or assigned (contra)		....	
20c. Obligations secured by liens or inventories...		....	
20d. Obligations secured by securities deposited as collateral		....	
			$........
22. Accrued liabilities (interest, taxes, wages, etc.)		....	....
OTHER CURRENT LIABILITIES (describe fully)..		....	....
Total Current Liabilities			$........
FIXED LIABILITIES:			
24. Mortgage on plant (due date)...............		$........	
26. Mortgage on other real estate (due date).....		....	
28. Chattel mortgage on machinery or equipment (due date)		....	
30. Bonded debt (due date)......................		....	
			$........
32. Other fixed liabilities (describe fully)..................			....
Total Liabilities			$........
NET WORTH:			
34. If a corporation—			
(a) Preferred stock (less stock in treasury)		$........	
(b) Common stock (less stock in treasury)..		....	
(c) Surplus and undivided profits..........		....	
Less:		$........	
(d) Book value of goodwill......	$........		
(e) Deficit	....	....	....
Total			$........
36. If an individual or partnership—			
(a) Capital		$........	
(b) Undistributed profits or deficit.........		....	....
Total			$........

COMMENTS AND FOOTNOTES:

Where it is customary for a business to have forward contracts for delivery of merchandise subsequent to the date of the Balance Sheet and other contingent liabilities, the Balance Sheet should contain a statement setting forth the amount of these commitments. Any shrinkage in the market value below the purchase price is a potential inventory loss and a contingent reduction of working capital which, if not known at once by the executive, may cause unexpected future embarrassment. Other contingent liabilities may, if they resolve into definite claims against the business, incur similar embarrassment.

On the other hand, where sales are made for future delivery against the forward contracts for merchandise at prices adequate to offset the total amount of commitments, the executive should be informed. There is no objection to such a statement also being made a part of the Balance Sheet.

SIGNIFICANT COMPARISONS:

There are certain ratios and relations between assets, liabilities and capitalization which are commonly regarded as barometric of credit and financial conditions. The classified Balance Sheet in conjunction with the Profit and Loss account make possible the determination of these ratios and relations.

The qualitative value as distinct from the quantitative value of the assets which are a factor in the ratios have a direct bearing upon the value of the ratios. This fact emphasizes the importance of a proper evaluation of assets by providing adequate reserves, as indicated under the classification of assets on page 8.

The most significant conditions of any business are revealed by the following ratios between certain elements of the Balance Sheet:

1. Ratio of current assets to current liabilities indicates degree of liquidity, after consideration is given to the qualitative as well as the quantitative nature of the assets. Current assets should be sufficiently in excess of current liabilities to provide sufficient working capital. It is recognized that the marginal difference of net current assets depends upon the nature of the business, especially where the volume of business is subject to seasonal demand.

2. Ratio of cash to current liabilities indicates cash position. This ratio should be higher for a growing business than for one running on an even basis, and higher for any business at the beginning of the rise in the business cycle,

but falling with the decline. During the rise of the business cycle, disbursements are made on the basis of larger future sales, whereas, for a time, receipts are on the basis of smaller past sales. Hence cash requirements vary in direct ratio with the rate of expansion. A large amount of cash and a large amount of current liabilities means unnecessary interest charges and consequent diminished profits.

3. Ratio of total fixed assets to capital and long-term debts, and of tangible to intangible, indicate apportionment of assets. Too much capital tied up in fixed assets does not leave enough working capital for profitable operation.

4. Ratio of debt to net worth indicates the relation between the money interest of creditors and that of stockholders.

An executive should not overlook the significance of the following facts:

(a) Floating liabilities may be a source of weakness in times of panic or depression, for current notes when renewed from time to time cease to be floating liabilities and should be funded, otherwise there exists a threat of insolvency. Commercial paper in times of depression usually has to be met upon maturity, with consequent depletion of working capital.

(b) A large inventory lays a business open to the danger of large losses from the shrinkage of market values. This should be carefully analyzed so that a statement of units as well as of values is currently available. On the other hand, if the merchandise was bought when prices were low, a large inventory may be a source of strength in an advancing market. This involves a close study of the business cycle. In a situation of this kind the advisability of providing an Inventory Reserve should receive the careful thought of the executive.

(c) If growth in capitalization exceeds growth in gross earnings, recent capital is being unproductively applied. The value of this comparison, however, is likely to be modified when the rise of the business cycle requires disbursements on the basis of larger future sales, whereas, for a time, receipts are on the basis of smaller past sales. Hence cash requirements vary in direct ratio with the rate of expansion.

There are other important indexes capable of throwing suggestive sidelights upon the condition and progress of a business which will be discussed in connection with the Statement of Profit and Loss.

COMPARATIVE BALANCE SHEETS:

A going business cannot adequately show its tendencies merely by an analysis of its Balance Sheet at a given date. Comparisons with previous periods should be made, the principal factors should be charted, and the relation over a period of time should be studied. Time plays an important part in all formulæ, and the barometric ratios discussed above may be affected by such factors as the variation in the rapidity of turnover, seasonal and cyclical fluctuations.

Balance Sheets prepared in comparative form disclose the general trend of the business from one accounting period to another. By means of a comparison of Balance Sheets in parallel columns, it is easy to tell: (1) to what extent the several groupings of assets and liabilities have changed; (2) to what extent working capital has increased or decreased; (3) also what disposition has been made of the profits. Any decrease in working capital occurring from one period to another is to be accounted for either as expenditures for additional fixed assets, retirement of permanent capital or funded liabilities, dividends paid, or operating losses. On the other hand, an increase in working capital is to be accounted for either as arising from operating profits, permanent capital paid in, reserves for depreciation of assets charged to operations or profit and loss, but not spent for replacements. The usefulness of a comparative balance sheet is illustrated by the following example:

COMPARATIVE BALANCE SHEET OF THE BLANK MANUFACTURING CO.

as of...and...

ASSETS	End of Period	Beginning of Period	Decrease	Increase and Net Increase
Current Assets:				
Cash	$ 50,000	$ 60,000	$ 10,000	
Marketable Securities	100,000	150,000	50,000	
Notes Receivable, net.......	3,750	5,000	1,250	
Accounts Receivable, net....	73,500	50,000		$ 23,500
Inventories	300,750	150,000		150,750
Total Current Assets, showing net increase during period	$ 528,000	$ 415,000		$113,000
Fixed Tangible and Other Assets:				
Land	$ 25,000	$ 25,000		
Buildings	350,000	300,000		$ 50,000
Machinery	500,000	400,000		100,000
Miscellaneous Equipment ...	25,000	20,000		5,000
Furniture and Fixtures......	5,000	5,000		
Goodwill	206,000	206,000		
Advances & Deferred Charges	5,000	6,000	1,000	
Organization Expense	15,000	25,000	10,000	
Total Assets, showing net increase during period........	**$1,659,000**	**$1,402,000**		**$257,000**
LIABILITIES				
Current Liabilities:				
Acceptances Payable	$ 75,000	$ 50,000		$ 25,000
Notes Payable	50,000	125,000	$75,000	
Accounts Payable	25,000	20,000		5,000
Accrued Expenses	5,000	2,500		2,500
Dividends Payable	50,000			50,000
Accrued Taxes	25,000	15,000		10,000
Total Current Liabilities, showing net increase during period	**$ 230,000**	**$ 212,500**		**$ 17,500**
Funded Liabilities	**$ 350,000**	**$ 350,000**		
Reserve for Depreciation:				
Buildings	$ 35,000	$ 30,000		$ 5,000
Machinery	100,000	80,000		20,000
Miscellaneous Equipment ...	2,500	2,000		500
Furniture and Fixtures.....	1,500	1,000		500
Capital Stock	500,000	486,500		13,500
Surplus	440,000	240,000		200,000
Total Liabilities and Net Worth showing net increase during period	**$1,659,000**	**$1,402,000**		**$257,000**

INTERPRETATION OF COMPARATIVE BALANCE SHEET:

An analysis of the increase and decrease shows the following facts, viz.: an expansion in assets represented as follows:

Assets Showing Increases:		
Accounts Receivable	$ 23,500.00	
Inventories	150,750.00	
Buildings	50,000.00	
Machinery	100,000.00	
Miscellaneous Equipment	5,000.00	
Total Increase		$329,250.00
Less: Assets Showing Decreases:		
Cash	$ 10,000.00	
Marketable Securities	50,000.00	
Notes Receivable	1,250.00	
Advances and Deferred Charges	1,000.00	
Organization Expense	10,000.00	
Total Decrease		72,250.00
Net Expansion of Assets		$257,000.00
In addition to this expansion, cash was provided to pay off notes to the amount of		75,000.00
Grand Total		$332,000.00

The total expansion of $332,000.00 was provided for as follows:

Current Liabilities Increased:		
Acceptances Payable	$ 25,000.00	
Accounts Payable	5,000.00	
Accrued Expenses	2,500.00	
Dividends Payable	50,000.00	
Accrued Taxes	10,000.00	
Total Increase		$ 92,500.00
Cash proceeds from additional capital stock at par		13,500.00
Reserves for depreciation increased, not spent for replacements		26,000.00
Net Profit for year, page 13	$250,000.00	
Less: Dividend declared, page 14	50,000.00	
Remaining Net Profits		200,000.00
Grand Total (agrees with above)		$332,000.00

The change in the working capital of the company during the period is stated and accounted for in the following table:

Current Assets end of year, page 20	$528,000.00	
Add: Advances and Deferred Charges	5,000.00	
	$533,000.00	
Less: Current Liabilities, page 20	230,000.00	
Net Working Capital end of year (carried forward to page 22)		$303,000.00

Brought forward from page 21			$303,000.00
Current Assets beginning of year, page 20		$415,000.00	
Add: Advances and Deferred Charges		6,000.00	
		$421,000.00	
Less: Current Liabilities, page 20		212,500.00	
Net Working Capital beginning of year			208,500.00
Net Gain in Working Capital during year			$ 94,500.00

DETAILS OF NET GAIN IN WORKING CAPITAL

Gross Gain:			
Net Profit during year		$250,000.00	
Add: Reserves for depreciation (deducted)		26,000.00	
Organization Expenses (deducted)		10,000.00	
Profit added to Working Capital		286,000.00	
Additional Capital Stock paid in		13,500.00	
Gross Gain			$299,500.00
Deduct:			
Additions to Buildings	$ 50,000.00		
Additions to Machinery	100,000.00		
Additions to Misc. Equipment	5,000.00		
		$155,000.00	
Dividends Declared		50,000.00	
Gross Deductions			205,000.00
Net Gain in Working Capital during year			$ 94,500.00

INCREASE IN NET WORTH DURING YEAR:

Net Profit earned during year		$250,000.00	
Additional Capital Stock paid in		13,500.00	
		$263,500.00	
Less: Dividends declared		50,000.00	
Total Increase in Net Worth during year			$213,500.00
Disposition Thereof:			
Increase in Working Capital (as above)		$ 94,500.00	
Additions to Plant, etc., as above	$155,000.00		
Less: Additions to Reserves for Depreciation, as above	26,000.00		
		129,000.00	
		$223,500.00	
Deduct: Organization Expenses reduced by the amount of, as above		10,000.00	
Total Disposition of Increase in Working Capital			$213,500.00

PROFIT AND LOSS STATEMENT

STATEMENT OF PROFIT AND LOSS DEFINED:

The Statement of Profit and Loss shows the amount and nature of the business income and of the various costs and expenses incurred to produce the business income. While the Balance Sheet shows the condition of the business at a given date or point of time, the Profit and Loss Statement shows the condensed business record over the duration of a number of months or a year, the time between balance sheets. The net result of the transactions recorded on the Profit and Loss Statement is a credit to or charge against Net Worth, which on the Balance Sheet is the sum of the capital stock outstanding, the accumulated profit and the surplus. These two basic executive reports, therefore, are complementary to each other and of most value when studied together.

CLASSIFICATION OF ACCOUNTS:

In order that the operations of the business may more readily be followed, the items which appear on the Profit and Loss Statement should be classified under appropriate headings. In an industrial organization an executive would be likely to find the following classification most convenient and adaptable for comparison with other concerns:

1. Gross Sales.
2. Deductions from Gross Sales.
3. Net Sales.
4. Cost of Goods Sold.
5. Gross Profit or Loss on Sales.
6. Commercial or Selling Expenses.
7. Other Sources of Profit or Loss.
8. Total Operating Profit or Loss.
9. Financial Income or Expenditures.
10. Net Profit or Loss.

The classifications suggested above are self-explanatory, with the possible exceptions of items 4, 7, and 9. The cost of goods sold may be more or less than either the cost of goods bought or the cost of goods manufactured. Therefore, it is impossible to tell what the gross profits are merely by comparing the sales with either of the latter. It is necessary first to know how much has been added to or taken from the amount of goods that was on hand at the beginning of the period. A good accounting system will provide some sort of perpetual inventory record for this purpose, or else for the figuring of costs against the sales records.

Outside Operations:

When a concern engages in several classes of business, it is desirable to keep the records of each class separately so that the profit or loss of each venture may be shown by itself. For the same reason, when a concern buys merchandise for future delivery or trades in stocks or bonds or in its own raw materials and merchandise, it should keep the losses or gains resulting therefrom separate from the profit or loss on its normal manufacturing and merchandising operations. Similarly, it should keep separate its financial income and expenditures from those items which arise from a surplus or shortage of capital in the business. Financing is the business of the investor or banker. If the proprietors or stockholders furnished all and only the capital which the business required, there would be no such items on the profit and loss sheet. But when the owners furnish too much capital, some must be invested outside of the business, thus earning interest. Likewise, when the owners furnish too little capital it becomes necessary to incur interest for borrowing money to pay the bills, to lose the cash discount on purchases, or to give cash discounts on sales.

Forms of Statements:

Profit and Loss Statements are of two kinds: those that are summaries only, with the detail on supplementary sheets, and those that go into great detail in the body of the statement itself. These two forms are illustrated by the following exhibits A and B, respectively. Either form may be used to advantage by a small concern, but for the larger and more complex business the first form is much more practical. It concentrates on one sheet the information in which the principal executives are most vitally interested, and relegates to subsidiary schedules the data which are of more immediate concern to minor executives.

Exhibit C is an example of the summary form accompanied by detailed schedules designed for the larger concerns, in which the authority to spend money and the responsibility for results are delegated downward to divisional and departmental executives. Inasmuch as the purpose of the reporting system is to check up these expenditures and results, it is desirable that the Statements of Profit and Loss graduate downward from summary to primary and secondary supporting schedules in a way very similar to that in which the organization itself functions.

Interpretation of Statements:

In our discussion of the Balance Sheet, attention was called to the relation of one factor to another. The same process of analysis is just as essential when considering the factors of a Statement of

Profit and Loss. The relations of these factors are not confined to corresponding or opposing factors in the Statement of Profit and Loss. There are certain ratios which may be deduced from a proper analysis of the Profit and Loss Statement which are an index to the general financial policy of the company. A Profit and Loss Statement divided or classified as we have suggested enables an executive to follow such important facts as these:

1. The margin between gross and net sales indicates the amount of returned sales, allowances, and other deductions which automatically create a loss of ultimate net profit.
2. The ratio of operating expense to gross value of sales indicates the efficiency of operation. This ratio is most useful when considered in comparison with a corresponding ratio for other records of similar duration.
3. The ratio of receivables to sales, when considered in conjunction with current economic conditions, measures the values of collection methods.
4. The ratio of Finished Goods to Sales indicates whether the inventory is normal or not, while the inventory of Finished Goods divided into the cost of goods sold gives the rate of turnover.
5. The ratio of net profit to net worth indicates the profitableness of the business from the point of view of the owners.

Another significant factor which should be considered is the relation between the gross value and the unit value of sales, when compared from period to period. When possible, both quantity and value of sales should be shown on the reports, and the unit value shown.

Exhibit A

STATEMENT OF TRADING AND STATEMENT OF PROFIT AND LOSS

For the Year Ended..........................

This is a summarized form showing appropriate divisions and classifications.

Item		Amount	Per Cent of Sales
SALES:			
Gross Sales (after corrections).............		$1,000,000	
Less—Returns (5% of gross)..........		50,000	
Net Sales		950,000	100
*Deductions and Allowances................		50,000	5.2
Net Sales		$900,000	94.8
*COST OF GOODS SOLD:			
By Inventory Method......................		700,000	73.7
Gross Profit on Sales.....................		$200,000	21.1
*SELLING EXPENSE:			
Selling Expense		50,000	5.3
Trading Margin or Selling Profit..........		$150,000	15.8
*OTHER INCOME:			
Additions	$3,000		
Deductions	2,000		
Net Other Income.............		1,000	.1
Total Operating Margin		$151,000	15.9
*GENERAL EXPENSES:			
Administration and General Expenses......		25,000	2.6
Net Profit before Adjustment and Taxes....		$126,000	13.3
PROFIT AND LOSS (Direct):			
Inventory Adjustments	$ 1,000		.1
Misc. Reconciling Adjustments.....	2,000		.2
Idleness (at Idleness rates)........	10,000		1.1
Total Adjustments		13,000	1.4
NET PROFIT BEFORE TAXES.............		$113,000	11.9
INCOME TAXES		15,000	1.6
NET PROFIT AFTER TAXES...............		$ 98,000	10.3

There would be supplementary schedules containing details supporting the items against which schedule references are indicated by an asterisk.

(All dates used in the following schedules are assumed to be as of the beginning or the end of any regular accounting period.)

Exhibit B (1)

STATEMENT OF INCOME AND PROFITS AND LOSS

For the Year Ended..

This statement differs in form from the preceding Exhibit A in that "Cost of Goods Sold" as well as details of the main classifications appear on the face of the statement and not upon subsidiary schedules.

INCOME FROM SALES:		
Gross Sales	$..........	
Less Returns	....	
Net Sales	$..........	
DEDUCTIONS FROM SALES:		
Allowances to Customers:		
On Sales Price	$..........	
On Damaged Goods	....	
Freight and Cartage Outward—on Sales.......	....	
Stable and Automobile Expense (Proportion Applicable to Sales)	....	
Total Deductions from Sales............	$..........	
Income from Sales		$..........
COST OF GOODS SOLD:		
Manufacturing Cost of Goods Finished During the Period:		
Prime Cost:		
Materials and Supplies Consumed (including Freight and Cartage thereon).........	$..........	
Productive Labor (direct)	....	
Total Prime Cost........................	$..........	
Manufacturing Overhead:		
Superintendence	$..........	
Unproductive Labor	....	
Heat, Light and Power..................	....	
Factory Expense	....	
Repairs and Maintenance, Machinery and Tools	....	
Total Manufacturing Overhead...........	$..........	
General Factory Overhead:		
Salaries and Wages......................	$..........	
Shipping Material Consumed.............	....	
Shipping Department Supplies............	....	
Miscellaneous Shipping Expense..........	....	
Traveling Expenses—Shipping Department	....	
Stationery and Printing Consumed by Factory	....	
Total General Factory Overhead..........	$..........	
Total Manufacturing Cost for the Period..	$..........	$..........

Exhibit B (1) Cont'd

STATEMENT OF INCOME AND PROFITS AND LOSS

For the Year Ended..........

Deduct: Increase of Inventory of Goods in Process as between Jan. 1 and Dec. 31...	$..........	
Add: Decrease of Inventory of Goods in Process as between Jan. 1 and Dec. 31..	....	
Manufacturing Cost of Goods Finished during the Period	$..........	
Inventory Adjustment:		
Deduct: Increase of Inventory of Finished Goods as between Jan. 1 and Dec. 31, after deduction therefrom of the value of goods distributed free, and used by salesmen	$..........	
Add: Decrease of Inventory of Finished Goods as between Jan. 1 and Dec. 31, 1913, after deduction therefrom of the value of goods distributed free, and used by salesmen	....	
Manufacturing Cost of Goods Sold........	$..........	
Addition Cost — Freight, Handling and Warehousing of Raw Materials Consumed	$..........	
Total Cost of Goods Sold..........................		....
GROSS PROFIT ON SALES............................		$..........
SELLING EXPENSE:		
Salaries of Selling Management...............	$..........	
Salaries, Commissions, and Expenses of Salesmen	....	
Advertising Expense	....	
Free Goods	....	
Traveling Expense of Sales Manager..........	....	
Premiums	....	
Stationery and Printing Consumed by Office of Sales Manager	....	
Special Inducements to Jobbers...............	....	
Salesmen's Samples used in Demonstration....	....	
Sundry Expense of Sales Office...............	....	
Total Selling Expense..............................		$..........
SELLING PROFIT		$..........

Exhibit B (1) Cont'd

STATEMENT OF INCOME AND PROFITS AND LOSS

For the Year Ended..........

ADMINISTRATIVE AND GENERAL EXPENSES:		
Administrative:		
Office Salaries	$..........	
General Office Expenses and Supplies	....	
Telephones and Telegrams	....	
Legal Expense	....	
Traveling Expenses of Administrative Officers	....	
Postage Expense	....	
Stationery and Printing—Office	....	
Heat and Light—Office	....	
Miscellaneous	....	
Total Administrative	$..........	
General:		
Repairs and Maintenance of Office Buildings.	$..........	
Experimental Expense — Processes and New Goods	....	
Experimental Expense—Machinery	....	
Total General	$..........	
Total Administrative and General Expense		$..........
PROFIT FROM OPERATIONS		$..........
ADDITIONS TO INCOME:		
Interest on Notes Receivable	$..........	
Sundry Sales of Materials and Empty Containers	....	
Discounts Gained on Creditor's Accounts (Cash Discounts)	....	
Interest on Bank Balances	....	
Total Additions to Income		....
SUM OF PROFIT AND ADDITIONS		$..........
DEDUCTIONS FROM INCOME:		
Taxes, Licenses and Fees (exclusive of Real Estate Taxes)	$..........	
Fire Protection (not chargeable to Manufacturing or Administrative Expense)	....	
Discounts Lost on Creditors' Accounts (Cash Discounts)	....	
Interest and Discounts—Notes Payable	....	
Collection Fees and other Bank Charges	....	
Total Deductions from Income		$..........
GROSS PROFIT AND INCOME FROM OPERATING AND OTHER SOURCES		$..........

Exhibit B (1) Cont'd

STATEMENT OF INCOME AND PROFITS AND LOSS

For the Year Ended..............................

EXTRAORDINARY LOSSES OF THE PERIOD:		
Frozen Goods	$..........	
Accounts Receivable—Uncollectible	....	
Breakage of Carboys and other Empty Containers Returnable to Shippers	....	
Total Extraordinary Losses of the Period..............		$..........
NET PROFIT FOR THE YEAR..........................		$..........
RESERVED:		
For Depreciation of Physical Assets........	$..........	
For Possible Losses of Accounts Receivable..	....	
Total Reserved		$..........
PROFIT AND LOSS TO SURPLUS, DEC. 31...............		$..........
SURPLUS, JAN. 1, 1913......................	$..........	
Less—Adjustments during the Period:		
Returned Sales of prior periods, and Frozen Goods sold in prior periods, the profit on which figures in the surplus as established at....(date)....including freight and all expenses paid by the Company on such returns	....	
Net Adjusted Surplus, January 1....................		....
SURPLUS, DECEMBER 31................................		$..........

Exhibit C (1)

STATEMENT OF TRADING AND PROFIT AND LOSS OF COMPANY X

For the Year Ended..............................

This form of statement gives in summarized form the main classifications, and is accompanied with subsidiary schedules giving the details.

Reference	Item		Detail	Totals
	Sales:			
	Gross Sales		$..........	
(Sch. C1)	Less Returns and Allowances (p. 32)		....	
	Net Sales		$..........	
(Sch. C2)	Less: Selling Expenses (p. 32)		....	
	Net Income from Sales		$..........	$..........
(Sch. C3)	Cost of Sales (page 33)			....
	Gross Manufacturing and Trading Profit			$..........
	General and Administrative Expense:			
	Administrative Expense		$..........	
	Interest paid and Accrued:			
	On Funded Debt	$........		
	On Other Obligations	....		
			$..........	
	Purchase Discounts not taken		....	
	Loss on Bad Debts		....	
	Miscellaneous Expenses		....	
	Total General and Administrative Expense		$..........	....
	Net Manufacturing and Trading Profit			$..........
	Other Income:			
	Income from Investments	$........		
	Income on Notes and Accounts Receivable	....		
	Miscellaneous Income	....		
	Total	....	$..........	
	Charges Against Other Income:			
	Taxes, Maintenance and Depreciation on Outside Buildings and Tenements	$........		
	Losses on Investments	....		
	Collection Charges	....		
	Miscellaneous Charges	....		
	Total Charges	$........	$..........	
	Net Other Income		$..........	$..........

Net Profit before Adjustments and Taxes		$..........
Adjustments Deductions:		
Inventory Adjustment — amount by which cost exceeded market at December 31	$..........	
Exepnse of Idle Equipment	....	
Miscellaneous Adjustments, etc.	....	
Total Adjustment Deductions	$..........	$..........
Net Profit before Taxes		$..........
Income Taxes		....
Net Profit Carried to Surplus		$..........

SUPPORTING SCHEDULES

Exhibit C (1) Cont'd—Schedule C (1)

RETURNS AND ALLOWANCES ON SALES OF COMPANY X
For the Year Ended............

Returns		$..........
Special Commissions		....
Concessions to Customers		....
Quantity Discounts		....
Sales Rebates		....
Deductions for Outward Transportation:		
(a) Prepaid Freight	$..........	
(b) Customers' Freight Deductions	....	
		$..........
Total Returns and Allowances (to C1, page 31)		$..........

Exhibit C (1) Cont'd—Schedule C (2)

SELLING EXPENSE OF COMPANY X
For the Year Ended............

Salaries:		
Officers and Department Heads	$..........	
Selling Force	....	
Engineering and Drafting Force	....	
Clerical Force	....	....
Other Employees	....	
Total Salaries		$..........
Rent, Heat, Light and Power		....
Office Equipment, Alterations and Repairs		....
Traveling and Entertainment		....
Telephone and Telegraph		....
Postage		....
Stationery and Office Supplies		....
Advertising		....
Miscellaneous Expense Accounts		....
Total Selling Expense (to Exhibit C1, page 31)		$..........

Exhibit C (1) Cont'd—Schedule C (3)

COST OF SALES OF COMPANY X

For the Year Ended............

Purchased for Re-Sale:			
On hand January 1........................		$..........	
Add: Purchased during year................		....	
Total		$..........	
Less: On hand December 31................		....	
Cost of Purchased Goods Sold...............		$..........	$..........
Processed Products:			
Materials Purchased	$........		
Labor	....		
Manufacturing Overhead	....		
Total Cost		$..........	
Add: Value of Goods in Process, Jan. 1......		....	
Sub Total		$..........	
Less: Value of Goods in Process, Dec. 31....		....	
Cost of Goods Manufactured (Sch. C4, p. 34)		$..........	
Add: Finished Goods, Jan. 1...............		....	
Sub Total		$..........	
Less: Finished Goods, Dec. 31..............		....	
Cost of Manufactured Goods Sold...........		$..........	$..........
Total Cost of Goods Sold (to C1, page 31)...........			$..........

For method of arriving at Cost of Goods Manufactured where there is a cost system, see next page.

Exhibit C (1) Cont'd—Schedule C (4)

TOTAL MANUFACTURING COST—COMPANY X

Account	Detail	Total
Cost of Material Used........................		$..........
Operating Cost:	$..........	
Direct Labor		
Indirect Cost (Gross Operating Expense)..		
Service Depts. (Charges and Recharges)...		
Power Plant		
Mechanical Crew		
Experimental Departments, etc.		
Receiving, Handling and Storing.......		
Stock Room, Packing and Shipping (if not included as Sales Expense)......		
Share of General Office Charges.......		
Manufacturing Office Charges		
Divisional Charges		
Production Group Charges		
Production Centers:		
Charges:		
Direct		
Material and Supplies		
Repair Materials		
Indirect Labor		
Repair Labor		
Miscellaneous	$..........	
Apportioned		
Equalizing	This figure would be divided according to items.	
Reserves for Losses in Inventory......		
Reserves for Defective Product........		
Perishable Equipment		
Reserves, Allowances and Fixed Charges...		
Depreciation		
Insurance		
Taxes		
Rent		
Recharges for Share of:		
Power Plant		
Mechanical Crew (if not charged as Repair Labor)		
Receiving, Handling and Storing......		
Stock Room, Packing and Shipping (if not included as Sales Expense)......		
Share of Central General Charges.....		
Manufacturing General Charges.......		
Divisional General Charges...........		
Production Group General Charges........	$..........	
Gross Operating Cost........................	....	
Less: Over-absorbed Charges.............	$..........	$..........
Total Cost of Goods Manufactured (to Exhibit C3, page 33)..............................		$..........

This form can be used equally well for systems based on process, order, or standard costs.

COMPARATIVE STATEMENTS OF PROFIT AND LOSS:

The following comparative form of Statement of Profit and Loss is the one recommended by the Federal Reserve Board. This form can be adapted to suit the peculiar requirements of any kind of business. Additional columns could be provided for the purpose of showing units of sales and units of cost of sales (cost of goods sold) and the corresponding percentages indicated on page 26.

PROFIT AND LOSS ACCOUNT RECOMMENDED BY THE FEDERAL RESERVE BOARD

Comparative Statement of Profit and Loss for Three Years Ending............

	Year Ending		
	19...	19...	19...
Gross Sales	$........	$........	$........
Less Outward Freight, Allowances and Returns	....	....	....
Net Sales........................	$........	$........	$........
Inventory, beginning of year...........	....	....	....
Purchases, net	....	....	....
	$........	$........	$........
Loss Inventory end of year.............	....	....	....
Cost of Sales....................	$........	$........	$........
Gross Profit on Sales..............	$........	$........	$........
Selling Expenses (itemized to correspond with Ledger Accounts kept).........	....	....	....
Total Selling Expense.............	$........	$........	$........
General Expenses (itemized to correspond with Ledger Accounts kept).........	....	....	....
Total General Expense............	$........	$........	$........
Administrative Expenses (itemized to correspond with Ledger Accounts kept).	....	....	....
Total Administrative Expense	$........	$........	$........
Total Expenses	$........	$........	$........
Net Profit on Sales................	$........	$........	$........

Other Income:			
Income from Investments............	....	....	....
Interest on Notes Receivable, etc.....	....	....	....
Gross Income	\$........	\$........	\$........
Deductions from Income:			
Interest on Bonded Debt	....	....	....
Interest on Notes Payable	....	....	....
Total Deductions	\$........	\$........	\$........
Net Income—Profit and Loss............	....	....	....
Add: Special Credits to Profit and Loss..	\$........	\$........	\$........
Deduct: Special Charges to Profit and Loss	\$........	\$........	\$........
Profit and Loss for Period.........	....	....	....
Surplus beginning of Period.......	....	....	....
Dividends Paid	....	....	....
Surplus ending of Period..........	\$........	\$........	\$........

PUBLICATIONS DISTRIBUTED BY THE BUREAU OF COMMERCIAL AND INDUSTRIAL AFFAIRS, BOSTON CHAMBER OF COMMERCE

REPORT OF THE BUILDING SITUATION IN THE CITY OF BOSTON—1921.

NEW ENGLAND'S INDUSTRIAL SUPREMACY—1921.

FORMULATION OF A FINANCIAL BUDGET—1921. (Out of print.)

BUDGETARY CONTROL FOR BUSINESS—1921.

PRACTICAL EXPERIENCE IN OFFICE MANAGEMENT—1921.

COMMERCIAL AND INDUSTRIAL BOSTON—1922.

BOSTON—AN OLD CITY WITH NEW OPPORTUNITIES—1922.

CLASSIFICATION AND DEFINITIONS OF LEDGER ACCOUNTS—1922.

BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS—1922.

Of the Total Production of the United States

MASSACHUSETTS MAKES

70.8% *of the Shoe Findings*
54.6% *of the Cut Stock*
54.4% *of the Textile Machinery*
45.0% *of the Rubber Shoes*
40.0% *of the Cordage and Jute Goods*
38.5% *of the Leather Shoes*
32.6% *of the Woolen and Worsted Goods*
31.8% *of the Cotton Goods*
31.4% *of the Cutlery and Edge Tools*
27.4% *of the Envelopes*
25.4% *of the Stationery*
22.4% *of the Optical Goods*
20.0% *of the Tools*
17.1% *of the Jewelry*
15.1% *of the Wire*
13.9% *of the Finished Leather*
13.3% *of the Saws*
11.4% *of the Machine Tools*
11.0% *of the Paper and Pulp*
10.8% *of the Confectionery*
10.3% *of the Electrical Goods*

Goodman Bros. Inc., Boston.