CHANGES IN PRESENTATION OF CORPORATE BALANCE SHEETS BETWEEN 1932 AND 1936

Thesis for the Degree of M. A.

MICHIGAN STATE COLLEGE

Lawrence L. Alto

1937

THESIS

Corporations - Accounting

Economics

Aug. 27, 1937

Approved
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A Thesis

Submitted in partial fulfillment of
the requirements for the degree of

Master of Arts

Michigan State College

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ACKNOWLEDGMENT

The writer wishes to express his sincere appreciation to Mr. Edward A. Gee for the many helpful suggestions and criticisms he has given.

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INTRODUCTION

History of the Subject

The large corporation has come to play a very important part in the lives of the American people. It is estimated that more than 10,000,000 individual men and women in the United States are the direct possessors of stocks and bonds; and that over one fifth of all the corporate stock outstanding in the country is held by individuals with net incomes of less than $5,000 a year. Over 13,000,000 men and women have savings accounts in mutual savings banks and at least 25,000,000 have deposits in national and state banks and trust companies--which are in turn large holders of corporate stocks and bonds. There is a growing preference for wealth in the form of corporate securities rather than other tangibles. The need for liquidity paramount in the minds of investors probably accounts for the desire for savings in this form.

With this growth in security ownership by the public, the security markets have grown proportionately in importance. Two hundred and thirty-seven million corporate shares were sold on the New York Stock Exchange in 1923; despite the depression 654,000,000 shares were sold in 1933.

When corporations were small and the management was intimately acquainted with their owners, and when the interests of management and owners were practically identical, no need for control over reporting procedures was necessary.

Today a different situation exists. The managers no longer intimately know the owners and the owners often know little about the management. Under this divorced form of ownership a measure of control through periodic reports made by the managers to the owners is necessary. Some regulatory measures must be taken to insure adequacy and truthfulness of the procedures entered into during the year. These reports should constitute the best means of information the investing stockholder has of his corporation. If they are properly made out and everything is adequately disclosed the investor is able to determine whether his money is to continue bringing him a fair return and whether the company is continuing to progress in the best interest of its owners. It is also largely on the basis of such reports that stock prices are determined on the various exchanges. Therefore, proper presentation of corporate reports is of essential importance to the welfare of the country as a whole.

As an increasing number of persons became interested in the prices of corporation stocks, they also became interested in being able to determine the value of their security from the corporate reports. Accountants became conscious of this and attempted for a long time to formulate some more or less uniform method of presenting the information the stockholders desired. Several national accounting organizations were formed and they attempted through committees appointed for the purpose to agree on the principles of balance sheet classification and presentation to be followed. The success achieved was greater in certain industries such as mining, banking, and utilities than in the industrials. In this field the many different types of enterprise carried on made it extremely difficult to formulate any uniform method of balance sheet presentation. What one accountant thought was good presentation was not agreed upon by the others, so progress toward uniformity was very slow. The various stock exchanges proved co-operative in a very real way when they established, by 1932, certain standard requirements for the preparation of periodic reports. The Securities Act of 1933, and the Securities Exchange Act of 1934 provided for the establishment of a commission with wide powers which may do more to strengthen the procedures and principles of good accounting than accountants themselves have done in half a century.

In interviews with several accountants the writer learned that while prior to the establishment of rules and regulations by the Securities and Exchange Commission, officers and directors would not make the changes in accounting procedures which were recommended by the accountants; now they have been forced to change them because of fear of being dropped from the security exchanges.

One of the most important reports which corporations send their stockholders, and upon which much controversy has

been centered, is the balance sheet. This is a statement which shows the financial condition of a corporation as of a given date and enables the investor to determine his equity in the corporation. It is evident, then, that the presentation of the balance sheet in such a manner that the stockholder may readily determine the value of his investment is a matter of very great importance.

Various studies have been made to determine form, classification, and terminology of balance sheets as presented to stockholders[1-2] but none has been made showing the changes which have taken place over a period of years.

Purpose and Scope of this Study

The following study is an attempt to determine the changes which have taken place in the presentation of certain corporate balance sheets during the five-year interval between 1932 and 1936. This period was chosen on account of the numerous revisions in corporate structure which took place and also because of the legislation affecting accounting procedure. While many changes in corporate structure took place, it was believed that this period would show an outstanding improvement in the balance sheets presented to stockholders. The study is limited to the balance sheet, accountant's certificate, and an occasional reference to that part of the president's report which has direct bearing on the balance sheet.

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1. Daniels, M. B. Corporation Financial Statements.
2. Fjeld, F. I. "Balance Sheet Form and Classification in Corporate Reports", pp. 210-229, The Accounting Review, Dec., 1936

. Each major division and account title of the balance sheet will be taken up individually and commented upon briefly, first as to its purpose, and then as to changes which have occurred between 1932 and 1936. Particular attention will be given to the rules and regulations as specified by the Securities and Exchange Commission in Instruction Book for Form 10-K for Corporations' Annual Reports. While these rules and regulations apply directly to the balance sheets sent to the Commission, there may be a similarity between these and the balance sheets sent to stockholders. Since a stockholder has the privilege of securing the balance sheet from the Securities and Exchange Commission, it is justifiable to assume that the two will agree on major principles. Although the Securities and Exchange Commission designates certain items to be shown in the balance sheets, it also states that if they do not appear in the balance sheet they may be shown separately on schedule form. As schedules appear in only a few of the corporate reports, no attempt was made to study any other than the schedule showing the details of surplus.

Methods and Procedure Used in this Study

A selection of seventy-five corporate balance sheets for the year 1932 and the same seventy-five for the year 1936 was chosen representing a fair cross-section of the modern industrial corporations listed on the New York Stock Exchange. All of the 1932 balance sheets were obtained from the files in the Economics Department of Michigan State College. Fifty-eight of the 1936 balance sheets were obtained from the same source, while seventeen were received direct from the main offices of the corporations. Each of the 150 balance sheets was individually tabulated in order to make comparisons as to changes that had taken place. The accountant's certificate was studied whenever any information that was thought to be an essential item was lacking on the balance sheet. If any information was not given in the balance sheet and was not referred to in the accountant's certificate, no attempt was made to look through the whole report in order to determine if mention of it was made in the president's report. If, however, a notation was made in the balance sheet that the information was given in detail on another page of the report this page was referred to. The profit and loss statements were examined only in the cases where the surplus statement was made a direct part of them.

In addition to the corporate balance sheets which were examined, interviews were held with members of Jerome and Harris and the Miller, Bailey and Company, accounting firms of Lansing, Michigan; and with members of Price, Waterhouse and Company and Ernst and Ernst, accounting firms having branches in Detroit, Michigan. The latter two certified to thirty-five per cent of the balance sheets which were chosen for study. The accountants who were interviewed were asked for a general opinion as to what they thought were controversial items in balance sheet presentation, and as to how much uniformity they deemed advisable in balance sheet

presentation. Their opinions on these issues will be cited at various times in the body of this report. They were all of the opinion the Securities and Exchange Commission's rulings are having and will continue to have a beneficial effect on the enforcement of generally accepted accounting principles, but none of them were in favor of having the Commission set a uniform procedure in presenting statements, but rather were in favor of letting the accountant use his best judgment in the handling of controversial items.

The material which relates to the rules and regulations of the Securities and Exchange Commission and the Securities Act of 1933 was received through correspondence with their offices in Washington. The rest of the material used was obtained from the Michigan State College Library.

CHAPTER I

The Heading and Current Assets on Balance Sheets

The balance sheet is the corporate statement which shows the financial condition of the corporation at a particular time. There are two generally accepted forms in which it is presented, the account form and the report form. The account form presents the assets on the left and the liabilities on the right somewhat in ledger style, while the report form presents the assets first and the liabilities directly beneath them. The report form emphasizes the narrative-like characteristic of a balance sheet, while the account form tends to emphasize comparative relationships among groups shown on the statement. The greatest advantage of the account form is that it presents current liabilities opposite current assets thus facilitating a ready comparison between the two. The solvency or insolvency of a corporation has a direct bearing on the ratio which exists between current assets and current liabilities, which would be readily exhibited in the account form.

The balance sheets which were examined showed that 73 per cent used the account form in 1932 and 85 per cent used it in 1936. This indicates an increase of 12 per cent of those preferring the account form and shows a distinct trend to its use. It is possible that in a short time all corporations will be presenting their balance sheets in the account form.

Heading

Every balance sheet should have a proper heading so that the reader may know just what period is covered and what concern is presenting the statement. The date which it should represent is the final date of the fiscal period; in contrast to that which the profit and loss statement shows which should be the interval covered by the fiscal period.

In this study the date was found to be properly presented in both the 1932 and 1936 statements. No company name was shown in the headings of the balance sheet in fifteen statements in 1932 and in thirteen statements in 1936. In almost every case the same companies omitted the name in 1936 that had omitted it in 1932. The company heading was properly presented in sixty reports in 1932 and in sixty-two reports in 1936. A change of only 3 per cent was noted.* That these names were not presented in every case may be accounted for by the fact that the name was shown somewhere else in the report and the officials of the company may have deemed that sufficient. However, the majority favor showing the company name on the balance sheet in proper form even if the name does appear on the outside of the report or elsewhere. Every balance sheet that was examined had some type of heading and every one contained the words "Balance Sheet".

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*Percentages throughout this report will be based on the total number of balance sheets (75) unless otherwise indicated.

Current Assets

The American Institute of Accountants has defined current assets as, "those which in the regular course of business will be readily and quickly converted into cash without impairing the business or enterprise."[1] The Securities and Exchange Commission includes in this group items which are generally realizable within one year and allows in addition other items which have been previously included in the current asset section provided such trade practices are stated.

This study shows that there were four concerns in 1932 that did not show current assets and only one in 1936 that did not show them. Not all of the corporations agreed as to what position should be taken by the current assets although the majority favored listing them first. Table I shows the division of the assets.

Table I: Position of Assets on the Balance Sheet.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Current assets shown first..	62	82.6	73	97.3
Fixed Assets or net worth shown first..............	13	17.3	2	2.6

It may be noted that there was an increase of 14.7 per cent in 1936 in the firms listing current assets first on the balance sheet. Daniels'[2] study in 1932 shows

2. Daniels, M. B. Corporation Financial Statements, p. 13.
1. Paton, W. A. Accountants Handbook, p. 16.

a somewhat similar preference in the listing of current assets first. It is logical that these assets be given the number one position on the balance sheet as they are the ones which determine the liquidity of the corporation, and the ratio of the current assets to current liabilities is closely scrutinized by the institutions loaning money to be used for liquid capital purposes. It is safe to assume that eventually all corporations will show the current asset section first on their balance sheet.

Cash Account

The cash account is thought of as the account which shows the amount of money kept on hand plus the amount on deposit in commercial accounts. It should be listed first in those balance sheets which classify assets as "Current and Fixed".

In this study it was shown first in sixty of the balance sheets for 1932 and in seventy-two of the 1936 balance sheets. This shows an increase of 16 per cent during the five year interval in the listing of the cash account first. The word "Cash" by itself appeared in forty-two of the 1932 balance sheets and in twenty-nine of the 1936 balance sheets. The title "Cash on Hand, in Banks, etc." was shown in thirty-three of the 1932 balance sheets and in forty-six of the 1936 balance sheets. "Cash and Marketable Securities" was combined in one balance sheet of 1936. This, however, is not accepted as good accounting and the two should be shown separately.

The Securities and Exchange Commission allows "Cash on Hand", "Demand Deposits", and "Time Deposits" to be shown under one account but states that amounts in closed banks must not be shown combined with cash.

Accounts Receivable

There is a large number of receivables which occur in modern business, and the terms most frequently applied to them in accounting are "Accounts and Notes Receivable". They are thought of as those amounts owed the company which arise out of the regular business engaged in by the corporation. They are designated frequently by the term "Trade Accounts" or "Customers' Accounts". The Securities and Exchange Commission gives the corporation some latitude in the handling of notes and accounts receivable in that it states that they may be combined.

This study shows that in 1932, accounts, notes, and acceptances receivable were combined in 50 per cent of the statements; thirty-seven showing accounts receivable separate and thirty-eight showing them combined with notes or acceptances receivable. In 1936, forty-two balance sheets showed accounts receivable separate while thirty-three showed them combined. There seemed to be no preferred method for showing accounts receivable but there was a distinct tendency to separate them into "Trade and Other" during 1936.

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3. Paton,
4. Daniel
5. Husban
p. 152

Reserves for Doubtful Accounts Receivable

All corporations know that a certain amount of their accounts receivable will prove bad for various reasons. Therefore, in making up the balance sheet they will deduct a certain amount from the face of the accounts receivable, usually a percentage of the accounts outstanding. This amount represents the corporation's estimate of the uncollectible portion of its outstanding accounts. The generally accepted rule is that in the balance sheet this amount should be deducted from the amount of the accounts receivable and not listed as a reserve on the liability side. There has been a controversy as to what title should be given this deduction. Paton[3] advocates using the word "Allowances" instead of "Reserve". Husband and Thomas[4] and Daniels[5] would also prefer this term. However, this study shows that the term "Allowances" is not used frequently. It was used in eight balance sheets in 1932 and also in eight of the 1936 balance sheets. (The same balance sheets did not use it during both years in all cases.) The corporations using this term were located as follows:

Two in Michigan
One in Ohio
One in Canada
One in Deleware
One in Connecticut

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3. Paton, W. A. Op. cit. p. 252.
4. Daniels, M. B. Op. cit. p. 120.
5. Husband, G. R. and Thomas, O. E. Principles of Accounting, p. 152.

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The Securities and Exchange Commission states that provision should be shown for reserves for doubtful accounts and notes receivable on the balance sheet and also included on a separate schedule. Of the balance sheets studied, reserves or allowances were shown in thirty statements in 1932 and in fifty-two statements in 1936, thereby showing an increase of 29 per cent for those showing the amount of the reserve. Reserves or allowances were merely mentioned but not shown in twenty-seven balance sheets in 1932 and in eighteen balance sheets in 1936. No mention was made of reserves or allowances in eighteen statements in 1932 and in only five statements in 1936. The following table shows in detail the reserves and allowances for receivables on the balance sheets.

Table II: Reserves and Allowances for Notes and Accounts Receivable.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Reserves shown...............	24	32.0	45	60.0
Reserves mentioned-net amount shown................	25	33.3	17	22.6
Allowances shown............	6	8.0	7	9.3
Allowances mentioned-net amount shown................	2	2.6	1	1.3
Reserves and allowances not mentioned..............	18	24.0	5	6.6

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Inventories

Inventories constitute a large item in the current asset section of the balance sheet. Every statement studied included the inventory account, and it was classified among the current assets where the current asset caption was used. Much controversy exists as to how inventories should be valued. Shall the cost basis, or the market basis, or the lower of cost or market basis be used? The general concensus of opinion among the writers of textbooks has been that inventories should be valued at the lower of cost or market. The question arises among some concerns as to how the lower of cost or market may be determined. This is especially true of the meat-packing industries. In this type of inventory the market price less cost of distribution has been accepted as the most adequate basis to be used.[6]

This study shows that out of the seventy-five balance sheets containing inventory accounts during 1932, forty-five valued the inventory at cost or market whichever was lower. In 1936, fifty-four corporations valued their inventories at cost or market whichever was lower. This indicates an increase of 12 per cent for those corporations using the basis which is advocated by well recognized authorities.

The cost basis was used in seventeen statements in 1932 and in ten statements in 1936. Other bases were used for valuing inventories in thirteen statements in 1932 and in

6. Personal interview with A. L. Barrett of Ernst and Ernst, Detroit, Michigan.

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thirteen statements in 1936. Therefore a tendency to value inventories at the lower of cost or market is shown in this study.

Table III: The Bases Used in the Valuing of Inventories.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Cost or market, whichever is lower....................	45	60.0	54	72.0
Cost......................	17	22.6	10	13.3
Cost or less................	6	8.0	3	4.0
At market..................	2	2.6	2	2.6
At market or less...........	2	2.6	1	1.3
Miscellaneous...............	3	4.0	5	6.6

The Securities and Exchange Commission states that a separate schedule is to be made showing the major classes of inventory, whether it is represented by finished goods, raw materials, work in process, or supplies on hand. If no separate schedule is made, these divisions are to appear on the balance sheet with the basis for valuation shown. The balance sheets examined gave the basis used in the valuing of the inventories, but they did not separate the inventories into the required divisions in every case. In 1932 the inventories were shown in one amount in sixty-four statements while in 1936 they were shown in one amount in fifty-one statements denoting an increase of 17.3 per cent for the showing of inventories in more than one amount. The tendency seems to be in favor of showing the inventory account in detail and

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making the division the Securities and Exchange Commission requires in the registration statement rather than has been given in published corporate reports in the past.

Investments

Investments, which constitute a part of the current assets of corporations, generally consist of common and preferred stocks and bonds. Government securities have also been purchased on a large scale during the past several years. These items may be shown under current assets only if there is a ready market for the securities held, or they may be listed under a separate caption of "Investments" if a ready market is not available. The purpose for which the corporation is holding these securities may also determine their listing in the balance sheet. The most important phase to be considered is the basis on which the investment is valued in the balance sheet. The valuing of an investment at cost when the market has fallen far below cost could not possibly be accepted as good accounting unless a reserve was used in the valuation which would bring the net amount close to the current market.

The Securities and Exchange Commission requires the basis for determining the amount of the investment as well as the current market value to be shown in the balance sheet submitted for registration purposes.

The balance sheets submitted to stockholders did not show the current market nor the basis for determining the amount of the investment in every case but there is a distinct tendency to do this as may be observed from Table IV.

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Table IV:* The Bases Used for Valuing Investments.

	1932		1936	
	No.	Per Cent	No.	Per Cent
At cost......................	17	25.7	27	39.1
No basis given..............	28	42.4	15	21.7
Reserve used in valuation...	7	10.6	12	17.3
Cost or less................	4	6.0	7	10.1
Book value..................	6	9.0	5	7.2
Market value................	1	1.5	1	1.4
Lower of cost or market.....	3	4.5	2	2.9

* Percentages based on sixty-six balance sheets of 1932 and sixty-nine of 1936 that contained investments.

While there were twenty-eight corporations that did not show the bases used in the valuation in 1932, there were only fifteen or a decrease of 20 per cent of those showing investments that did not state how they were valued in 1936. The most significant change here is that there was a distinct tendency to indicate some basis for valuation in 1936 where none was shown in 1932.

In 1932, investments were shown under one amount in thirty-one statements and in 1936 were shown in one amount in twenty-five statements. Table V shows the detailed manner in which investments were shown both years.

There was very little change from 1932 to 1936 on the showing of investments on balance sheets and no uniform method of designation of titles that were used. The caption "Investments" was used twenty-eight times in the 1936 balance sheets against twenty-six times in 1932. Otherwise, other descriptive words designating investments were used.

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Table V:* The Detail of Showing Investments.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Investments shown under				
one amount.................	31	46.9	25	36.2
two amounts................	18	27.5	25	36.2
three amounts..............	7	10.6	7	10.1
four amounts...............	4	6.0	7	10.1
five amounts...............	5	7.5	2	2.9
six amounts................	1	1.5	3	4.3

Notes Receivable

The notes receivable account is that account which consists mainly of promissory notes which rise from the regular channels of trade. Since the Securities and Exchange Commission allows notes and accounts to be combined, there were only nine corporations which showed notes receivable separately in 1936 against fifteen in 1932. While it is generally conceded that a large per cent of business transactions are carried on by means of notes there were twenty-seven statements or 36 per cent that had no mention of notes receivable in 1932, and twenty-two or 29 per cent in 1936 that did not include notes receivable. Table VI gives data on the way notes, bills, and acceptances were shown on the balance sheets. As may be noted, there was very little change in the displaying of these receivables during the five year interval, the greatest being in the listing of notes under one caption, "Notes Receivable". A decrease for 1936 of 14.3 per cent of the statements listing notes receivable without combining them with other receivables.

* Percentages based on balance sheets carrying Investments.

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Table VI:* Notes Receivable listed on Balance Sheets.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Accounts and Notes Receivable..	24	50.0	33	62.2
Notes Receivable...............	15	31.2	9	16.9
Notes and Acceptances Receivable....................	5	10.4	4	7.5
Bills and Notes Receivable.....	1	2.0	1	1.8
Notes and Drafts Receivable....	1	2.0	2	3.7
Notes, Acceptances, and Accounts Receivable...........	2	4.1	4	7.5

* Percentages based on forty-eight balance sheets in 1932 and fifty-three balance sheets in 1936 containing notes receivable.

Employees Accounts

A number of corporations have accounts which are owed by officers and employees. The American Institute of Accountants recommends that notes or accounts receivable due from officers, employees, or affiliated companies be shown separately and not included under a general heading such as notes receivable or accounts receivable.[7]

The Securities Act of 1933 designates that any loan of $20,000 or over made to an employee must be itemized separately on the balance sheet* while the Securities and Exchange Commission specifies a separation of trade accounts and employees accounts.** While no loan of $20,000 or over was shown in the statements, there were thirty-two statements

7. Audits of Corporate Accounts, p. 26.
* Appendix B.
** Appendix A.

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in 1932 and thirty-nine in 1936 showing an account due from officers and employees. As may be noted from Table VII, there was very little change in the presentation of these accounts during the interval studied. It is also evident that the balance sheets examined portrayed the amounts due from officers and employees before the Securities Act of 1933 and the Securities Exchange Act of 1934 were passed.

Table VII: Presentation of Accounts with Officers and Employees.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Under current assets.........	14	18.6	14	18.6
Under other assets...........	5	6.6	17	22.6
Under stock purchases........	10	13.3	8	10.6
Under both stock purchases and other assets............	3	4.0	0	0
Not shown in indentifying manner....................	43	57.3	36	~~57.3~~ 48.0

Cash Surrender Value of Officers Life Insurance

This account shows the present value of life insurance taken on the lives of officers. There were eight statements which contained this account in 1932 and four in 1936. All except one in 1932 were listed under a separate caption and this one was listed under current assets. It may be assumed that the auditors had definite reasons for listing this one under current assets as it did not appear in later balance sheets.

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CHAPTER II

FIXED AND OTHER ASSETS

Treasury Stock

This account shows the amount of the corporation's own stock that, having been issued, has been reacquired by purchase of otherwise and is being held by the corporation. The corporation statute prior to 1929 neither allowed nor forbade a corporation to purchase its own stock. Commencing, however, during the drop in stock prices in 1929 a number of corporations began to purchase their own stocks in an honest attempt in many cases to prevent their shareholders from suffering undue losses. Several cases were tried in the courts as to whether a corporation had the power to purchase its own stock and the courts held that a corporation had the right to do this "at least when done from surplus".[1] As the depression increased more firms began purchasing their own stocks and later selling them at a profit. This necessitated an agreement among accountants on certain procedures for the displaying of stock acquired in this manner.

Probably the handling of no other account except surplus has been under as much criticism and controversy as the one showing treasury stock. Some accountants are very much opposed to ever showing treasury stock as an asset, while some would have it considered an asset under certain circumstances.

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1. Deinzer, Harvey. "Capital Stock and Surplus", The Accounting Review, p. 343.

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3. Fjeld,

Others would prefer always to list it as an asset, while others state that it is not advisable for a corporation to purchase its stock. Paton[2] states, "Reacquired stock may stand as an asset on the balance sheet, if ever, only if it is to be sold." Fjeld[3] states, "From a strictly theoretical point of view, it is doubtful if treasury stock should ever be considered an asset."

Corporations often have a surplus of cash and should be allowed to purchase their own stock whenever the price of it reaches a certain minimum on the various exchanges. If this purchasing is made with the purpose of holding the stock temporarily and again disposing of it either to employees at the purchase price or to the public at the market price, it would be justifiable to list it as an asset in the balance sheet. If, however, the stock is purchased with the intent of holding it for a long period of time, it should be deducted from the net worth section. If treasury stock is listed as an asset the effect is to overstate both assets and equities. Quite often dividends are paid to treasury stock and this will have the effect of overstating income.

Hence, it may be noted that the listing of treasury stock on the balance sheet may raise many questions. The Securities and Exchange Commission's instructions state that if treasury stock is shown as an asset in the balance sheet, the reasons for showing it here must be given and the number of shares held must also be stated.

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2 Paton, W. A. Accountants Handbook, p. 953
3. Fjeld, F. I. "Balance Sheet Form & Classification in Corporate Reports", The Accounting Review, p. 335.

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Of the statements examined, none of the balance sheets showing treasury stock as an asset gave reasons for doing so. Undoubtedly the accountants do not deem this information important enough to portray to anyone holding stock in a corporation. The Securities and Exchange Commission prefers to have treasury stock shown as a deduction from capital stock or from either the total of capital stock and surplus, or from surplus, at either par or cost, as circumstances require.

This study shows a distinct trend to deduct treasury stock from capital stock. Out of forty-eight balance sheets having treasury stock, twenty deducted it from capital in 1932, while out of forty-six having this account in 1936, twenty-eight deducted it from capital stock. This shows a gain of 19.2 per cent in favor of deducting it from capital. There was very little change as to the caption used when it was carried under assets. Table VIII shows in what manner this stock was shown on the balance sheets.

Table VIII:* Treasury Stock Displayed on the Balance Sheets.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Deducted from capital stock..	20	41.6	28	60.8
Carried under treasury stock.	16	33.3	9	19.5
Under Investments	9	18.7	7	15.2
Miscellaneous captions.....	3	6.2	2	5.3

* Percentages based on balance sheets containing Treasury Stock.

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There is also little uniformity as to what basis should be used in the evaluation of treasury stock. Ten different methods of arriving at the value of treasury stock for balance sheet purposes were found to have been employed. Both years show the cost basis used more than any other. During 1932, twenty-seven or 36 per cent of the corporations showed no treasury stock held, and during 1936, twenty-nine or 38 per cent of the corporations showed none. From this we may conclude that there was little change as to the acquiring or disposing of treasury stock during the four year period. Table IX shows the various bases used in evaluating treasury stock.

Table IX:* Bases Used in Evaluating Treasury Stock.

	1932		1936	
	No.	Per Cent	No.	Per Cent
At market	6	12.5	2	4.3
At cost	18	37.5	12	26.1
At par	10	20.8	9	19.5
Book value	1	2.1	2	4.3
Stated value	2	4.2	4	8.7
No value			1	2.2
Assigned value	3	6.2	6	13.0
Cost or less................			1	2.2
Below book value			1	2.2
Basis not shown.............	8	16.6	8	17.4

* Percentages based on those balance sheets containing treasury stock.

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Fixed Assets

Fixed assets as a rule include the property accounts and are quite often called capital assets. There were nineteen corporations in 1932 using the caption "Fixed Assets" while there were thirty in 1936. This indicates an increase of 14.7 per cent for 1936 favoring this caption.

Land

The land account shows the value of land owned. This account is not ordinarily subject to depreciation and if its value is to be shown it should be segregated from those accounts that are subject to depreciation. The question that arises is, "At what value should land be shown in the balance sheet?" Should it be appraised at intervals so as to get its present value or should the amount paid for the land be taken as the balance sheet figure? The accepted practice is to list land at cost except in cases where a large amound of 'appreciation' has taken place.

This study showed land listed separately in nine balance sheets in 1932 and in sixteen balance sheets in 1936. This indicates an increase of 9.3 per cent, but still must be considered a very small increase in percentage as all of the seventy-five corporations undoubtedly had land of some value considered among the assets. The word "Land" was not mentioned in twenty-seven balance sheets in 1932 and in twenty-four balance sheets in 1936. The conclusion then is that very little change has occurred in the reporting on land during the interval studied.

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The Securities and Exchange Commission requires a separate schedule for land as it does for all other fixed assets, so their requirements have had no effect on the way it is portrayed in the balance sheet. Table X shows how the "Property","Plant and Equipment", and "Land" accounts were shown during both years studied.

Table X: Fixed Property Listed on the Balance Sheets.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Land shown separately.......	9	12.0	16	21.3
Land shown with buildings, equipment, plant, etc......	39	52.0	35	46.6
Land not mentioned, but property, plant, equipment and real estate given......	27	36.0	24	32.0

The Commercial Solvents Corporation carries "Land, Buildings and Equipment" for 1932 at the nominal amount of one dollar. It repeats this in 1936 only for that part of the "Land, Buildings and Equipment" which was acquired before 1932. The cost amount of these fixed assets acquired subsequent to 1932 is shown.

The General Electric Company carries "Furniture, Fixtures and Appliances" other than those in factories, in 1932 at the nominal amount of one dollar. It, however, does not carry any such account for 1936.

The May Department Stores carries "Furniture, Fixtures, and Delivery Equipment" during both 1932 and 1936 at one dollar.

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Fjeld[4] has the following to say concerning the carrying of fixed tangible assets at one dollar, "While this use of memorandum valuation is often defended on the doubtful basis of conservatism, it involves also the question of secret reserves. If the assets are practically worthless, then why assign any value to them? On the other hand, if they have value and are being used in the business and being depreciated periodically for income tax purposes, then it should seem that the stockholders and the public are entitled to this information." Certainly this practice shows conservatism if it isn't being done to establish secret reserves.

The percentage of corporations using this method of valuing a part of their tangible assets was so small during both years that there is very little likelihood of any trend in this direction. There undoubtedly will be more of a tendency in the future as there has been in the past of over-valuing tangible assets instead of under-valuing them as these corporations have done.

Reserves for Fixed Assets

Exclusive of land, all other fixed assets generally lessen in value each year, and a certain amount is charged off as depreciation. This is recognized by most accountants as the systematic spreading of the cost of the asset as an expense over a comparatively long period of time which may be considered the life of the asset. On the balance sheet, providing the accumulated amount of depreciation is deducted

4. Fjeld, F. I. Op. cit. p. 332.

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from the cost and if the depreciation has been adequately determined, the present value of the asset will be shown. Thus it is evident that the logical place for the accumulated depreciation is on the asset side of the balance sheet treated as a contra account to the asset it represents.

In this study five of the 1932 balance sheets did not deduct the reserve from the asset but listed it on the liability side, thereby overstating both the assets and the equities. This procedure, however, was not adhered to in 1936 as there were no balance sheets that listed the reserve in this manner.

A variety of phrases were used in the designation of the reserves for depreciation. Forty-two of the 1932 balance sheets used the wording "Less Reserve for Depreciation" and fifty-three used this phrase in 1936, which shows an increase of 14.6 over 1932 favoring this phrase. Only three of the 1936 balance sheets did not show the amount of the reserve, while twelve of the 1932 balance sheets omitted it. All of the balance sheets except one in 1932 at least mentioned the fact that a reserve was carried and had been considered in arriving at the amount shown by the asset account.

The same controversy exists as to whether the word "Allowance" or "Reserve" should be used in designating the accumulated depreciation, as exists in showing the estimated amount of uncollectible accounts receivable. Allowance was used in ten of the 1932 balance sheets and in eleven of the 1936 balance sheets. It may be concluded here as with accounts receivable that no notable change is taking place in the displacing of

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Table XI

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displacing of "Reserve" with "Allowance" as advocated by certain authors of textbooks. Table XI shows in detail the treatment of reserves as they apply to the examined balance sheets.

Table XI: Terminology in the Valuation of Fixed Property.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Reserve for depreciation....	42	56.0	53	70.6
Allowance for depreciation..	8	10.6	10	13.3
Reserve mentioned but amount not shown...........	9	12.0	2	2.6
Reserve on liability side...	5	6.6	0	0
Less reserve for depreciation, depletion, and amortization...............	4	5.3	5	6.6
Less depreciation...........	3	4.0	3	4.0
Allowances mentioned but amount not shown...........	2	2.6	1	1.3
At depreciated values.......	1	1.3	1	1.3
No mention of reserves......	1	1.3	0	0

Goodwill and other Intangibles

One of the famous definitions of goodwill is that given by Lord Chancellor Eldon in 1810 which states, "It is nothing more than the probability that old customers will return to the old place".[5] Paton defines goodwill in broader terms as, "The value of all of the favorable attitudes impinging upon the concern, including, with customers, the employees and other groups associated with the enterprise."[6] Goodwill is sometimes thought of as the amount of a corporation's common stock which is outstanding, while the preferred stock represents the tangible assets. Accountants often think of Goodwill as the

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~~6~~ 5. Preinreich, Gabriel A. D. "The Law of Goodwill", The Accounting Review, p. 317, Dec., 1936.

~~7~~ 6. Paton, W. A. Op. cit. p. 799.

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Goodwill is difficult to estimate, and it is often questionable if the purchase price is the best price to show in the balance sheet. Quite often for various reasons a nominal value is used instead of the actual value. This study shows that where Goodwill was shown alone in the balance sheet, seven corporations carried it at one dollar in 1932 while eight carried it at one dollar in 1936. Where Goodwill was combined with some other Intangible item such as "Patents", or "Trade-marks", thirteen balance sheets carried them at one dollar in 1932 and seventeen carried them at one dollar in 1936. Thirty-one corporations did not include Intangible items in 1932, while twenty-seven did not include them in 1936.

The Securities Act of 1933 states that Intangibles must be segregated from tangible items in the balance sheet, while the Securities and Exchange Commission requires schedules to be made showing Intangibles. This study shows that the practice of segregating Intangibles was carried on by these corporations before the Securities Act was passed as none of the 1932 balance sheets showed them combined. Less than one-third of the statements carried intangible items in excess of one dollar during both 1932 and 1936, while less than 5 per cent of the corporations carried Goodwill alone in excess of one dollar. Table XII shows in detail the Goodwill and other Intangibles as found on the balance sheets examined.

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Table XII:* Goodwill and other Intangibles.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Goodwill at one dollar......	7	15.9	8	16.6
Goodwill, Patents, etc. at one dollar.................	13	29.5	17	35.4
Goodwill in excess of one dollar.................	2	4.5	3	6.2
Goodwill, Patents, etc. in excess of one dollar.......	21	47.7	19	39.5
Goodwill, Patents, etc. carried at two dollars.....	1	2.3	1	2.1

* Percentages based on the number carrying Goodwill.

Deferred and Prepaid Charges

These items as a rule represent past expenditures for which service has sometimes been received, but the benefits in every case are to be shown in future revenues. This account theoretically then could include a large number of items depending upon the type of enterprise carried on by the corporation. The only ruling the Securities and Exchange Commission gives is that the items be shown separately. There was very little uniformity as to the titles used in the showing of deferred charges so the only tabulation made was the extent of detail in which they were shown.

The 1932 statements showed deferred and prepaid charges in one amount in fifty-eight or 85.3 per cent of the balance sheets and in 1936 in forty-seven or 64.3 per cent of them. Seven or 9.3 per cent of the 1932 balance sheets did not contain

these charges at all, while only two or 2.6 per cent of the 1936 balance sheets did not contain them. Table XIII indicates that the 1936 balance sheets were listing deferred items more in detail, thus giving the shareholder more information as to what is included under this caption; and also that more corporations were showing these items during this year than formerly.

Table XIII:* The Presentation of Deferred and Prepaid Charges.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Shown under one heading.....	58	85.3	47	64.3
Shown under two headings....	7	10.3	6	8.2
Shown under three headings..	3	4.4	17	23.3
Shown under four headings...	0	0	3	4.1

* Percentages based on the number of statements containing these items.

Bond Discount

This account is considered as the difference between the par value of bonds issued and the actual amount received from them. There is more than one way this may be indicated on the balance sheet. It may be shown under deferred charges or as a deduction from the par value of the bonds issued. Paton[8] has the following to say concerning this account, "It is no more an asset than is stock discount. To rule otherwise is equivalent to saying that the amount of property received by a corporation incident to the issue of bonds is always equal to

8. Paton, W. A. "Shortcomings of Present-Day Financial Statements", Journal of Accountancy, Feb., 1934, p. 115.

the par or maturity value, regardless of the amount of the discount; and this is tantamount to denying the fact of discount." Kester[9] prefers to have this account included among the assets when shown in the balance sheet.

Of the balance sheets examined only five listed bond discount separately in 1932, but eighteen listed it separately in 1936. It is safe to conclude that there were more than five of the corporations in 1932 that could have shown bond discount but had it included in one amount included with deferred charges.

The Securities and Exchange Commission's ruling is to show this discount separately, which would account for the increase in the listing of it separately in 1936. There was, however, not a single balance sheet that deducted the discount from the par value of the bonds but every one listed it under the "Deferred Charge" caption. The increase of thirteen balance sheets listing bond discount concludes that the Commission's rulings may have affected this change, and the failure of a single corporation to include it as a contra account indicates that it probably will be treated as a deferred charge for some time to come.

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9. Kester, Roy B. Advanced Accounting, p. 394.

CHAPTER III

CURRENT AND FIXED LIABILITIES

Liabilities

Liabilities in corporate balance sheets are the debts owed by the corporation at the date of the balance sheet report. Paton[1] defines them as, "consisting of all obligations outside of the equities represented by capital or proprietory accounts, which require expression or are capable of being expressed in definite financial terms." The two main divisions are current liabilities and fixed liabilities.

Current Liabilities

Current liabilities are considered as those which are payable within a period of approximately one year from the date of the balance sheet. They bear some relationship to current assets in that a comparison of them is made when the liquidity of the corporation is determined. Hummel[2] believes that the showing of current assets and current liabilities adequately is by ~~always~~ far the most important function of the balance sheet, and he also states that the paramount interest of the investor is in this section of the balance sheet.

The Securities and Exchange Commission rules as follows on current liabilities, "All amounts due within one year should be included here. Generally recognized trade practices may be followed with respect to such items as customers deposits and

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1. Paton, W. A. Accountants Handbook, p. 837.
2. Personal interview with Charles Hummel of Price, Waterhouse and Company, Detroit, Michigan.

deferred income, provided such trade practices are stated. The total of current liabilities shall be shown." *

There were five corporations in 1932 and only one in 1936 that made no division as to current liabilities. The American Sugar Refining Company was the only corporation that did not show current liabilities in 1936 but had "Accounts, Taxes, Interest Payable, etc." in one amount listed among the liabilities and these probably could be construed to be a total of the current liabilities of that firm. This corporation did not make a division of current assets or current liabilities in either 1932 or 1936. As has been previously noted** there were four corporations in 1932 that did not make a division of current assets; the same four were found not to separate current liabilities, in addition to one that did make a division of current assets but not of current liabilities.

The same question arises on the position of current liabilities as on the position of current assets. Shall they be shown first or last on the balance sheet? It is generally conceded that if current assets are shown last, or in the reverse of the order of liquidity, then current liabilities should be shown in the same manner. Even those accountants who advocate the showing of fixed assets or capital stock first, frown on the showing of fixed assets first on the asset side and then showing capital and surplus last on the liability side.

There were two balance sheets that did not list current liabilities first in 1936 while there were thirteen that did

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* Appendix A.
** Page 10.

not list them first in 1932. Those balance sheets that did not list current liabilities first were the same ones that did not list current assets first.

From the results of the current liability position in the balance sheets it is safe to conclude that there is a distinct trend toward showing current liabilities first among the liabilities and that those corporations listing capital stock and surplus first are rapidly changing to this procedure.

Presentation of Current Liabilities

The cash account is conceded to be the first one shown under current assets, but the account that is the most current in respect to liabilities is more of a question. The results from this study conclude that accounts payable was most frequently used as the first account to be listed. In 1932, accounts payable was given the number one position among current liabilities in forty-five of the balance sheets, while it was first forty-two times in 1936. Notes payable was found first in ten of the 1932 balance sheets and in eighteen of those of 1936. Very little change was noted then in the account to be shown first under current liabilities. Table XIV shows in detail the accounts that were given first place among current liabilities.

In addition to the notes payable and accounts payable listed under current liabilities, such accounts as drafts payable, dividends payable, accrued liabilities, reserve for income taxes, accounts payable to officers and employees, reserves for contingencies, dividends declared and unpaid, etc. were noted.

Table XIV:* Accounts Listed First under Current Liabilities.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Accounts Payable............	45	64.3	42	56.8
Notes payable...............	10	14.3	18	24.3
Accounts payable, etc.......	8	11.4	8	10.8
Acceptances payable.........	2	2.8	1	1.4
Bank loans..................	1	1.4	2	2.7
Notes and acceptances.......	1	1.4	1	1.4
Drafts payable..............	1	1.4	1	1.4
Accrued interest on bonds...	1	1.4	1	1.4
Acceptances and drafts payable..................	1	1.4	0	0

* Percentages based on the number of balance sheets containing current liabilities.

No study was attempted on the number of times each account appeared because of the wide diversity of titles used. However, a comparison was made as to the extent of detail shown under current liabilities. The showing of current liabilities under four items was the choice during both years. In 1932, twenty-one balance sheets showed four items against twenty-two in 1936, but the same balance sheets for each year very seldom portrayed the same number of items. In almost every case more items were listed during 1936 than during 1932. Therefore, more information was given the stockholder in 1936 than in 1932 in the listing of current liabilities, as it is safe to assume that the same liabilities existed during both of the years studied. Table XV shows the number of accounts appearing on the balance sheets under the current liability section.

Table XV: The Detail in which Current Liabilities were Shown.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Not shown....................	5	6.7	1	1.3
Under one heading...........	1	1.3	0	0
Under two headings..........	17	22.7	4	5.3
Under three headings........	14	18.7	14	18.7
Under four headings.........	21	28.0	22	29.3
Under five headings.........	14	18.7	13	17.3
Under six headings..........	2	2.7	6	8.0
Under seven headings........	1	1.3	9	12.0
Under eight headings........	0		1	1.3
Under nine headings.........	0		2	2.7
Under ten headings..........	0		1	1.3
Under eleven headings.......	0		2	2.7

Measurement of Liabilities

While the basis used for the valuation of assets is one of the utmost importance as a general rule no such problem arises in the measurement or valuation of the amount of liabilities. Generally written or implied contracts are entered into by the management which constitute the basis used for liability measurements. Accounts receivable may or may not be collectible and provision must be made accordingly, but all accounts payable are due in an exact determinable amount and the question for valuation does not arise. The same would be true for notes and acceptances receivable and for notes and acceptances payable. There are, however, some liabilities that occasionally arise for which a basis is more difficult to determine and a valuation must be approximated. An example would be a judgment against the corporation which has not been settled and may still be pending in the courts. These will be taken up in more detail in the next section.

Contingent Liabilities

Contingent liabilities have always been a serious problem with accountants in the presentation of balance sheets. First, they are difficult to ascertain as they generally consist of judgments, claims for damages, obligations under endorsements, guaranties, uncompleted purchase of sale contracts, construction in progress, suretyships, etc. Second it has been difficult to find a place for them on the balance sheets after they have been discovered. There has been no ruling by the Securities and Exchange Commission as to what position they should occupy on the balance sheet filed for registration purposes. This study shows that seven balance sheets had a contingent liability shown in 1932 and eight had this item shown in 1936. Every balance sheet had this liability listed separately but did not have the amount added with the total of other liabilities. Contingent liabilities that were shown in a footnote were not included in the above tabulation.

Twenty-nine of the 1932 balance sheets had a reserve for contingencies set up on the liability side, while forty-four had this reserve in 1936. This indicates an increase of 20 per cent showing a reserve for contingencies. An account entitled "for contingencies" was shown on six of the 1932 balance sheets and once on the 1936 balance sheets. Thirty-three of the 1932 balance sheets did not mention the word "contingency" in 1932, while twenty-two did not mention it in 1936. From this it may be assumed that some of the corporations may not have disclosed their contingencies in 1932.

Fixed Liabilities

Those liabilities which do not have to be paid during the interval of one year are considered fixed liabilities. They are sometimes referred to as "permanent liabilities", "funded liabilities", of "capital liabilities", and as a rule consist of mortgages payable, bonds payable, and long-time notes payable. Sherwood and Hornberger[3] state the reason for segregating current and fixed liabilities "is to show separately those liabilities which will mature within the succeeding fiscal period and those liabilities which will not mature, and therefore which need not be met within the succeeding fiscal period."

Fixed liabilities are often secured and the securities usually take the form of real estate or chattel mortgages. Quite often bonds are issued and they may also be safeguarded by a lien upon certain definite assets of which no disposition can be made by the corporation without giving recognition to the claims of the creditors. Such bonds carry certain specifications as to date of maturity, interest rate, and other characteristics and are often designated by these characteristics in the balance sheet.

Daniels[4] uses the caption "Fixed Liabilities" in his standard balance sheet to list liabilities of over one year's duration.

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3. Sherwood, J. F. and Hornberger, D. J. Fundamentals of Auditing, p. 97.
4. Daniels, M. B. Corporation Financial Statements, p. 121.

Paton[5] also refers to the caption "Fixed Liabilities" as the item under which long-term obligations should be shown.

This study shows that not a single corporation used this term in the presenting of these liabilities. The term most frequently used "Funded Debt" was found in fifteen of the 1932 statements and in thirteen of the 1936 statements. Twenty-seven or 36 per cent of the 1932 balance sheets did not have any long-time obligations outstanding, and thirty-five or 46 per cent of the 1936 balance sheets did not show any.

The Securities and Exchange Commission's instructions require any funded debt that is not a current liability and that falls due within one year and any other long-term debt to be shown separately. All of the corporations adhered to this requirement before the Securities Act was passed, and the conclusion then may be stated that little or no change has occurred in the presentation of the fixed liability section of the balance sheet during the interval between 1932 and 1936. The fact that there was a decrease of eight corporations not showing this section of the balance sheet may be accounted for by outstanding bonds probably being called in and cancelled, thereby closing these accounts.

Table XVI indicates the captions that were used in the place of "Fixed Liabilities". It is interesting to note that there was a decrease of 10 per cent of the statements for 1936 which did not contain any long-time debt outstanding which may also indicate a strengthening of the financial structure of corporations during this period.

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5. Paton, W. A. Op. cit. p. 885.

Table XVI: Captions Used in Place of "Fixed Liabilities".

	1932		1936	
	No.	Per Cent	No.	Per Cent
Funded debt..................	15	20.0	13	17.3
Five per cent bonds.........	19	25.3	6	8.0
Mortgages, etc...............	7	9.3	6	8.0
Eight per cent bonds........	2	2.6	1	1.3
Purchase money obligations..	2	2.6	0	0
Long term debt..............	1	1.3	4	5.3
Miscellaneous................	0	0	3	4.0
Timber purchase contracts...	0	0	1	1.3
Other liabilities...........	1	1.3	2	2.6
Employees deposits under stock purchase plan.............	1	1.3	0	0
Notes payable................	0	0	1	1.3
Serial debentures...........	0	0	3	4.0
None.........................	27	36.0	35	46.6

Deferred Items in the Liability Section

These accounts represent payments that have been made for which value is to be received at a later date. Paton[6] defines them as "advances by customers or clients which are subject to satisfaction by delivering of goods or services as agreed often labeled, somewhat questionably, 'deferred revenues'". Couchman[7] calls them "Deferred Credits" and writes of them as follows, "Most accounts coming under this heading are such as ultimately will be converted into a liability or into a surplus item. Some organizations classify under this heading all items of income received in advance of the period to which they properly belong." Here then would appear such items as

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6. Paton, W. A. Op. cit. p. 876
7. Couchman, Charles B. The Balance Sheet, p. 220

prepayments for service to be rendered, premiums on securities issued, discounts on securities purchased, etc.

Sherwood and Hornberger[8] call them deferred credits to income and write of them as follows, "Where income is recorded before it is earned, any unearned portion not applicable to the period under audit should be deferred for credit to the period in which it is earned. Deferred Credits to Income are just the opposite of deferred charges to operations and should be so classified on the balance sheet."

In the balance sheets examined there was little change in the presentation of these items. Sixty-two corporations did not list deferred items in the liability section in 1932, and fifty-nine did not list any in 1936.

The Securities and Exchange Commission does not require these items to be shown separately unless they are in excess of 5 per cent of total current liabilities.

Table XVII: Deferred Items Shown in the Liability Section

	1932		1936	
	No.	Per Cent	No.	Per Cent
Deferred credit.............	6	8.0	4	5.3
Deferred income.............	4	5.3	6	8.0
Deferred liability..........	2	2.6	5	6.6
Deferred income and deferred credit............	1	1.3	1	1.3
No deferred items...........	62	82.6	59	78.6

8. Sherwood, J. F. and Hornberger, B. D. Op. cit. pp. 168-9.

CHAPTER IV

CAPITAL AND SURPLUS

Capital and Capital Stock

There is a tendency to give the word "capital" a great variety of meanings in the business world. In fact, it is applied to so many different things of such marked dissimilarity that it is necessary to know quite definitely in which sense it is used in order to avoid misinterpretation. In the accounting field, capital may be defined as the excess of the asset value over the liabilities of any commercial entity. In a broad sense it may be thought of as expressing the net investment of the owners in an enterprise.

In a corporation this capital is expressed in terms of shares of capital stock. It may be considered as the total of the transferable interests of the stockholders. This capital stock may again be given numerous classifications of which the two major ones would be common stock and preferred stock. Common stock and preferred stock may again be divided according to various priviledges which each of these groups may be given.

Common Stock

Common capital stock is characterized by Husband and Thomas[1] in the following manner, "It represents the residual ownership in the corporation, and assumes the greatest

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1. Husband, George R. and Thomas, Olin E. Principles of Accounting, pp. 337-8.

speculative risks in expectation of the largest returns. It carries the right to participate in the corporations earnings and usually the right to vote--the stockholder casting one vote for each share of stock owned. In case of dissolution the claims of the common stockholders are met only after the other claims have been paid in full." In addition, a holder of common stock has the privilege of transferring his stock certificate to another person and otherwise use it without restriction as personal property and participate in securing any additional stock the corporation may offer.

Several values may be assigned to common stock among which are par value, book value, market value, and no-par value.

Par value is the amount printed on the stock certificate and is usually not in any way indicative of the value of the stock and is generally below both book value and market value. Market value is the value of the stock on the various stock exchanges or the price at which the stock is selling. Book value consists of the total value of the net assets to which any given type of stock may justly lay claim, divided by the total number of shares of that type of stock outstanding; or it may be considered as the value of a share after dividing the net worth by the total number of shares outstanding.

No-par stock was not issued in the United States until 1912. In that year the state of New York revised its corporation laws permitting the issue of no-par-value stock. As a rule it has the same rights and priviledges that par-value stock has.

There has been a controversy in the accounting field ever since its introduction as to its advantages and disadvantages. No attempt will be made here to describe them.

This study includes a tabulation to show the various value bases which were given to common stock in the balance sheets. Thirty-five balance sheets in both 1932 and 1936 had no-par-value stock. Eight of the corporations in 1932 did not state the type of common stock that had been issued, while only one of the corporations in 1936 failed to state the type of common stock outstanding. Table XVIII shows the various values given to common stock.

Table XVIII: Bases for Evaluating Common Stock

	1932		1936	
	No.	Per Cent	No.	Per Cent
Par value....................	24	32.0	31	41.3
No-par-value.................	35	46.6	35	46.6
No-par with assigned value..	6	8.0	8	10.6
Stated value................	2	2.6	0	0
No basis given..............	8	10.6	1	1.3

The Securities and Exchange Commission requires the number of shares of capital stock authorized, the number outstanding, the par value per share, or the stated or assigned value, to be given and this may account for the increase in the number of balance sheets which described the type of common stock outstanding.

Six of the 1932 balance sheets failed to indicate the number of shares authorized and the number of shares outstanding, while only one of the 1936 balance sheets failed to do this. Sixty-nine of the 1932 balance sheets would have met the requirements of the Securities and Exchange Commission's rulings in that year. It is safe to assume that the Commission's rulings helped bring about the change in the five additional corporate statements that now give this required information.

Preferred Stock

There are numerous rights and privileges that may be given preferred stock. One is the right to participate in earnings at a stipulated rate prior to that of non-preferred stock. Preferred stock may be cumulative; that is, if a corporation is unable because of a deficiency in earnings or any other reason, to pay the rate the stock calls for, it may be allowed to accumulate until a time when payment is able to be made.

This study shows that of the corporations having preferred stock, the majority was of the cumulative type. Most corporations had seven per cent cumulative preferred stock outstanding during both 1932 and 1936. There was very little change in the method of presenting cumulative preferred stock on the balance sheets, other than the position. However, the rate of interest on cumulative preferred stock was less in 1936 than it was in 1932 as may be noted in table XIX.

Table XIX: The Classes of Preferred Stock on the Balance Sheets.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Seven per cent cumulative...	15	20.0	12	16.0
Six per cent cumulative.....	3	4.0	7	9.3
Eight per cent cumulative...	1	1.3	0	0
Five per cent cumulative....	0	0	5	6.6
Four per cent cumulative....	0	0	1	1.3
One per cent cumulative.....	0	0	1	1.3
Preferred stock.............	14	18.6	6	8.0
Debenture stock.............	1	1.3	2	2.6
Special stock...............	1	1.3	1	1.3
Cumulative preference stock.	4	5.6	4	5.6
Combinations of above.......	8	10.6	8	10.6
No preferred stock..........	28	37.3	28	37.3

As may be noted twenty-eight of the corporations did not have preferred stock. There had been numerous revisions of capital structure during the five year interval and a corporation having preferred stock in 1932 did not always have the same type of preferred stock in 1936. Certain corporations had evidently called in old stock and had issued new stock in its place which is further evidenced in the surplus accounts.

Minority Interests

This account represents that part of the net worth of a subsidiary not owned by the parent corporation. Much controversy has existed as to just how the minority interests is best shown on the balance sheet. Taylor and Miller[2] would have it shown

2. Taylor, Jacob B. and Miller, Hermann C. Intermediate Accounting, p. 116.

in the net worth section as a separate item under "Minority Interest". Couchman[3] would also have it shown in the net worth section. Daniels[4] gives two views of presentation, the "combined" view and the "majority interest" view. The "combined" view considers this item as a proprietary interest, while the "majority interest" view represents it as a liability.

The minority interest may be presented on the balance sheet in total or it may be divided into two or more amounts, stating the capital stock and the amount of surplus. Stating it in two or more amounts would be preferable from the shareholder's point of view as he could determine the interest of the minority more readily.

Since the minority interest may be shown among liabilities or in the net worth section, it is logical that if it is not shown with capital and surplus it should precede them and immediately follow the liabilities.

In the balance sheets examined, twenty were found to exhibit a minority interest both in 1932 and in 1936, although only sixteen were the same corporations both years.

Seventeen of the balance sheets showed the minority interest as a liability preceding capital, while three displayed it in the net worth section. One corporation showed it at the nominal value of one dollar in 1936 but gave no reason for doing this. Three balance sheets had the minority interest divided as to capital and surplus while seventeen had the minority shown in one amount.

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3. Couchman, Charles B. The Balance Sheet, p. 231.
4. Daniels, Mortimer B. Corporation Financial Statements, p. 111.

Instruction Book for Form 10-K for Corporations' Annual Reports* asks for separate showing of the amounts of minority interest in capital and surplus when submitting the information for stock registration. Evidently the auditors do not deem it necessary to give this information to the stockholders as there was no general trend toward dividing minority interest into surplus and capital.

Surplus

The two major divisions of surplus are "capital surplus" and "earned surplus". Earned surplus as defined by the American Institute of Accountants is the balance of net profits, net income, and gains of a corporation after deducting distributions to stockholders and transfers to capital stock accounts. It may then be considered as the earnings of a corporation that have not been distributed to stockholders.

It is very difficult to find an accepted definition for capital surplus. Various accountants use it to express quite different things. In a broad sense it may be considered as that surplus arising from contributions of stockholders in excess of par or stated value of stock issued as well as surplus arising from a revaluation of capital assets.

The surplus account has been the object of much scrutiny during the past several years. Many corporations have made changes in capital structure through the surplus account which in many cases have been difficult for the stockholder to

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* Appendix A.

comprehend. A loss may very readily be converted into a gain through the surplus account if good accounting principles are not adhered to.

In the examination of the statements for 1932 it was found that fourteen did not name the source of surplus, while four did not name the source of surplus in 1936. Earned surplus was found in fifty-two of the 1932 balance sheets and in sixty-eight of the 1936 statements. Table XX gives further information on the balance sheets naming the source of surplus.

Table XX: Statements displaying the Source of Surplus.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Balance sheets naming sources of surplus...........	61	81.3	71	94.6
Balance sheets not naming sources of surplus...........	14	18.6	4	5.3

The fact that sixteen more balance sheets contained an earned surplus account as indicated by table XXI is accounted for by an increase in earnings during the interval between 1932 and 1936.

Table XXI: Statements showing Earned Surplus.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Balance sheets having earned surplus.............	52	69.3	68	90.6
Balance sheets not having earned surplus.............	23	30.6	7	9.3

The Securities and Exchange Commission requires the division of surplus into Paid-in surplus, Capital surplus, and Earned surplus, if it is possible to have this division made. This study shows that there is a tendency to separate surplus and describe it more in detail in 1936 than there was in 1932. There were ten balance sheets in 1932 that did not separate surplus but showed it all under one surplus account, whereas, in 1932, only three balance sheets did not describe surplus. There were also fewer terms used on the 1936 statements describing the surplus accounts, which indicates more uniformity in the terminology used. A number of statements contained earned surplus in 1936 that did not designate it in 1932. However, this may be accounted for in increased earnings being made and the fact that more corporations were segregating surplus on the bases designated by the Securities and Exchange Commission. The most uniform wording in the display of surplus was "Capital and Earned Surplus". Table XXII shows in detail the terminology used in portraying this item on the balance sheets.

There are several places where the surplus section of the balance sheet may be shown in detail. It may be exhibited with the balance sheet, profit and loss statement, or it may be submitted on a separate schedule. The Securities and Exchange Commission requires surplus to be shown in one of these forms.

In examining how the surplus was presented, it was noted that there is a preference to present it on a schedule separately from both the profit and loss statement and the balance sheet.

Table XXII: Types of Surplus on Balance Sheets.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Both capital and earned.......	23	30.6	31	41.3
Surplus........................	13	17.3	3	4.0
Paid-in and earned............	5	6.6	6	8.0
Earned.........................	19	25.3	26	34.6
Capital........................	3	4.0	0	0
Undivided profits.............	1	1.3	1	1.3
Initial and earned............	1	1.3	1	1.3
Paid-in........................	2	2.6	0	0
Deficit........................	1	1.3	0	0
Capital surplus, appropriated, and unappropriated surplus....	1	1.3	0	0
General surplus, surplus arising from issuing common stock, and insurance surplus..	1	1.3	0	0
Free and appropriated for retirement of Pfd. stock......	1	1.3	1	1.3
Initial, appropriated, earned.	1	1.3	0	0
Profit and loss surplus.......	2	2.6	0	0
Capital, Pfd. stock redemption, excess of par of Pfd. Treasury stock, earned surplus.........	1	1.3	1	1.3
Premium on sale of capital stock, earned surplus.........	0	0	1	1.3
Capital, Appropriated, and earned surplus................	0	0	1	1.3
Surplus arising from reduction in par value of capital stock and deficit....................	0	0	1	1.3
Surplus arising from requisition of own shares at a discount and earned surplus............	0	0	1	1.3
Capital surplus and deficit...	0	0	1	1.3

This study shows that 56 per cent of the statements exhibited surplus on a separate schedule in 1932 and 73.3 made a separate schedule in 1936. The surplus was also shown in much more detail on all of the 1936 statements and were almost identical with the one prescribed by the Securities and Exchange Commission in Instruction Book for Form 10-K for Corporations' Annual Statements. Table XXIM indicates whether surplus was portrayed with the balance sheet, profit and loss statement, or on a separate schedule. The corporation with a deficit did not show it in detail.

Table XXIII: Location of Details of Surplus.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Surplus on the balance sheet	7	9.3	3	4.0
Surplus on the profit and loss statement............	25	33.3	16	21.3
On both of the above........	0	0	1	1.3
Surplus on separate schedule....................	42	56.0	55	73.3
Deficit.....................	1	1.3	0	0

Footnotes to Accompany the Balance Sheet

There are a number of items that require more interpretation than can be given in the regular body of a balance sheet. Then again there may be some items that the stockholders should know about but cannot appropriately be displayed in the balance sheet. Examples would be certain contingent liabilities, and cumulative dividends in arrears.

In the interviews held with the accountants, the concensus of opinion was that footnotes are very necessary in making a balance sheet, but they should not be too lengthy and too involved. On the other hand, they should explain all doubtful items and bring to light any information the stockholder may desire to know.

This study indicates that there is an increasing tendency to use footnotes, and also that they are becoming more lengthy, giving a great deal more information than previously. Thirty-two of the 1932 balance sheets used footnotes while forty-five of the 1936 balance sheets contained them. This increase may be partly accounted for because the Securities and Exchange Commission requires footnotes to be shown whenever they are deemed necessary. Several balance sheets had footnotes covering in detail every item, while others had an explanation that would explain something that was not very clear in the body of the report.

There is no doubt that footnotes assist the shareholder in interpreting the content of a consolidated balance sheet. The statements of a modern corporation are of such a technical nature that one without an adequate knowledge of accounting terminology would have trouble in reading the information that is contained in them. The proper amount of explanation in footnotes undoubtedly should be left up to each corporation and would be determined from the type of industry in which it was engaged.

Accountant's Certificate

The accountant's certificate is the verification by the accountant as to the adequacy of the information in the balance sheet and the verification of the accounting principles used. The Securities and Exchange Commission requires balance sheets to be certified by independent public accountants before it allows any stock to be listed on the exchanges.

Accountants in the past have been criticized severely, and justly in some cases, as to the form of the certificate used. Smith[5] comments as follows on these certificates, "Many of these certificates are so worded that the reader cannot determine whether the accountant is disclaiming knowledge, is merely indicating that legitimate difference of opinion exist, or that he is in disagreement with the client as to the treatment accorded the item or items in question."

Accountants were desirous of having some type of certificate as a model to pattern after, and a committee of members of the American Institute of Accountants suggested the following certificate:[6]

To the XYZ Company:

We have made an examination of the balance sheet of the XYZ Company as at December 31, 1935, and of the statement of income and surplus for the year 1935. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanation from officers and employees of the Company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

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5. Smith, C. Aubrey, "Accounting Practice Under the Securities and Exchange Commission", The Accounting Review, Dec., 1935, p. 328.
6. Examination of Financial Statements, p. 41.

> In our opinion, based upon such examination, the accompanying balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the XYZ Company during the year under review, its position at December 31, 1935, and the results of its operations for the year.

In the examination of the accountant's certificates for the years under review, it was found that a great change had taken place. In 1932 the certificate did not conform to any standard form, but in 1936, nearly every statement was worded similar to the one advocated above. Most of the certificates from one statement could have been substituted in another in the year 1936 and only the company name would have been different.

In 1932, certificates were much more brief than those of 1936 and their location in the report was different. In 1932, one-third of the certificates were on the same page as displayed the balance sheet, but in 1936 only 16 per cent were in this position. Those not on the same page as the balance sheet were found on the last page of the report.

There were eight reports that were not certified in 1932 but in 1936 every report was certified by an outside accountant. Undoubtedly, the Security and Exchange Commission's requirements helped bring about the unanimous certification in 1936.

A tabulation was made as to the firms certifying the statements. Price, Waterhouse and Company certified more statements than any other accounting firm in both 1932 and 1936. As may be noted from the tabulation there were changes during the two years in the firms certifying the statements.

Table XXIV: Accounting Firms Certifying the Statements Examined.

	1932		1936	
	No.	Per Cent	No.	Per Cent
Price, Waterhouse & Company..	16	21.3	20	26.6
Ernst and Ernst.............	10	13.3	9	12.0
Haskin & Sells...............	9	12.0	9	12.0
Lynbrand, Ross Bros. & Montgomery..................	5	6.6	9	12.0
Arthur Young & Company.......	5	6.6	6	8.0
Peat, Marwick, Mitchell & Co.	4	5.3	4	5.3
Touche, Niven & Company......	4	5.3	4	5.3
Deloitte, Plender, Griffith and Company..................	3	4.0	3	4.0
Barrow, Wade, Guthrie & Co...	1	1.3	1	1.3
Miller Donaldson & Company...	1	1.3	1	1.3
Arthur Anderson & Company....	1	1.3	0	0
Patterson, Teele & Dennis....	1	1.3	1	1.3
Stagg, Mather & Hough........	1	1.3	1	1.3
Loomis, Sufferin & Ternald...	1	1.3	1	1.3
Stewart, Watts & Bollong.....	1	1.3	1	1.3
The Audit Company of N. Y....	2	2.6	0	0
Harvey, Fuller & Company.....	1	1.3	1	1.3
Allen R. Smart & Company.....	1	1.3	1	1.3
R. G. Rankin & Company.......	0	0	2	2.6
Main & Company...............	0	0	1	1.3
No certification.............	8	10.6	0	0

CHAPTER V

Summary and Effect of Changes

The purpose of this study was to determine the character, extent, and degree of change in balance sheet presentation, classification, and terminology as brought out by a detailed comparison of seventy-five industrial balance sheets of 1936 with the balance sheets of the same corporations for 1932. These detailed comparisons have been shown in tabular form in chapters two, three, and four. Table XXV, pages 62-65, summarizes the data thus presented in an attempt to facilitate certain conclusions as to trends and significant changes.

The first column in this table contains the title of the account or major division examined. An item repeated in this column indicates that more than one type of tabulation was made.

In column two is found the type of change analyzed. "Position" refers to the preference given in displaying an item in any section of the statement. "Segregation" refers to the division made of an account or the manner of showing the account in detail. "Valuation" has reference to the bases used in determining the amounts of the items in the balance sheets. "Presentation" refers to how any item was listed in the balance sheet. The remaining types indicated in this column are self-explanatory.

The third column "degree of change" denotes the amount of change that has occurred in the 1936 statements, and is divided into the following measurements: none, slight, moderate, and considerable. The degree of change was presented in this manner instead of in the form of percentages because the percentage of change in one item might be more significant than the same percentage of change in some other item.

An example of this is found in a comparison of the percentage of change in displaying the details of preferred stock with the percentage of change in the certification of statements by independent accountants. Eight more accountants certified the 1936 statements, thereby making all statements for that year certified. This was an increase of 10.6 per cent over that of 1932. Preferred stock was shown in detail in eight more of the 1936 statements than those of 1932, causing a similar percentage of change, but it still left six of the 1936 statements that failed to show the details of preferred stock. While a 10.6 per cent change brought unanimity in the case of the certification of statements, it did not accomplish this result in the case of the detailed presentation of preferred stock. From the standpoint of this study, then, the first change would be more significant.

The last column gives a very brief statement as to the nature of change that had taken place. In table form such as this it is sometimes difficult to give a clear understanding of the change that has taken place. Whenever any uncertainity arises as to information given here, further reference should be made to the tables and other data in the body of the report.

Table XXV: Summary of Changes between 1932 and 1936.

Item	Type of Change	Degree of Change	Nature of Change
Balance Sheet	form	moderate	From report form to account form.
Balance Sheet	title	slight	Company name included in title.
Current Assets	position	moderate	To include first in the statement.
Cash	position	moderate	To include first in the statements that classify current assets.
Accounts Receivable	segregation	moderate	Tendency to separate into "trade" and "other".
Accounts Receivable	position	none	
Reserve for Doubtful Accounts Receivable	presentation	considerable	To indicate the amount of the reserve and deduct from receivables.
Inventories	valuation	moderate	Tendency to evaluate at the lower of cost or market.
Inventories	segregation	moderate	To show raw materials, goods in process, finished goods, and supplies.
Investments	valuation	moderate	Basis used for valuation being indicated.
Investments	segregation	moderate	To indicate what investments are carried.
Investments	position	none	
Notes Receivable	presentation	slight	Fewer notes receivable carried in balance sheets.
Notes Receivable	segregation	slight	Tendency to combine notes receivable with accounts receivable.

Table XXV:-continued

Item	Type of Change	Degree of Change	Nature of Change
Employees Accounts	presentation	slight	More employees accounts listed in 1936 statements.
Cash Surrender Value of Officers Life Insurance	presentation	none	Few statements carry this item.
Treasury Stock	position	considerable	To deduct from capital stock on liability side.
Treasury Stock	presentation	slight	To present separately under Treasury Stock and not as Investments.
Treasury Stock	valuation	slight	Tendency is to evaluate in statements at cost.
Treasury Stock	acquisition	none	Appeared on approximately the same statements during both years.
Fixed Assets	presentation	slight	Tendency is to include this caption.
Fixed Assets	position	moderate	To show these assets after current assets.
Land	segregation	slight	To show this account as a separate item.
Fixed Assets at One Dollar	presentation	none	No tendency to display these assets at this amount.
Reserve for Fixed Assets	position	moderate	To deduct as a contra account and not list on the liability side.
"Allowances" or "Reserves"	presentation	none	There is no tendency to replace "Reserves" with "Allowances".
Reserve for Depreciation	presentation	moderate	Tendency to use this term to show reserves for fixed assets.
Intangible Assets	segregation	none	These assets were segregated from tangible assets during 1932 as well 1936.

Table XXV:-continued

Item	Type of Change	Degree of Change	Nature of Change
Goodwill, Patents, and other Intangibles	presentation	slight	To evaluate these items at one dollar.
Deferred and Prepaid Items	segregation	considerable	To show the nature of these items.
Bond Discount	segregation	considerable	To list separate and not include with other items.
Bond Discount	presentation	none	No tendency to deduct this item from the value of bonds.
Liabilities	segregation	moderate	To indicate thetotal of current liabilities.
Current Liabilities	position	considerable	To present first on the liability side.
Current Liabilities	presentation	slight	Accounts payable listed as first current liability.
Current Liabilities	segregation	considerable	To show in detail the accounts in this section.
Contingent Liabilities and Reserve for Contingencies	presentation	considerable	To show the nature of these items.
Fixed Liabilities	presentation	none	No statements contained this caption during either year.
Deferred Liabilities	presentation	none	Presented in same manner during both years.
Common Stock	valuation	slight	Tendency to show par value, or to indicate how it was valued.
Common Stock	presentation	slight	To show the number of shares authorized and outstanding.
Preferred Stock	Kind of stock	moderate	Rate paid for preferred stock is less during 1932.

Table XXV:-continued

Item	Type of Change	Degree of Change	Nature of Change
Preferred Stock	presentation	moderate	Kind of preferred stock is indicated.
Capital Stock	presentation	none	Same captions and positions given capital stock during both years.
Minority Interest	presentation	none	Minority interests presented both years.
Minority Interest	position	slight	Tendency to show separate from net worth section.
Surplus	presentation	considerable	To show what surplus consists of.
Surplus	kind	considerable	More earned surplus in 1936 statements.
Surplus	terminology	considerable	Terminology on statements describing surplus is becoming uniform.
Surplus	position	considerable	Surplus is being shown on a separate schedule.
Footnotes	presentation	moderate	More statements are making use of them.
Footnotes	detail	considerable	Footnotes are longer, containing more information.
Accountant's Certificate	segregation	considerable	Presenting the statement on a separate page.
Accountant's Certificate	terminology	considerable	Similiar to one suggested by the American Institute of Accountants.
Accountant's Certificate	general	considerable	More information being given than previously.
Accountant's Certificate	presentation	considerable	Every statement is being certified by an independent accountant.

No column was made showing the relationship of the changes to the Securities and Exchange Commission's rulings for balance sheets for registration purposes. The changes which have occurred have such a direct bearing on the Commission's rulings, that it was not deemed necessary to repeat what already has been written concerning the similarity of the two.

In noting the degree of change, there were twelve items that showed little or no change, thirteen that indicated a slight change, fifteen a moderate change, and sixteen that showed considerable change.

There were some changes that, no doubt, occurred because of certain improvements in financial structure of the corporations under review, but the major part of the changes may be said to have occurred because of progressive legislation which has been enacted and has proved to be of great assistance to the accounting profession.

Conclusions

From the preceding statements, it may be concluded that certain definite changes have taken place in the presentment of statements to stockholders and that as a net result the shareholder in 1936 was receiving much more information than was the case in 1932. The general conclusions may be grouped and discussed under the following specific headings.

(1). Increase in the details shown.

Items which were shown in one amount and under one heading in 1932 were almost invariably listed under two or more headings

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(1). Increase in the details shown.

Items which were shown in one amount and under one heading in 1932 were almost invariably listed under two or more headings and under two or more accounts in 1936. Balance sheets that were not showing the basis for evaluating certain items in 1932 were doing so to a much greater extent in 1936.

(2). A tendency toward uniformity in the presentation of the balance sheet.

A change was found in the presentation of major items in balance sheets. More statements were listing the current account sections of the balance sheet first, followed by the fixed account section. There was also greater agreement as to the position to be given certain accounts.

(3). A trend toward a uniform accountant's certificate.

The accountant's certificate of 1932 was drawn up individually by each accounting firm according to its own method and idea as to form of certification. Many of these certificates were drawn up in such a manner that the reader was not certain of what they covered. The 1936 statements were nearly all alike and conformed to that recommended by the American Institute of Accountants.

(4). Some controversy still exists as to displaying of certain items in the balance sheet.

Certain recommendations made by well recognized writers on accounting theory and practice as to the displaying of bond discount, minority interests, treasury stock, and the substituting of the term "allowances" for "reserves" were not largely conformed to either in the balance sheets of 1932 or those of 1936.

(5). The requirements made by the Securities and Exchange Commission in the balance sheets submitted for registration were being very closely followed in the presentation of balance sheets to stockholders.

The registration statement sent to the Securities and Exchange Commission is much more detailed than any statement which a corporation would desire to send to its stockholders, especially as it applies to the submission of schedules. However, the main requirements as they apply to balance sheets may be presented in the body of the statement that is given stockholders as well as that sent to the Commission. It was noted throughout this study that the balance sheet sent to the stockholder conforms very closely to that sent the Securities and Exchange Commission.

In noting all changes which have occurred as to the presentation of details, changes in form of statements, and the extent of uniformity that has been attained, it may be stated that the 1936 statement as presented to stockholders was a better statement than that presented in 1932.

Changes as they Affect the Accountant

The 1936 statement is a much better statement from the accountant's viewpoint in that accepted principles were being followed more closely than ever before. The accountant had known the desired principles but had not been able to persuade his client to adopt them. However, the legislation which was enacted will force these principles to be followed. This legislation also made it necessary that the management ~~place~~

place more responsibility upon the accountant, thereby giving him an opportunity in many instances to become better acquainted with the financial affairs of the corporation.

There is a feeling among accountants that certain liberties should be left to them in the presentation of various controversial items. In other words, they fear that a too rigid set of rules given to be followed would not be in the best interests of the accounting profession. Yet all accountants are in favor of more uniform applications of accounting principles than they have had previously. Just where the line is to be drawn on what an accountant must do and what he may do is still a question to be settled. There is a general opinion that the rules and regulations of the Securities and Exchange Commission as they apply to the accountant's work are not too rigid and that a great amount is still left to the accountant to decide.

Changes as they Affect the Stockholder

The individual who purchases stock in a corporation without first closely examining its balance sheet cannot be considered a good investor. The balance sheet which gives him detailed information is to be preferred over one giving him the minimum of facts. The 1936 balance sheet then is to be preferred to that of 1932. This study shows that he is able to determine such pertinent facts as (a) what constitutes the current assets and current liabilities of his firm, (b) the manner of evaluating fixed assets, (c) the type of surplus his corporation had, and (d) the details of the net worth section, more adequately in the 1936 statements than in those of 1932.

By being able to determine more of the details of his corporation's resources and liabilities he becomes interested, not only as an investor, but also as an owner of the enterprise, and is brought much closer to the affairs of the management. There will also be a greater feeling of security by the investor when he is able to discern his corporation's financial condition.

The 1936 balance sheets contained footnotes in many instances which would give the stockholder additional information concerning items on which he should be interested. The 1932 footnotes were not nearly as extensive and explanatory as those of 1936.

The stockholder knew in 1936 that his corporation's report was certified to by an independent accountant, and he was also better able to interpret the information in this certificate.

Changes as they Affect the Corporation

The fact that a corporation reports in more detail to the shareholder brings about a somewhat closer relationship between the two than there would be if the corporation merely presents the minimum of facts. The 1936 statements giving more information to the stockholder should help bring about this closer relationship.

Due to the legislation which had been enacted in 1933 and 1934, the management of the corporation would be more careful of entering into any unscrupulus business transactions for fear this information would be obtained by the stockholders.

Contingent liabilities and personal loans no longer could be withheld from the stockholder and would likely cause the management to use descretion in their contraction.

The surplus accounts were to be shown in more detail in 1936 which would tend to make the management cautious on the changes to be made in this account.

The legislation passed during the interval between 1932 and 1936 will , no doubt, work certain hardships on the corporations which they have not previously experienced. First, there is the added cost necessary to submit items in more detail and the employing of additional accountants in the submission of this information. Next, there is the fear of giving too much information in order to allow the competitor to receive it and use to his advantage. Although any information which the management wants kept secret is withheld by the Securities and Exchange Commission, there is still a question as to how much information in the stockholders' statements is best for the interests of the corporation.

The Securities and Exchange Commission

The Securities and Exchange Commission is receiving more recognition as its work becomes known to the great number of persons whose lives are affected by the trading on the stock exchanges. While the examination and approval of the financial statements of corporations is only one function of their work, this study shows some of the changes which have already taken place in the accounting field through their influence. It has been noted throughout that the Commission was not advocating anything entirely new but rather the adoption of those principles which accountants themselves had desired. This is shown because no new extensive changes were found in the 1936 statements that were not already a part of the greatest number of 1932 statements. In other words, the Securities and Exchange Commission desires to follow those practices that accountants have found preferable in their experience in the presentation of statements. The fact that the Commission allows the accountant a great amount of latitude in the presentation of certain items may partly account for the favor these rules and regulations have had with the accounting profession.

The Securities and Exchange Commissions' rules then are having an effect and will continue to do so until there comes about a standardization which will be in accordance with accepted accounting principles, and still allow the accountant to use his best judgment on certain items that are of a controversial nature.

APPENDIX A

Federal Regulation of Exchanges

Instruction Book for Form 10-K for Corporations'

ANNUAL REPORT

General Instructions

A. The statements of unconsolidated subsidiaries shall conform to the requirements that would be applicable if the subsidiary were itself a registrant.

B. The registrant may file statements and schedules in such form, order, and using such generally accepted terminology, as will best indicate their significance and character in the light of the instructions. No entry need be made as to captions in the balance sheet or profit and loss statement as to which the items and conditions are not present. In case any schedule is not applicable because the matter required in the schedule is not present, the schedule need not be furnished.

C. In case any schedule is omitted, a statement shall be made of the schedules so omitted and the basis for such omission. The above statement is to be made immediately preceding the schedules which are furnished.

D. The information specified in these instructions shall be furnished as a minimum requirement, and to which the registrant may add such further information as will contribute to an understanding of its financial condition and operations.

E. Any change in accounting principle or practice has been

made during the period covered by the profit and loss statements and such change substantially affects proper comparison with the preceding accounting period, give the necessary explanation in a note attched to the appropriate balance sheet or profit and loss statement.

F. ~~If~~ Any information necessary to describe any item adequately may be presented either in the financial statement, or in a schedule or note attached thereto, or in the accountants' certificate.

G. The basis of conversion of all items in foreign currencies shall be stated, and the amount and disposition of resulting unrealized profit or loss shown, if significant.

Balance Sheet

The balance sheets required shall comply with the following general instructions:

A. Where, in these instructions, "The basis of determining the amount" is required, the basis shall be stated specifically. The term "Book value" is not sufficiently explanatory unless, in the instructions, it is stated to be acceptable with respect to an item.

B. Assets hypothecated or pledged, other than for funded debt, shall be so designated and the amounts thereof shall be shown in the balance sheet parenthetically or otherwise, or in a footnote referred to in the balance sheet. If current assets or securities are pledged to secure long-term debt, they shall likewise be so designated.

C. Items classed as current assets shall be generally realizable within one year; however, generally recognized trade practices with respect to individual items, such as installment receivable or inventories long in process, are admissable, provided such trade practices are stated. Reserves provided against current assets shall be separately shown in the balance sheet, and shall be deducted from the specific assets to which they apply. The total of current assets shall be stated and designated as such.

D. In general, all amounts due and payable within one year shall be classed as current liabilities. Generally recognized trade practices may be followed with respect to such items as customers' deposits and deferred income, provided such trade practices are stated. The total of current liabilities shall be stated and designated as such.

ASSETS

Current Assets

1. Cash and cash items.--State separately--(a) Cash on hand, demand deposits, and time deposits; (b) call loans; (c) funds subject to withdrawal restrictions. Funds subject to such restrictions and deposits in closed banks shall not be classed as current assets unless they will become available within one year.

2. Marketable securities.--Include only securities having a ready market. State in the balance sheet the basis of

determining the balance sheet amount and, if not shown on the basis of current market quotations, state such aggregate amount parenthetically. Submit the information specified in schedule 1-A as to this caption and refer to it in the balance sheet, if either of the following conditions exists:

(1) If the greater of market value of "Marketable securities" or the amount (less reserve applicable thereto) at which "Marketable securities" is carried in the balance sheet, constitutes fifteen percent (15%) or more of the total assets after deducting reserves provided for specific assets.

(2) If the amount (less reserve applicable thereto) at which "Othere security investments" is carried in the balance sheet plus the greater of the market value of "Marketable securities" or the amount (less reserve applicable thereto) at which "Marketable securities" is carried in the balance sheet constitutes twenty percent (20%) or more of the total assets after deducting reserves provided for specific assets.

3. Notes receivable (trade).--Notes and accounts receivable may be combined. Notes and accounts receivable known to be uncollectible shall be excluded from the asset as well as from the reserve account.

4. Accounts receivable (trade).--(See caption 3, above.)

5. Reserves for doubtful notes and accounts receivable (trade).--Provision for doubtful notes and accounts receivable (trade) shall be shown in the balance sheet. Submit the imformation specified in schedule VII and refer to it in the balance sheet.

Inventories.--State separately in the balance sheet, or in a schedule therein referred to, major classes of inventory such as--(a) Raw materials; (b) work in process; (c) finished goods; (d) supplies, and the basis of determining the amounts shown in the balance sheet. Any other classification that is reasonably informative may be used.

7. Other current assets.--State separately-- (a) Total of current amounts due from officers and directors, other than trade accounts subject to the usual trade terms; (b) total of current amounts due from parents and subsidiaries; (c) any other amounts in excess of five percent (5%) of total current assets, indicating when any such amount is due from affiliates other than those included under subcaption (b).

Indebtedness of a parent or subsidiary, or an affiliate designated under (c) shall not be considered as current unless the net current asset position of any such affiliate justifies such treatment. In the registrant's balance sheet show separately that indebtedness which in the consolidated statement is (a) consolidated, and (b) not consolidated.

Investments

8. Securities of affiliates.--State separately in the registrant's balance sheet the amounts which in the respective consolidated balance sheet are (a) consolidated and (b) not consolidated. Submit the information specified in schedule I and refer to it in the balance sheet.

9. Indebtedness of affiliates, not current.--State sep-

arately, in the registrant's balance sheet, that indebtedness which in the consolidated statement is (a) consolidated, and (b) not consolidated.

IO. Other security investments.-- State in the balance sheet or in a note therein referred to, the basis of determining the amount, and, if available, the aggregate current quoted value. If reacquired stock (treasury stock) is carried as an asset, give the reasons therefor and state the number of shares and the amount at which carried. (See balance sheet caption 3I.) Reacquired bonds or other evidences of indebtedness of the person whose statement is filed, held for sinking funds, are not to be carried here. As to other reacquired bonds or evidences of indebtedness of the person whose statement is filed, which are carried as an asset, state the principal amount and the amount at which carried.

Submit the information specified in schedule I-A as to this caption and refer to it in the balance sheet, if either of the following conditions exists:

(I) If the amount (less reserve applicable thereto) at which "Other security investments" is carried in the balance sheet constitutes fifteen percent (I5%) or more of the total assets after deducting reserves provided for specific assets.

(2) If the amount (less reserve applicable thereto) at which "Other security investments" is carried in the balance sheet plus the greater of the market value of "Marketable securities" or the amount (less reserve applicable thereto) at which "Marketable securities" is carried in the balance

sheet constitutes twenty percent (20%) or more of the total assets after deducting reserves provided for specific assets.

11. Other investments.--State separately, by class of investments, any items in excess of five percent (5%) of the total of assets other than fixed and intangible.

Fixed Assets

12. Property, plant and equipment.--Submit the information specified in schedule II and refer to it in the balance sheet.

13. Reserves for depreciation, depletion and amortization of fixed assets (or reserves in lieu thereof).--Submit the information specified in schedule III and refer to it in the balance sheet.

Intangible Assets

14. Patents, trade marks, franchises, goodwill and other intangible assets.--Submit the information specified in schedule IV and refer to it in the balance sheet.

15. Reserves for depreciation and/or amortization of intangible assets.--Submit the information specified in schedule V and refer to it in the balance sheet.

Deferred Charges

16. Prepaid expenses and other deferred items.--State separately any substantial items.

17. Organization expense.

18. Debt discount and expense.--State separately, and indicate in a footnote referred to in the balance sheet the method used in amortizing such debt discount and expense.

19. Discount and commissions on capital stock.--State separately discounts and commissions on capital stock not charged off. Explain in a footnote referred to in the balance sheet what provisions have been made for writing off these items.

Other Assets

20. Other assets.--State separately total of sinking-fund assets and any other item in excess of five percent (5%) of the total of assets other than fixed and intangible.

LIABILITIES, CAPITAL STOCK AND SURPLUS

Current Liabilities

21. Notes payable.--State separately amount payable--(a) To banks; (b) to trade; and (c) to others.

22. Accounts payable (trade).

23. Accrued liabilities. --State separately--(a) Accrued payrolls; (b) tax liability; (c) interest; and (d) any other substantial items. If the total under this caption is not significant, it may be stated as one amount.

24. Other current liabilities.--State separately--(a) Total of current amounts due officers and directors, other than as required in caption 23; (b) dividends declared; (c) serial bonds, notes and mortgage installments due within one year, and funded debt if treated as a current liability (where any such obligations of the person whose statements are furnished have been reacquired and deducted under this subcaption the amounts shall be shown separately); (d) total of current amounts due to parents and subsidiaries (under this subcaption state

separately the amounts which in the consolidated balance sheet are (i) consolidated and (ii) not consolidated); and (e) any other item in excess of five percent (5%) of total current liabilities, indicating when any such liability is due to affiliates other than those included under subcaption (d). Remaining items may be shown in one amount.

Deferred Income

25. Deferred income.--See general balance sheet instructions under IV-D.

Long-Term Debt

26. Funded debt.--Submit the information specified in schedule VI and refer to it in the balance sheet. If any amount of funded debt, other than that stated in caption 24 (c) above, falls due within one year, state separately. Where reacquired bonds and notes of the person whose statements are furnished are deducted from bonds and notes outstanding the amounts shall be shown separately.

27. Indebtedness to affiliates--Not current.--State separately, in registrant's balance sheet, that indebtedness which in the consolidated balance sheet is (a) consolidated, (b) not consolidated.

28. Other long-term debt.-- Include under this caption all amounts of long-term debt not provided for under captions 26 and 27 above. State separately by years, in the balance sheet or in a note therein referred to, the total amounts of the respective maturities for the five years following the date of the balance sheet. Indicate whether secured.

Other Liabilities

29. Other liabilities.--State separately any amount in excess of five percent (5%) of the total of liabilities other than funded debt, capital stock and surplus.

Reserves (Not Elsewhere Accounted For)

30. Reserves (not elsewhere accounted for).--Submit the information specified in schedule VII and refer to it in the balance sheet. State in the balance sheet the total of each major class.

Capital Stock and Surplus

31. Capital stock.--State in the balance sheet for each class of stock--The number of shares (a) authorized, (b) outstanding; par value per share; if no par value, the stated or assigned value per share, if any, and the capital stock liability thereof. Show also the dollar amount, if any, of capital stock subscribed but unissued, and of subscriptions receivable thereon.

Reacquired stock (treasury stock) is preferably to be shown as a deduction from capital stock or from either the total of capital stock and surplus, or from surplus, at either par or cost, as circumstances require.

Submit the information specified in schedule VIII and refer to it in the balance sheet.

32. Surplus.--Show in the balance sheet the division of this item into (a) paid-in surplus and/or (b) other capital surplus; and (c) earned surplus; however, if, in the accounts

separate balances for these are not shown at the beginning of the fiscal year, i. e., if the company has not, up to the opening of the fiscal year, differentiated in its accounting for surplus as indicated above in (a) and /or (b) and (c), then the surplus may be stated in one amount.

An analysis of each surplus account for the fiscal year, as shown in schedule IX, shall be given in the balance sheet, or as a con\tinuation of the profit and lass statement, or in a schedule referred to in the balance sheet.

FOOTNOTES TO THE BALANCE SHEETS

I. For All Balance Sheets Submitted

A. Contingent liabilities not reflected in the balance sheet shall be given due consideration here. For each class of securities of other issuers guaranteed by the person whose statement is filed, submit here, or in a schedule herein referred to, the following:

(a) Name of issuer and title of issue, including par or, if no par, stated value, if any, of stock; (b) total amount guaranteed and outstanding; (c) amount in treasury of the person whose statement is filed; (d) amount in treasury of issuer of securities; (e) a brief statement of the nature of the guarantee, such as "guarantee of principal and interest", "guarantee of interest", or "guarantee of dividends"; and (f) a brief statement of the facts as to any default of the issuer in respect of principal, interest or sinking fund provisions.

B. If there be arrears in cumulative dividends, state the amount per share and in total.

C. The facts and amounts with respect to any default in principal, interest, or sinking fund provisions shall be stated here, if not shown in the balance sheet.

D. State, where practicable, the amount of any significant intercompany profits or losses (on sales or other charges by persons whose statements are filed herewith) included in inventory (caption 6). If impracticable of determination without unreasonable expense or delay, give an estimate or explain.

E. For warrants or rights granted by the person whose statement is filed to subscribe for or purchase securities issued or to be issued by such person, submit here, or in a schedule herein referred to, the following information: (a) Title of issue of securities called for by warrants or rights; (b) amount of securities called for by each warrant or right; (c) number of warrants or rights outstanding; (d) aggregate amount of securities called for by warrants or rights outstanding: (e) date from which warrants or rights are exercisable; (f) expiration date of warrants or rights; and (g) price at which warrant or right is exercisable.

F. If there is any class of securities authorized, other than those called for in schedules VI and VIII or in the requirements as to balance sheet footnotes above, set forth information concerning such securities similar to that required for those securities specifically mentioned. Information need not be set forth, however, as to notes, drafts, bills of exchange or bankers' acceptances having a maturity at the time of issuance of not exceeding one year.

APPENDIX B

Securities Act of 1933 as it Applies to Balance Sheets.

(25) A balance sheet as of a date not more than ninety days prior to the date of the filing of the registration statement showing all of the assets of the issuer, the nature and cost thereof, whenever determinable, in such detail and in such form as the commission shall prescribe (with intangible items segregated), including any loan in excess of $20,000 to any officer, director, stockholder, or person directly or indirectly controlling or controlled by the issuer, or person under direct or indirect common control with the issuer. All the liabilities of the issuer in such detail and such form as the Commission shall prescribe, including surplus of the issuer showing how and from what sources such surplus was created, all as of a date not more than ninety days prior to the filing of the registration statement. If such statement be not certified by an independent public or certified accountant, in addition to the balance sheet required to be submitted under this schedule, a similar detailed balance sheet of the assets and liabilities of the issuer, certified by an independent public or certified accountant, of a date not more than one year prior to the filing of the registration statement shall be submitted.

APPENDIX C

Securities Exchange Act of 1934 as it Applies to Balance Sheets

Sec. 13--2--B

The Commission may prescribe, in regard to reports made pursuant to this title, the form or forms in which the required information shall be set forth, the items or details to be shown in the balance sheet and the earning statement, and the methods to be followed in the preparation of reports, in the appraisal or valuation of assets and liabilities, in the determination of depreciation and depletion, in the differentiation of recurring and nonrecurring income, in the differentiation of investment and operating income, and in the preparation, where the Commission deems it necessary or desirable, of separate and/ or consolidated balance sheets or income accounts of any person directly or indirectly controlling or controlled by the issuer, or any person under direct or indirect common control with the issuer; but in the case of the reports of any person whose methods of accounting are prescribed under the provisions of any law of the United States, or any rule or regulation thereunder, the rules and regulations of the Commission with respect to reports shall not be inconsistent with the requirements imposed by such law or rule or regulation in respect of the same subject matter, and, in the case of carriers subject to the provisions of section 20 of the Interstate Commerce Act, as amended, or carriers required pursuant to any other Act of Congress to make reports of the same general character as those required under such section 20, shall permit such carriers to file with the Commission and the exchange duplicate copies of the reports and other documents filed with the Interstate Commerce Commission, or with the governmental authority administering such other Act of Congress, in lieu of the reports, information and documents required under this section and section 12 in respect of the same subject matter.

Section 12

(1) Such information, in such detail, as to the issuer and any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the issuer, and any guarantor of the security as to principal or interest or both, as the Commission may by rules and regulations require, as necessary or appropriate in the public interest or for the protection of investors, in respect of the following: (1) balance sheets for not more than the three preceding fiscal years, certified if required by the rules and regulations of the Commission by independent public accountants;

APPENDIX D

I. Addressograph-- Multigraph Corporation

2. Air Reduction Company

3. American Chain & Cable Company, Inc.

4. American Machine & Foundry Company

5. American Rolling Mill Company, The

6. American Sugar Refining Company, The

7. American Tobacco Company, The

8. American Woolen Company

9. Armour and Company

IO. Atlantic Refining Company, The

II. Bendix Aviation Corporation

I2. Bethlehem Steel Corporation

I3. Bohn Aluminum & Brass Corporation

I4. Borden Company, The

I5. Bucyrus-Erie Company

I6. Burroughs Adding Machine Company

I7. California Packing Corporation

I8. J. I. Case Company

I9. Caterpillar Tractor Co.

20. Celanese Corporation of America

2I. Chicago Pneumatic Tool Company

22. Childs Company

23. Chrysler Corporation

24. Cluett, Peabody & Co., Inc.

25. Coca-cola Company, The

26. Commercial Solvents Corporation
27. Cond'e Nast Publications, Inc., The
28. Consolidated Oil Corporation
29. Continental Can Company, Inc.
30. Continental Oil Company
31. Crane Co.
32. Cuban-American Sugar Company, The
33. Deere & Company
34. E. I. Dupont De Nemours & Company
35. Electric Storage Battery Co., The
36. Endicott Johnson Corporation
37. Firestone Tire & Rubber Company
38. General Electric Company
39. General Foods Corporation
40. General Motors Corporation
41. Gillette Safety Razor Company
42. Gotham Silk Hosiery Company, Inc.
43. Ingersoll-Rand Company
44. International Printing Ink Corp.
45. Johns-Manville Corporation
46. Kennecott Copper Corporation
47. S. S. Kresge Company
48. Kroger Grocery & Baking Company, The
49. Lambert Company, The
50. Liggett & Myers Tobacco Company

51. P. Lorillard Company

52. R. H. Macy & Co., Inc.

53. Mathieson Alkali Works, Inc., The

54. May Department Stores Company, The

55. Motor Wheel Corporation

56. National Biscuit Company

57. First National Stores Inc.

58. Otis Elevator Company

59. Pacific Mills

60. Parke, Davis & Company

61. Purity Bakeries Corporation

62. Remington Rand Inc.

63. R. J. Reynolds Tobacco Company

64. Sears Roebuck and Co.

65. South Porto Rico Sugar Company

66. Square D. Company

67. Standard Oil Co., New Jersey

68. The Texas Corporation

69. Union Oil Company of California

70. United Aircraft & Transport Corporation

71. U.S. Industrial Alcohol Co.

72. United States Pipe and Foundry Company

73. Westinghouse Electric & Manufacturing Company

74. Wilson & Company

75. F. W. Woolworth Co.

1002 East Main St.
Lansing, Michigan
May 1, 1937

American Commercial Alcohol Corporation
405 Lexington Ave.
New York, N. Y.

Gentlemen:

I am making a comparative study of certain Corporation balance sheets for the years 1932 and 1936 in order to determine changes in form and terminology. This report is to be submitted as a part of my work for a Master of Arts degree at Michigan State College.

I have chosen your Corporation's balance sheet to be used. I have your balance sheet for the year 1932 and would appreciate very much your sending me the report to stockholders for the year ending 1936.

Yours very truly,

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