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PRESENTATION OF PERTINENT DATA IN FINANCIAL STATEMENTS

Address of

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of the

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Presentation of Pertinent Data in Financial Statements.

The records show that the accountants of Ohio have been quite generous in their invitations to representatives of the Securities and Exchange Commission to appear before them on various occasions. Of particular interest to me is the appearance of the late Commissioner George C. Mathews' name in the list of speakers at your first annual institute on accounting. Since I was aware of this history of pleasant relations I was very happy to accept the opportunity to appear here today and discuss some of our common problems in the presentation of pertinent data in financial statements.

A review of the proceedings of these Institutes on Accounting discloses that the field of accounting has been explored most thoroughly in special fields, as well as in the broader aspects, and that from time to time the subject of generally accepted accounting principles and their application to what may be considered the end result of the accounting process – the financial statements – has been discussed.

The first session of your meeting in 1941 was devoted to the subject of "Accepted Accounting Principles." In introducing a progress report on the American Accounting Association's statement of accounting principles the first speaker deplored the existing state of affairs as reflected in financial statements. Conflicting treatments of fixed assets, depreciation, reserves, inventories, capital stock, surplus and profit and loss were cited. Dismissing the idea that it is impossible to reduce accounting to stated rules or standards, the speaker allied himself with that group of accountants who "have consistently held that there is great need for a statement of principles, and that this statement should come from the profession rather than from the SEC or other governmental agency."

From the outset the Commission has been sympathetic to this point of view and has sought the advice of leading accounting authorities in teaching, public practice and among executives of corporations, investment bankers and financial analysts in the preparation of rules, regulations and forms necessary in the administration of the Acts which authorize the Commission to prescribe the forms, items and details of financial statements to be filed generally, uniform systems of accounts (as for public utility holding companies), and "a reasonable degree of uniformity in the accounting policies and principles to be followed by registered investment companies in maintaining their accounting records and in preparing financial statements." Except to the extent indicated for the special fields mentioned, we have not attempted a comprehensive statement of accepted accounting principles. On individual problems, however, where our experience has disclosed serious discrepancies in practice as between companies and accountants and we have felt that uniformity in procedure would benefit investors, our conclusions have been expressed by rule or regulation of the Commission or in an opinion of the Chief Accountant. The principal requirements of this type are published in Regulation S-X relating to the form and content of financial statements and in our Accounting Series Releases.

Our approach to this problem of uniform application of accounting principles I believe is a necessary practical recognition of conditions found in business and the accounting profession. Under the direction of the Commission the administration of our accounting rules is entrusted to members of the staff who have had experience in business or professional practice of accounting and are therefore familiar with the problems involved in recognizing exceptions to those generally accepted accounting principles in conformity with which the independent accountant asserts the financial statements have been prepared on a basis consistent with that of the preceding year.

While we recognize that the American Accounting Association's statement of principles has not received unanimous endorsement by practicing accountants, we nevertheless find it to be a helpful document and guide in testing our own thinking on many problems. The American Institute of Accountants has been less bold on this subject than the teachers of accounting and as a body has given recognition to only six unintegrated "rules" which were adopted in 1934.* These rules and the content of the succeeding Accounting Research Bulletins with which you are all familiar have likewise been extremely helpful guides in our accounting work although we have taken exception to some of these pronouncements, particularly those which fail to take a clear-cut position with respect to the treatment of items in the determination of income.

Returning now to Regulation S-X, for the benefit of those who may not have had to use it I want to emphasize that the rules contained in it prescribe the method of presenting pertinent data in financial statements to be included in registration statements and reports to be filed with the Commission. Regulation S-X does not prescribe a uniform system of accounts except that under the Investment Company Act of 1940 the prescription of the form of preparing financial statements of investment companies has the effect of "providing for a reasonable degree of uniformity in the accounting policies and principles to be followed by registered investment companies in maintaining their accounting records. . .."

It should also be noted that railroads, operating public utilities, banks and insurance companies subject to state or federal supervision comply with the reporting requirements of Regulation S-X by filing part or all of the statements, or statements complying with uniform systems of accounts, prescribed by the other agency having jurisdiction. Such statements are subject to the rule, however, that "The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

At this point it may be appropriate to consider the question of footnotes as a means of supplying "pertinent data." A short time ago we had a letter from a student of accounting who was engaged in writing a paper on this subject. This student desired to confirm his impression that the S.E.C. was opposed to footnotes to financial statements. I think we have, on occasion, deplored the incomprehensible language and the length of some of the footnotes accompanying financial statements filed with us. However, Regulation S-X recognizes that there is much pertinent data which should be disclosed with respect to the financial statements which by its nature cannot be conveniently incorporated on the face of the statements. I am convinced that the activities and financial problems of most of our large corporations, and to a lesser extent the smaller corporations, are so complex today that much of the significance of the financial

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* See Accounting Research Bulletin No. 1 issued in September 1939.

statements would be lost without careful consideration of the content of the footnotes. I cannot imagine returning to financial statements without footnotes and relying on the auditors' "certified correct" or perhaps a treasurer's similar statement subject to the warning "E and O E." In addition to the footnotes we require schedules in support of certain balance sheet and profit and loss items. The schedule of supplementary profit and loss information is the only one for an industrial company required to be included in the prospectus; and this may be accomplished in a footnote by even the largest corporations.

Recent examples of the treatment of footnotes may indicate the importance of the material disclosed. An annual report of a manufacturing corporation filed on Form 10-K included a balance sheet showing total assets of $9,000,000. The single footnote appeared on the face of the statement and related to contingent liabilities in connection with pending suits against the company. The same item appeared in the published report to stockholders. The related profit and loss statement required two notes under our rules, one relating to inventories and the other to the depreciation policy of the company. Neither of the notes appeared in the report to stockholders.

The published report to stockholders of a progressive corporation with total assets of approximately $40,000,000 carried one note on the balance sheet relating to the borrowing of funds for the expansion of plant. The profit and loss statement carried two notes -- one relating to Section 722 claims and the other to the inclusion of profits of a new subsidiary. A prospectus for this company using the same financial statements required five additional notes to the balance sheet; two related to principles of consolidation, one to valuation of assets, one to increase in the company's authorized capital stock (covered in the president's letter in the published report), and one we required with respect to the use of a reserve for possible future inventory price declines. Six notes to the profit and loss statement in the prospectus included supplementary profit and loss information, inventory data, depreciation policy, equity in subsidiary profits not consolidated, the Section 722 claims, and awards under a management profit sharing plan. All of the information disclosed seemed to me to be pertinent and useful to financial analysts. A sampling of 1947 annual reports to stockholders discloses that many of our largest corporations manage to get the notes to financial statements on one printed page set up in a most readable style. Notes common to most reports include principles of consolidation, foreign operations, inventories, taxes, and contingent liabilities.

A recent prospectus and annual report of Swift & Company presents within the experience of one company most of the outstanding problems currently under discussion. An important requirement of Regulation S-X is the disclosure of any significant change in accounting principle or practice and an explanation if the change substantially affects a proper comparison with the preceding year. The independent accountants call attention in their certificate to a change in method of valuing "Lifo" inventories and the notes explain the substantial effect. Although the adjustments made were believed to affect prior years to 1941, the entire correction of approximately $5,000,000 was made as a charge to 1947 income, shown separately in the prospectus income statement but merged in cost of sales in the report to stockholders. The adjustment was shown as a special charge in 1947 in the ten year summary of earnings because, as a note states, of the impracticability of determining the amounts applying to the six individual prior fiscal years.

“Lifo” inventories are a feature of an extensive note on reserves in the prospectus. The note explains the presence among current liabilities of an item “Reserve for replacement of basic ‘Lifo’ inventories (net after income taxes)” which arises from the adoption during 1946 of procedures relating to replacement of basic inventory quantities involuntarily reduced because of the war emergency. The resulting adjustments were material and affected income from 1941 through 1947, appropriate corrections being made in the summary of earnings and the three-year income statement, with related adjustment of tax claims -- also a material item.

Three other reserves covered by the note in the prospectus but without comment in the published report appear immediately above “Capital Stock and Earned Surplus” under the caption “Reserves,” qualified in the prospectus only in parentheses “Appropriated from earned surplus”:

General reserve	$16,000,000
For high cost additions to fixed assets	12,000,000
For inventory price declines	5,767,000
	$33,767,000

A still better presentation of these items, in my opinion, would be to show them as a subdivision of earned surplus as I have seen done in the report of one large corporation.

These three reserves are examples of the subject matter of the American Institute of Accountants’ Accounting Research Bulletins Nos. 28, 31 and 33 respectively. Footnote explanation indicates that the first item is a general purpose contingency reserve of the type covered by Bulletin No. 28 which permits the showing of appropriations and return of appropriations to such reserves on the income statement after a clear designation of income, although expressing a preference for recording through the surplus account. I agree with the three members of the committee who thought that despite every effort at clear disclosure on the income statement many readers would be confused. Sometimes this confusion is compounded by the text of the report to stockholders which may infer that income should be considered to be the amount remaining after the appropriation to reserves.

Similar considerations apply with even more force, in my opinion, to the inventory reserve. Again the Institute Bulletin No. 31 favors the surplus segregation or appropriation treatment but recognizes as proper, but less desirable, the showing of the appropriation on the income statement. The Swift explanation of their reserve for inventory price decline states that the amount has remained unchanged since 1938, a year of price declines, in which $11,000,000 was restored to surplus from appropriations made in 1933, 1934 and 1935. The purpose of the reserve is stated to be: “This reserve was not made as against inventory carrying values at the close of the fiscal years but was primarily made as an appropriation of profits earned in a period of rising prices as a carry-forward to offset future losses or reduced profits in a period of declining prices, when and if such a condition should eventuate. It is not the Company’s intention to utilize this reserve to absorb inventory losses which are properly allocable to future periods.” That appears to be a clear-cut application of the procedure favored in Bulletin 31 and required by the Commission.

The reserve "For high cost additions to fixed assets" reflected on the balance sheet was provided in 1947 and shown on the income statement in the prospectus as "Appropriation for high cost additions to fixed assets" following a caption clearly designated "Net Income" with the remainder designated "Balance to earned surplus." In this case the company uses a combined income and surplus statement, completing the statement in four lines by adding the opening balance, deducting dividends and arriving at "Earned surplus at end of period." The summary of earnings is in accord with this treatment but footnotes the "Net Income" by observing that $12,000,000 has been appropriated to reserve for high cost additions to fixed assets.

It is pertinent to observe that the annual report to stockholders published months before the prospectus contains a combined "Statement of Consolidated Income and Accumulated Earnings" which is a fair sample of the confusion the Commission recognized could arise in the application of Accounting Research Bulletin No. 32 when the staff was authorized to take exception to financial statements which appear to be misleading, even though they reflect the policy laid down in the bulletin. For example:

"Net Income for the Year (see reserve appropriation following)		$34,334,977
Provision for high cost additions to fixed assets		12,000,000
Amount of Net Income Transferred to Accumulated Earnings		$22,334,977
Other additions to and deductions from accumulated earnings:		
Reversal of reserve for deferred maintenance of properties	$3,000,000	
Adjustment of prior years' Canadian taxes and subsidies	426,703	
	$3,426,703	
Exchange adjustment in converting net assets of Canadian subsidiaries into U. S. Dollars	1,012,974	2,413,729
		$24,748,706
Accumulated Earnings, October 26, 1946		119,143,149
		$143,891,855
Dividends Paid During Year, $2.10 per share		12,436,612
Accumulated Earnings, November 1, 1947		$131,455,243

(See Notes to Financial Statements)"

What the reader is intended to take as Net Income is further confused by turning the page in the report to a fifty-year financial record in which for 1947 the figure of $24,748,706 is shown in the earnings column and reduced to $4.18 per $25 share and 1.1 cents per dollar of sales. A footnote to the amount of earnings reads:

> "Includes reversal of reserve for deferred maintenance of property of $3,000,000; less Canadian tax and exchange adjustments of $586,271 net, and after provision of $12,000,000 for High Cost Additions to Fixed Assets."

The president's report to the shareholders includes the following paragraph:

> "Earnings Reflect Successful Year -- Net earnings from all operations were $22,334,977 after provision of $12,000,000 for high cost additions to fixed assets. (See special reference under financial position, Page 6.) Although our net earnings were larger than a year ago, our earnings per dollar of sales amounted to one cent, as compared to 1.3 cents in 1946. (For the distribution of Swift's average 1947 sales dollar, see chart on Page 5.)"

The pie chart shows "Remaining as Earnings 1.0¢," and the reference on page 6 is: "Under normal conditions the depreciation heretofore provided would have been sufficient to cover the cost of current replacements. However, because of the present abnormal price level it was deemed prudent to set aside a reserve for high cost additions to Fixed Assets of $12,000,000." On page 2 of the report "Financial Highlights" presents a five year comparison which includes Earnings for 1947 as $22,335,000 footnoted "After provision of $12,000,000 for high cost additions to fixed assets" and per share earnings $3.77 and per dollar of sales 1¢. Here we have three figures reported as net income or earnings for the year with the smallest emphasized in the text of the report.

Perhaps this sort of thing is what the editors of the Journal of Accountancy had in mind in February of this year when they wrote under the title "Appropriations of Income and Earnings Per Share"; "Recent reports of a number of companies . . . have violated the spirit and intent of this well considered accounting convention [that provisions for vague or highly discretionary reserves should not be permitted to affect the reporting of net income], even while appearing to observe its letter. When a reserve of the type under discussion is provided as an appropriation of the current year's income, rather than of surplus, the wording describing the provision, and the balances before and after its deduction, become highly significant, When the final balance transferred to surplus is so captioned as to appear to be the net income, or is elsewhere cited as though it were the net income of the year, or is used as a basis of computing earnings per share, the purpose of excluding the provision from the determination of net income tends to be defeated," and that "The basic principle which requires the exclusion of 'appropriations' from the determination of net income is clearly violated when the computation of earnings per share is based on the balance remaining after their deduction. At best this practice is confusing; at its worst it can be seriously misleading."

In discussing the Swift report and prospectus reference has been made to the summary of earnings in the latter and to the fifty-year financial record and five year financial highlights in the former. These are useful devices for presenting pertinent data concerning the growth of the business but require careful compilation in order to assure reasonable comparability. This subject was covered very briefly in a footnote to our Accounting Series Release No. 62 with respect to the circumstances under which independent public accountants may properly express an opinion as to such summaries. This footnote reads:

> "Ordinarily, the summary earnings table will reflect the operations of the registrant, or of the registrant and its subsidiaries, during the period covered. However, under special circumstances, as where the registrant has succeeded to the business of one or more predecessors, it may be necessary for the summary to be specially constructed so as to reflect as far as possible for the period covered the earnings applicable to the enterprise now represented by the registrant. Where, for example, a predecessor operated as a partnership it is ordinarily necessary to indicate in an appropriate manner the adjustments required to place the partnership income on a corporate basis. In other unusual cases there may have been such violent and radical changes in the business of the registrant that a long summary of past earnings might be of very little or no value and might well be misleading. In several such cases, the registrant has been requested either to delete the summary entirely or to furnish only a brief statement of the overall, aggregate results, without a breakdown as between the several years. In any case, where special and unusual circumstances exist, a decision as to the content of the summary and as to whether or not a summary should be furnished at all can only be reached after careful appraisal of the particular facts of each case."

An interesting application of the principles set forth in this footnote appeared in Chrysler Corporation's first quarter financial statement published in the (Washington, D. C.) Evening Star, May 8, 1948. The "Comparative Consolidated Statement of Net Earnings (for the) Three Months Ended March 31" included the years 1948, 1947, 1946 and 1941 "in which the principal activity of the Corporation and its subsidiaries was the manufacture and sale of automotive products."

Another variation of the idea appeared in the 1947 annual report of Standard Oil Company (New Jersey) in which a Financial and Operating Summary compared 1947, 1946 and the average for 1941-1945. Whether an average for any period is a suitable basis for comparison must depend on the character of the business during the period as in some cases a showing of fluctuating results from year to year may be more representative of the character of an enterprise.

Reverting again to Regulation S-X let us consider Rule 3-01 of which section (a) provides that "Financial statements may be filed in such form and order, and may use such generally accepted terminology, as will best indicate their significance and character in the light of the provisions applicable thereto."

Article 5 of Regulation S-X governs the form and content of financial statements for all persons except investment companies, insurance companies, committees issuing certificates of deposit, banks, and companies in a developmental or exploratory stage for which special instructions are provided in the regulation or in the forms required to be filed. The form, order and terminology adopted in this article for the balance sheet and profit and loss statement may, I believe, be considered a proper reflection of generally accepted practice at the time of its adoption (1940), as the regulation was subjected to extensive and intensive criticism by all interested parties prior to promulgation.

The balance sheet is presented in a current-to-fixed order and the profit and loss or income statement presents a showing, in order, of sales; cost of sales; (or operating revenues and operating expenses where appropriate); other operating expenses; selling, general, and administrative expenses; other income; income deductions - arriving at net income before and after provision for income and excess profits taxes. An analysis of surplus is required either as a continuation of the related profit and loss statement or in the form of a separate statement of surplus.

It should be observed at this point that sections 7 and 10 of the Securities Act of 1933 require a registration statement and prospectus to include the financial statements prescribed in Schedule A of the Act. This schedule permits the Commission considerable latitude as to form and detail of the financial statements but requires specifically that the profit and loss statement shall "differentiate between any recurring and nonrecurring income and between any investment and operating income." The Securities Exchange Act of 1934 in Section 13 with respect to periodical reports provides that the Commission may prescribe similar requirements. Under the 1933 Act serious consequences may result if the financial statements contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements not misleading. A similar admonition appearing in the 1934 Act provides penalties in case a statement at the time and in the light of the circumstances under which it is made is false or misleading with respect to any material fact.

It will be recognized that the Regulation S-X option of combining the profit and loss and surplus statements in one statement is in accord with the trend at the time as reflected in Accounting Research Bulletin No. 8, issued by the A.I.A. Committee on Accounting Procedure in February 1941. This bulletin, however, warned against the danger of obscuring the net income figure. With the publication of Accounting Research Bulletin No. 32 in December 1947, this warning becomes extremely important since, as I stated in a letter to the Director of Research of the Institute, dated December 11, 1947, which was published in the January 1948 Journal of Accountancy, the Commission has authorized the staff to take exception to financial statements which appear to be misleading, even though they reflect the application of this bulletin. The discussion of the Swift report seems to me to indicate that this apprehension was well founded.

Developments during the war in the method of doing business -- in many cases practically complete conversion to war contracts -- and a growing inquisitiveness on the part of labor concerning facts about the business, put pressure on corporate officials and their accountants to devise a new form of profit and loss statement and a substitute for the balance sheet form of statement of financial condition. The "single step" form of profit and loss statement was the first to come to our attention and to be given serious consideration.

This new form of profit and loss statement was offered by several prominent and large corporations as full compliance with Regulation S-X, Rule 3-01 relating to form, order, and terminology being cited in justification for the departure from the forms previously filed in the order set forth in Article 5 of the regulation. A group of leading independent accountants appeared informally before the Commission to urge that Regulation S-X be amended so as to permit wide freedom in the form and order of the profit and loss statement. After study of the matter the Commission reached the conclusion with respect to this proposal that its rules as to form and order of statement should not be changed.

Three reasons were given. First, it was felt that a convincing case had not been made in favor of the proposed new form and order. Second, it was believed that the new ideas had not yet gained sufficient recognition in actual practice to warrant adoption by the Commission in the face of its own doubts. And, third, the opinion was held that the proper place for experimentation of this kind was not in reports required to be filed with the Commission, but rather in the annual reports furnished by companies to their stockholders.

The Commission emphasized that it did not wish to be regarded as opposing constructive changes, as such, that it was receptive to proposals of this character, and that if and when the proposed form of profit and loss statement became generally accepted its decision would be reconsidered.

The staff has applied these principles to the current proposals as to changes in the form of the balance sheet. It was agreed, however, as in the case of the profit and loss statement, that no objection would be made to the filing with the Commission of financial statements prepared in a form other than that required by Regulation S-X, provided that such statements were not misleading and were furnished as supplementary data and not in lieu of the prescribed statements.

A common form of the single step statement begins by grouping all "revenues" from which is deducted a single total of costs and expenses itemized to show components of employment costs, materials and services purchased, provision for depreciation, interest charges, sundry taxes, and federal income taxes and arriving at "Income for the year" from which dividends are deducted leaving "Income Retained in the Business." A variation of this form introduces the beginning and ending inventories in the determination of "Costs allocated to the year."

The criticism of a New York security analyst published in the Journal of Accountancy for November. 1947 applies to both of these forms. He said:

> "At least the main items of cost, wages, materials, selling, distribution, and administrative expenses, might well be listed separately in corporate annual reports. This enables important operating and expense ratios to be calculated, year-to-year trends noted, and comparisons to be made with similar ratios of other companies in the same line. Such comparisons greatly aid in distinguishing the most efficient from the least efficient and high-cost enterprises. Of' late there has been a deplorable tendency on the

> part of some major corporations to lump together 'cost of goods sold' and 'operating expenses' and to omit entirely the 'gross profit from operations.' One or two steel companies in the past year or two that previously provided a fair amount of detail in this respect, have recently lapsed. The analyst is not enthusiastic about such tendencies."

Having in mind the source of this comment and the fact that in the Commission's administration of the Securities Acts we are required to insist upon financial statements which will be most useful to investors, I think it is clear that the forms presented above are unsatisfactory in several respects. Both statements fail to differentiate between recurring and nonrecurring income (assuming the latter was present) and between investment and operating income. In the second example interest expense is netted against interest income and the balance listed as an offset to "costs incurred." In the first example there is no indication of how the increase or decrease in inventories has been handled and both are obscure as to the items which constitute the cost of inventories and cost of goods sold. There is a possible inference, particularly in the second example, that all items listed as costs incurred may enter into the cost of inventories. This is not a too farfetched assumption for examples have come to our attention in which selling, general and administrative expenses have been included in inventories and cost of goods sold. The practice seems to be a carry-over from war contract accounting practice wherein all recoverable costs under the contract were charged thereagainst. With the reconversion to peacetime operations we think this practice is no longer appropriate and the principle of excluding from inventories selling, general and administrative expenses not applicable to production as laid down in the Accounting Research Bulletin No. 29 on "Inventory Pricing" should be applied.

Some of these new style income statements have substituted every-day language (apparently considered to be more understandable to lay readers) for technical accounting terms. The use of "received from customers" and "paid for" elements of cost connotes a cash basis of accounting which surely is not intended. The general idea of simplification expressed in these statements had been used for a number of years prior to the war in special reports prepared for employees or as a basis for "pie" charts or other pictorial forms of presentation in the president's letter. I think this use is appropriate as a supplement, not as a substitute; but before even subscribing to such limited use it should be made certain that the interpretative value of the conventional style of profit and loss statement is not in the process of being subordinated to the anticipated propaganda value of the new style. Nor am I ready to concede that informed stockholders and financial analysts should be confined to a form of reporting designed to meet the needs of those unfamiliar with the terms and principles of corporation finance and accounting. Instead I think we should encourage more investors to learn these principles.

In concluding this consideration of the profit and loss statement it may be mentioned that under the Securities Act our registration forms for mining companies in the developmental and exploratory stage and industrial companies in the promotional stage require the submission of statements of cash receipts and disbursements instead of profit and loss statements as in most such cases the latter would be much less informative than the former. We also have under consideration the extension of this idea to annual reports for such companies.

Experimentation with new forms of statements of financial condition as substitutes for the balance sheet is not new, for companies in the developmental stage. The forms just referred to provide for separate statements of assets and capitalized expenses, liabilities, and capital shares. The reshuffling of the balance sheet for large and well established corporations, however, seems to be a more recent development. The question as to the acceptability of these new forms, generally referred to as narrative statements, as compliance with the balance sheet requirements of Regulation S-X, has arisen since the close of the recent hostilities. As I have indicated above, in some cases we have not objected to the filing of the new form as additional information but at the same time we have required a statement in the customary balanced form. In others we have felt that the new style form was inappropriate and could not be accepted because of its misleading characteristics.

Generally speaking we have the feeling that the narrative form violates the principle that specific liabilities, or classes of liabilities, as a rule are not claims against specific assets or classes of assets. The problem is not particularly serious in a company which is not only financially sound but in which all liabilities are current and are exceeded substantially by the current assets. We have more difficulty as the margin grows narrow and question entirely the propriety of the narrative style when long tern debt is present. Occasionally a form of debt crops up that is difficult to classify even on a balanced form of statement. In such cases, the narrative form may give a definitely misleading result.

The statement of changes in working capital or sources and application of funds I think is a useful form of presentation in connection with the balance sheet as well as with the narrative form of statement. In fact the changes in working capital seem to me to demonstrate the weakness of the new form as they necessarily set forth that in addition to net income as reported the sources of working capital are reflected in all areas of the balance sheet - conversion of plant assets through depreciation or sale, disposal of investments, long term loans and issues of bonds and stocks. Conversely reductions of working capital may come from losses in operations, expenditures for plant or investments, repayment of loans, retirement of bonds and capital stock and the payment of dividends. This flow of funds within the business I believe can be visualized more clearly and with less danger of misinterpretation by means of the balance sheet form than can be done in the narrative statement. It seems to me, therefore, that the narrative form is inappropriate except in the simplest situations.