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Using historical annual reports in teaching: Letting the past benefit the present

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USING HISTORICAL ANNUAL REPORTS IN TEACHING: LETTING THE PAST BENEFIT THE PRESENT

Abstract: In this article, it is suggested that accounting education may be enhanced by the use of published historical accounting materials, such as annual reports. Comparing such materials with modern reports serves to reinforce the notion that accounting evolves in response to environmental change. Further, requiring students to analytically derive cash flow statements from historical published annual reports provides several direct pedagogical benefits.

Accounting educators have been urged to make their courses more intellectually appealing to students, and to thus contribute to education in a broad, liberal sense [Koeppen, 1990]. Critics admonish accounting instructors for ignoring students' cognitive development [Amernic and Beechy, 1984], for teaching financial accounting as a set of rules and authoritative pronouncements [Zeff, 1979; Frakes, 1983], and for ignoring the real environment within which accounting is done [Chambers, 1987; Amernic, 1985]. The purpose of this article is to suggest that accounting educators may fruitfully draw upon relatively accessible historical accounting materials as a partial means of achieving educational goals and dealing with the concerns of various critics.

With the expansion of accounting's technical body of knowledge, accounting history has tended to be ignored by accounting educators [see Bloom and Collins, 1988; and Zeff, 1989].[1] Zeff [1989, p. 204] asserts that "[a]bove all, a historical

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[1]Some material emphasizing historical accounting documents in teaching has been published, but the quantity is scant. For an example, see Johnson [1975].

perspective is essential" if accounting as a discipline is to contribute to the broadening of the student's intellect, and thus deserve a place in the university curriculum. He goes on to write [pp. 204-205]:

> . . . When learning a subject, a student's natural curiosity turns to the origins of thought and practice. In this way, one proceeds from the simpler to the complex, from the past to the present, establishing relevance and stimulating interest in the phenomenon under study. Yet one is unable to find a single financial accounting textbook — introductory, intermediate, or advanced — that purports to explain the historical source of present-day accounting thought or practice.

In a similar vein, Koeppen [1990, p. 89] argues that accounting graduates may "lack the conceptual and analytical skills needed for success" at least partly because of "the absence of a sense of history . . . in the classroom."

The sections which follow offer an example of relatively accessible historical accounting materials, describe how they may be integrated into accounting courses using two assignments, and suggest how their inclusion may assist in achieving various teaching goals. In particular, the differences between historical and current means of fulfilling corporate accountability are viewed as the result of changes in the legal, social and economic environments, and the changing power and demands of users of financial statements.

The specific historical accounting teaching materials employed were the 1924 and 1925 annual reports of Massey-Harris Company, Limited. This Canadian company evolved into Massey-Ferguson Limited (since renamed Varity Corporation), with about 67,000 employees in the mid-1970s, although recently it has fallen on hard times [Baldwin and Mason, 1983; Bliss, 1988]. In 1991, it reincorporated as a U.S. company.

Historical annual reports of the larger, more important companies, while certainly not as easily accessible as current annual reports, are often accessible with some digging. In the case of Massey, the company's part-time archivist had ensured that two copies of the original annual reports were kept at corporate headquarters from 1923 (the first year that the company published its report) to the present. The older reports from the 1920s were beginning to deteriorate, and the reports had not been copied to other media (for example, microfiche). The authors were permitted to make photocopies of the reports, portions of which are reproduced in the Appendix.

Although private collections (such as Massey's) would appear to be a potentially fruitful source for historical annual reports, public and university libraries also often maintain such collections. For example, the main reference library of Metropolitan Toronto has a historical collection of annual reports of public companies whose securities are listed on the Toronto Stock Exchange. Similarly, the University of Mississippi library has many collections of annual reports dating back to the early 1900s.

Although annual reports represent a small subset of the "accounts" created by an organization, they are the company's official public documents and thus provide a focus for accountability. Indeed, annual reports may be viewed as mass communication devices [Parker, 1982], a snapshot of top management's mind-set [Neimark, 1983], a means of obtaining unobtrusive insight into corporate strategy [Bowman, 1976 and 1978], source material for business historians [Marriner, 1980; Mason, 1982], as a means of providing an illusion of management control in a hostile environment [Salancik and Meindl, 1984], etc. Further, the accounting measurement and disclosure choices revealed in annual reports may provide insight into the quality of earnings and thus management's attitudes [Hawkins, 1986; Kochanek and Norgaard, 1988]. Thus, annual reports and the financial statements which they contain have the potential for acting as a variety of traces by which the history of an organization may be at least partly understood. In turn, the nature and structure of an organization's annual report may reveal insights into the type and details of accountability required by the environment. This importance of the annual report has also resulted in a reawakening in the accounting education literature of the value of annual reports as a pedagogical device [Harkins and Mills, 1985].

ASSIGNMENT I: COMPARISON OF HISTORICAL AND MODERN ANNUAL REPORTS

Students in undergraduate Intermediate Accounting were given the assignment described below. The students' previous exposure to financial accounting had been in a rather traditional, problem-solving and rule oriented introductory accounting course, so this assignment was an initial attempt at employing a historical approach in order to encourage the development of what Koeppen [1990] terms an "accounting culture". Use of actual historical materials (i.e., the 1924 and 1925 annual reports) was intended to provide students with assignment material that they might view as tangible and real, and therefore credible.

The assignment was in two parts, thus contributing to two sections of the curriculum. In Part I, which was administered at the beginning of the term, students were provided with the following materials:

— a copy of Massey-Harris Company, Limited's 1925 annual report (see the Appendix), and
— a copy of Varity Corporation's (Massey as it is today) 1990 annual report.

As a homework task, the students were requested to read the two annual reports, and to identify specific differences and similarities. Then, the students were to speculate on the *reasons* for the differences in the two reports. Examples of student-generated differences are set out in Exhibit 1. During class, the student-generated material led to stimulating discussions which had two phases: in phase one, students attempted to compete with each other in identifying non-trivial differences between the two reports. Such a discussion served to reinforce the idea that financial reporting, at least as revealed in these particular annual reports, had changed considerably over the 65-year period. Having such teaching materials and discussion near the *beginning* of intermediate accounting acted as an important background against which the *breadth* of the discipline was explored as the course unfolded.

Phase two of the student discussion focused on generating a list of plausible reasons for the differences in the two reports. Although appropriate journal articles could have been provided as preliminary reading, they were not because the objective was to encourage each student to think seriously about the possible reasons, and not merely to have them appeal to the authority of a journal article. Such an approach was effective when followed up with a class discussion that required students to justify their possible reasons to their peers and the instructor. Linking the *actual* changes between 1925 and 1990 reports (which the students had identified earlier, and around which a consensus had developed) to *reasonably possible* reasons for the changes, was an extremely useful exercise, and was well-liked by the students.

Educators frequently make use of comparison in order to introduce or reinforce a concept or point;[2] by comparing aspects of the modern report with actual historical examples, both the evolutionary nature of financial reporting, and the increased amount and diversity of information now available, are made clear. Expanding the examples of differences between the 1925 and 1990 reports in Exhibit 1 may be one way to make this point during class discussion; four of the examples from the exhibit are expanded below as discussion illustrations:

Item #1 ("Numerous terminology differences") indicates that the labels accountants employ to identify elements of financial statements have changed over time. The change has been towards greater descriptive accuracy; for example, the historic term "surplus" suggests an excess, or an amount not needed in the operations of a business, while the modern term "retained earnings" is more neutral and more precise — it suggests nothing about the desirability of the organization's dividend policy, but merely serves to indicate that the amounts in the account have *not* been distributed.

Item #7 ("Depreciation expense a function of income") indicates that the notion of matching costs against revenues is a relatively recent concept. In historical financial statements, the depreciation charge was by and large discretionary, and reflected the perception of management of "what the traffic could bear". Thus, the *process* of income measurement, students might conclude, was perhaps more arbitrary in the 1920s, and did not emphasize the normative goal of attempting an objective measure of corporate progress.

Item #8 ("No extraordinary items . . . ") suggests that the "current operating" versus "all-inclusive" views of income represents a debate that has evolved over many years in accounting. In 1925, no attempt was made in the Massey financial statements to identify an operating income number, so the idea that meaningful classification of the *components* of income is important to users, is a relatively new concept. Students may be encouraged to discuss why the settlement of the Treaty of Versailles claim would have characteristics that would lead modern accountants to classify it as "extraordinary".

Item #15 ("No formal footnotes in the 1925 report") may be used to illustrate the point that the quantity

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[2]A recent published example of employing comparison is Shank and Govindarajan [1988].

and detail of information in the financial statements has increased dramatically. That this is a general phenomenon may be supported by reference to a study such as that by Lanfranconi [1976], which found that the number of pages devoted to footnotes in the annual reports of Canadian companies increased tenfold over the period 1955 to 1974. The fact of the increased quantity of information (or perhaps more precisely, data) might not necessarily lead to the conclusion that the information is useful. For example, if "readability" is one aspect of usefulness, then students may be referred to research such as that of Courtis [1986], which concluded that the footnotes of a sample of modern (1983) Canadian annual reports were not readable by the majority of potential users. Students might then apply standard readability formulas to the 1925 and 1990 Massey/Varity annual reports, for comparison. Classroom discussion of this item from Exhibit 1 could then conclude by considering the following possibilities:

— must users of modern reports have higher education levels in order for the difficult-to-read footnotes to be understandable?
— must footnotes be written in low readability style?
— could the significant increase in footnote volume and apparent reading difficulty have led to information overload relative to 1925?

The differences summarized in Exhibit 1 may be linked to a shift in relative power from corporate management to various external users of financial reporting. This shift in the environment is evident in modern disclosure regulations and legislation, which reflect evolving public policy. The impact of such a shift readily becomes evident to students when they compare financial statements from the 1920s with modern financial statements.[3]

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[3]Employing published reports from the 1920s as the "historical" comparison has several advantages:

— they are often reasonably-accessible, either in libraries or company archives,
— they were prepared during the pre-GAAP/high-regulation era, and thus provide an interesting contrast to modern reports,
— while they are quite different in detail from modern reports, they are similar to modern reports in overall structure, and thus might not alienate students by being "too different and thus unintelligible."
— they were issued in an era of reasonably well-established capital markets.

Exhibit 1

Apparent Differences — Historic (1925) Versus Modern Annual Reports

1. Numerous terminology differences; for example, "surplus" instead of "retained earnings".
2. No comparatives in 1925 annual report.
3. "Income Account" highly condensed; no details regarding cost of sales, etc., in the 1925 report.
4. The balance sheet in the 1925 report appears to have prominence over the income statement, because of the lack of detail noted above in item #3, the prominent placing of the balance sheet in the center of the annual report, and the reference in the auditor's opinion only to the balance sheet.
5. Order of items on both sides of balance sheet reversed from modern practice.
6. Use of a "Contingent account".
7. Depreciation expense a function of income (shareholders' letter for FYE 30th November, 1925 says "The Net Profit . . . was $1,323,462 in excess of that of 1924. During the year, the Company . . . recovered the sum of $661,139. Advantage was taken of this recovery to make liberal appropriations for depreciation . . . ").
8. No extraordinary items nor prior period adjustment categories (the settlement of the Treaty of Versailles claim is taken to income).
9. No statement of changes in financial position nor cash-flow statement in the Massey-Harris Company, Limited 1925 annual report.
10. Explicit mention of working capital improvements (reference to working capital as "net liquid or working capital") in the 1925 annual report. In contrast, modern reports have an extensive Management Discussion and Analysis section.
11. No separate accounting policy note, although some policies are disclosed in the shareholders' letter.
12. Wording of auditor's report quite different:
    - — no reference to GAAS or GAAP,
    - — refers to "the true position of the company",
    - — focuses on the balance sheet.
13. Subsidiary not consolidated; thus, computation of total group net cash flow from operations is impossible. Furthermore, subsidiary is not accounted for using either the equity or cost basis; rather, it is accounted for based upon the stated value of the shares.
14. Asset contra accounts such as "Reserves and Funds — Buildings and Equipment" (accumulated depreciation) and "Reserves and Funds — Possible losses on collections" (allowance for doubtful accounts) shown on the equities side of the balance sheet.
15. No formal footnotes in the 1925 annual report.
16. Apparently, expenses related to pensions are discretionary.
17. No deferred taxes.

ASSIGNMENT II: PREPARATION OF A CASH-FLOW STATEMENT

Recent changes in generally accepted accounting principles requiring that companies present cash-flow statements were regarded as quite important and revolutionary during the period in the 1970s and 1980s when such changes were being debated [Largay and Stickney, 1980; Nordgren, 1986]. However, such requirements are no longer novel, and are perceived as merely another aspect of financial reporting. The importance of classifying cash (rather than accrual) flows (into operating, financing, and investing categories), and tracking their progress over time, is no longer as unique as when Largay and Stickney [1980] criticized accrual accounting information in their analysis of the W. T. Grant bankruptcy.

That this is a recent phenomenon may be surprising to some students. Requiring students to prepare a cash-flow statement for 1925 for Massey-Harris Company, Limited, using the published annual report information for both fiscal 1924 and 1925 (recall that comparatives were not published) serves the function of indicating to students how much financial reporting has changed in response to user demands (references to articles such as Largay and Stickney, 1980, may be used to illustrate the types of pressures accounting standard-setters were under to establish cash-flow principles). Students may be further surprised to learn that standard-setters were positively hostile towards operating cash-flow information up until quite recently (the cash and related approaches were approved in *APB* #3 and *APB* #19 in the United States).

The specific assignment material was provided to students at the end of a first lecture on the construction and use of cash-flow statements. The material included the following:

— the 1924 and 1925 Massey-Harris Company, Limited annual reports,

— an instruction sheet, which read as follows:

"Varity Corporation is a Canadian multi-national company, which was previously known as Massey-Ferguson Limited. In the mid-1970s it employed about 67,000 people and was one of Canada's premier corporations. In the early 20th century the corporation was a single-industry firm and was called the Massey-Harris Company, Limited. Enclosed are the financial statements and the report of the directors of Massey-Harris Company, Limited for the years 1924 and 1925. You should note that accounting has evolved since the 1920s, both in content and terminology; accordingly, you may encounter in the report terms and presentations which differ from the ones that you are used to.

1. Prepare a cash-flow statement for Massey-Harris for 1925. The "t-account" method is probably most efficient and effective here.
2. Analyze the company's 1925 results in relation to its strategy and environment."

Aside from reinforcing the notion that financial reporting is evolutionary and responds to its environment (at least sometimes!), the requirement of preparing a "historic" cash-flow statement has the following specific educational benefits:

1. Students must deduce the nature of an account from the *description* of how it works in the annual report rather than from its location and title, since both account locations in the financial statements, and their titles, are different from those in modern financial statements. An example is the account "Taxes — Head Office and foreign branches". Although it is classified under "Reserves and Funds", it is similar to a modern "Income tax payable" account (current liability). Another example is the so-called reserve account for "Buildings and equipment", which must be analyzed in conjunction with the "Appropriation for depreciation of plants, etc." account in the published "Income Account".
2. Students become sensitive to alternative financial reporting formats, which is important since they likely will need to be open to accepting foreign financial statements at some point during their career.
3. Since the teaching material is "real", it has more intrinsic interest for the student than "toy" teaching material, and thus student commitment is enhanced. During the 1924-25 period, Massey-Harris Company, Limited was essentially a single-industry firm and thus relatively simple to understand, but because of its international dealings and broad product line, its annual reports were "rich". Further, even introductory students can see the impact of the uncertainty of agricultural grain yields and prices on the company.

4. Successful completion of this task helps ensure that students understand the double-entry, accrual model, and can generalize their knowledge to unfamiliar situations. Thus, enhancing the student's tolerance for ambiguity and assisting in cognitive growth may be benefits here [Amernic and Beechy, 1984].
5. Students can relate both the *nature* of the financial statements (e.g., the accounts used, the expenses incurred, etc.) to the *nature* of the business. They can also relate the company's results, environment, and strategy to the financial statement results.
6. Preparing a cash-flow statement, using the indirect method, from the 1924 and 1925 accounts, requires students to come to grips with technical issues such as the treatment of apparently non-operating transactions (the settlement of the Treaty of Versailles claim) and the impossibility of computing net cash flow from operations for the *consolidated* group when the company neither consolidates its subsidiaries nor discloses their separate financial statements.[4]

A cash-flow statement for Massey-Harris Company, Limited for 1925, as prepared by the authors, is shown in Exhibit 2.[5] Students might note the following (among other observations) about the statement:

— net cash flow from operations is about $900,000 *less* than reported net income.

— the company's emphasis on controlling current operating asset levels (inventories and accounts receivable) did not generate sufficient cash flow to overcome the cash drain effect of reducing accounts payable.

— the company appears to avoid debt since none appears on the 1925 balance sheet, nor as a financing cash flow item in Exhibit 2; however, the company is contingently liable for its unconsolidated subsidiary's debenture note issue. Had a consolidated cash-flow statement been prepared, the *reduction* in

[4]This observation may be used to support the recent FASB principle requiring across-the-board consolidation of subsidiaries.

[5]A complete t-account worksheet is available on request from the first author.

the subsidiary's debt would have shown up as a financing outflow of cash.

— no dividends were paid, even though 1925 was apparently a far more successful year than 1924. This, combined with management's apparent aversion to debt and the inherent riskiness of the farm implement manufacturing and distribution business, suggest a prudent, conservative management.

Exhibit 2

Massey-Harris Company, Limited
Statement of Changes in Financial Position
Year Ended November 30, 1925
(prepared from published annual report data)
(Numbers are rounded)

OPERATIONS —	
Net income	$ 1,411,173*
Adjustments not requiring working capital —	
Foreign exchange provision	4,942
Pension provision	(5,617)
Depreciation	869,334**
Fire indemnity fund	12,275
Working capital provided by operations	2,292,107
Adjustments for operating current accounts —	
Reduction in inventory	2,465,333
Increase in prepaids	(675,528)
Reduction in accounts receivable	1,958,452
Reduction in allowance for doubtful accounts	(298,978)
Increase in goods supplied to unconsolidated subsidiary	(370,125)
Reduction in accounts payable	(4,908,260)
Increase in accrued taxes	41,644
NET CASH FLOW FROM OPERATIONS	$ 504,645
INVESTING ACTIVITIES	
Purchased factory assets	65,452
Purchased branch assets	255,884
Acquire additional common stock of unconsolidated subsidiary	6,538
NET CASH FLOW FROM INVESTING ACTIVITIES	(327,874)
TOTAL NET CASH FLOW	$ 176,771

*As may be seen from the notes to the 1925 financial statements (Appendix), $661,139 represented the recovery in cash of assets previously written off due to the First World War. Most students will argue that this amount should be classified as "non-operating"; if it is so classified, then "Net Cash Flow from Operations" is negative.

**Computed from the change in the balance sheet accounts.

CONCLUSION

In this teaching note, we have suggested introducing teaching materials grounded in "reality" (specifically, historical reality) as a means of enhancing student commitment, and thus learning, in accounting. Teaching materials from a relatively-neglected area — historical annual reports — were described, and potential educational benefits were suggested. The use of materials that reflect the activities of *actual* people and their organizations, both past and present, can only serve to enrich accounting education, and assist in helping students become more aware of both the diversity and the complexity of the world that uses the structures, processes, and outputs of accounting. Indeed, Bloom and Collins [1988] have rationalized the use of a historical perspective in accounting education employing learning theory.

It is not too extreme to suggest that accounting is a social construction [Hines, 1988], and thus if educators are to assist students in *understanding* accounting and its roles in society, the perspective of the *evolution* of accounting must be stressed. Accordingly, teaching approaches which draw upon the use and analysis of historical accounting materials, as counterpoint to modern financial statements, may offer educators the opportunity of letting the past benefit the present.

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APPENDIX

MASSEY-HARRIS COMPANY, LIMITED
REPORT OF THE DIRECTORS
for the
YEAR ENDED 30th NOVEMBER, 1924*

To be submitted to the Shareholders at the Annual Meeting, on Wednesday the 4th February, 1925, at 2.30 p.m.

To the Shareholders:

Your directors have pleasure in presenting the following report of the operations and affairs of Massey-Harris Company, Limited, and its subsidiary Companies—Verity Plow Company, Limited, and the Bain Wagon Company, Limited,—the entire capital stock of both of which Companies is owned by your Company, for the year ended 30th November, 1924.

Income Account

The Income from the year's operations before deducting interest and appropriations was		**$1,065,180.15**
From this there has been deducted:		
Interest on borrowings	$667,667.85	
Appropriation for depreciation of plants, etc.	282,566.85	
Appropriation for Pension Fund	27,234.73	**977,469.43**
Leaving a Net Profit for the year of		**$ 87,710.72**

Surplus Account

The Surplus at 30th November, 1923, was	$750,152.73	
Less amount to adjust subsidiary companies' stock to par	19,153.85	**$ 730,99**
Adding the Net Profit for 1924		**87,710.72**
The Surplus at 30th November, 1924, was		**$ 818,709.60**

A Net Profit, after making adequate provision for depreciation and possible losses, has been realized for the first time in four years. Although it is small—$87,711—it is significant in the light of the previous losses amounting to $1,456,000 in 1921, $643,000 in 1922, and $409,578 in 1923 (after eliminating the profit realized from the sale of timber lands, which formed a part of last year's income). The improvement, therefore, in operating earnings over those of a year ago is $497,288.

The Assets, which aggregate $39,598,503, have been conservatively valued. Inventories of raw materials have been taken at cost or replacement value, whichever is the lower. Finished goods at factories are carried at current factory cost, likewise those at Branches, but with transfer costs added. Quick or current assets — inventories, receivables, cash — amount to $28,988,191, and constitute 73 per cent of the total assets. Current liabilities have been reduced by $2,670,170. The net liquid or working capital is $20,448,377.

*This Appendix contains excerpts of the Annual reports; the type has been reset.

Capital Assets show a small increase over those of last year. Outlays were made only for such improved labour-saving machinery as would tend to lower manufacturing costs and better the quality of the product. During the year there was acquired, on reasonable terms, almost the whole of the balance of the shares of the Massey-Harris Harvester Co., Inc., Botavia, New York. The shares of this Company now stand at par in the balance sheet.

Sales, on the whole, were less in value than those of the previous year. In Canada they were approximately only 60 per cent of those of 1923, while in other countries a fair increase was shown. Various disturbing factors, including the adverse economic condition of the farmer, were responsible for the lessened volume of Canadian trade. There is substantial reason to believe, however, that the situation has commenced to improve, and that the prospects of both the home and the overseas agriculturist are distinctly brighter.

Plants, Branch warehouses and other properties, at home and abroad, have been maintained in a sound state of repair. All expenditure involved in this has been made a charge of the year's operations. A larger amount than in previous years has been transferred to reserve for depreciation of buildings, machinery and other equipment. Adequate insurance is carried on all of the Companies' properties, materials and goods. On its manufacturing plants, the coverage is approximately 90 per cent of replacement values.

The Balance Sheet, which accompanies the report, includes the certificate of the auditors appointed by the shareholders at the last Annual Meeting, Messrs. Clarkson, Gordon & Dilworth, and Mr. H. L. Gillson. The audit of the European Branch was conducted by Messrs. Howard, Howes & Company, London; of the Argentine Branch, by Messrs. Price, Waterhouse, Faller & Company, Buenos Aires, South America; of the Australasian Branch, by Mr. N. L. A. Mackenzie, Melbourne; and of the Canadian Branches by Mr. H. L. Gillson, Toronto.

The Past Year, for both the farmer and the implement maker, has been an unusually trying one. In our report, a year ago, it was stated that, while the outlook was not entirely clear, it was hoped that a turning point had been reached. Our expectations, however, were not fully realized at home, nevertheless it is believed that distinct progress has been made in several of the countries outside of Canada in which we operate. At the present time the improved prices for cereals and other farm products have given much encouragement to the farmer, and it is confidently believed that the year which we have entered will bring greater prosperity both to the farmer and to his ally, the implement maker.

During the year, the Directors experienced a severe loss in the death of their esteemed colleague, Sir Edmund Walker, C.V.O., D.C.L., LL.D., who was a valued member of the Board for twelve years. The vacancy thus created was filled by the appointment of Mr. T. A. Russell.

Your Directors desire to express again their sincere appreciation of the interest and devotion manifested by those in the Companies' service, both at home and abroad, especially during the last four years which, perhaps, have been the most difficult and trying in the experience of the organization.

T. BRADSHAW, *General Manager*

VINCENT MASSEY, *President*

Toronto, January 28th, 1925.

MASSEY-HARRIS COMPANY, LIMITED, and SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET, 30th NOVEMBER, 1924

ASSETS

Capital Assets		
Factories—real estate and equipment— Toronto, Brantford, Woodstock and Weston	$ 5,706,853.31	
Branches—real estate, buildings and equipment	2,179,758.03	
Massey-Harris Harvester Co. Inc. 27,237 shares Common stock (Cost $2,777,274.34)	2,723,700.00	
Patents	1.00	10,610,312.34
Current Assets		
Inventories of raw materials, goods in process and finished goods (valued at cost, not exceeding replacement value)	16,310,256.11	
Expenditures including interest and administration charges on account of next year's operations	1,249,010.45	
Bills and accounts receivable (accrued interest of approximately $1,100,000.00 not taken into account)	10,635,622.97	
Massey-Harris Harvester Co., Inc., Goods Supplied	507,830.99	
Cash on hand and in banks	285,470.38	28,988,190.90
TOTAL ASSETS		**$39,598,503.24**

LIABILITIES

Capital		
Common—authorized $25,000,000.00— Issued and fully paid up		$24,179,800.00
Current Liabilities		
Bills and accounts payable		8,539,814.35
Reserves and Funds		
Taxes—foreign branches	$ 270,872.62	
Foreign exchange, etc.	545,269.65	
Pensions	205,365.42	
Buildings and equipment	2,143,663.63	
Possible losses on collections	2,025,968.28	
Fire indemnity	489,039.69	5,680,179.29
Contingent account (as called for by charters and by-law of companies)	380,000.00	
Profit and loss account	818,709.60	1,198,709.60
TOTAL LIABILITIES		**$39,598,503.24**

CONTINGENT LIABILITIES: — Joint Debenture Note issue with the Massey-Harris Harvester Company, Inc. (now reduced to $2,400,000.00) and Bank loans of that Company guaranteed by this Company $600,000.00.

VINCENT MASSEY, *President*
T. BRADSHAW, *General Manager*

We have examined the Head Office books and accounts of Massey-Harris Company Limited, The Bain Wagon Company Limited, and Verity Plow Company Limited, as of 30th November, 1924, and have accepted the returns from the Branches.

The above figures include the Australasian and Argentine Branch accounts as of 30th June, 1924.

The officials have assured us that the Reserves for possible losses on collections and for depreciation are sufficient, and that the inventories have been properly valued, and accepting this we certify that in our opinion the above Balance Sheet is properly drawn up to show the true position of the combined Companies at 30th November, 1924, according to the best of our information, the explanations given to us and as shown by the books of the Companies.

We have obtained all the information and explanations we have required.

CLARKSON, GORDON & DILWORTH, C.A.
H. L. GILLSON,

Toronto, 28th January, 1925. Auditors.

MASSEY-HARRIS COMPANY, Limited
REPORT OF THE DIRECTORS
for the
YEAR ENDED 30th. NOVEMBER, 1925

To be submitted to the Shareholders at the Annual Meeting, on Monday the 1st February, 1926, at 3 p.m.

To the Shareholders:

Your Directors have pleasure in presenting the following report of the operations and affairs of Massey-Harris Company, Limited, for the year ended 30th. November, 1925.

Income Account

The Income from the year's operations before deducting interest and appropriations was	$2,346,542.70	
Recovery, in cash, of assets previously written off	661,139.30	**$3,007,682.00**
From this there has been deducted:		
Interest on borrowings	$ 480,512.84	
Appropriation for depreciation of plants, etc.	939,165.16	
Appropriation for Pension Fund	26,830.69	
Appropriation for Income Taxes	150,000.00	**1,596,508.69**
Leaving a Net Profit for the year of		**$1,411,173.31**

Surplus Account

The Surplus at 30th November, 1924, was	$ 818,709.60	
Amount held in Contingent Account of Subsidiary Companies not now required, as Charters are being surrendered	130,000.00	**$ 948,709.60**
Adding Net Profit for 1925		**1,411,173.31**
The Surplus at 30th November, 1925, was		**$2,359,882.91**

The Net Profit of $1,411,173, realized after interest charges, appropriations for plant depreciation, pension fund, income taxes and other reserves had been made, was $1,323,462 in excess of that of 1924. During the year, the Company was successful in its suit, instituted under the terms of the Treaty of Versailles, against a European power for moneys sequestrated during the war and recovered the sum of $661,139. Advantage was taken of this recovery to make liberal appropriations for depreciation and reserves, as will be noted in the income account. The effect of that action is that the present net asset value of plant property has been so adjusted that it will amortized well within the estimated life of each class of such property and that in subsequent years only normal reserves and depreciation will be required to be made. The balance at the credit of Profit and Loss is $2,359,883, or $1,541,173 in excess of what it was in 1924.

Capital and Current Assets, which in aggregate make up the total of $36,725,017, have been conservatively valued. Capital assets of $10,938,186 have been increased within the year by $327,874, due mainly to the purchase of necessary warehouses and branch properties in South America and Australia, the acquisition of a factory site in France, and the installation in the Canadian plants of certain improved labor-saving machinery, tending towards better and more economical production.

Current Assets, which amount to $25,786,831, or 70 per cent of the whole, show a decrease for the year of $3,201,359. Inventories, composed of raw materials, finished goods, and goods in process of manufacture, show a decline of $1,789,805; while bills and accounts receivable were reduced by $1,958,451. The usual practice of pricing everything entering into inventories at cost or replacement value, whichever was the lower and of making adequate provision for possible losses on receivables was followed.

Current Liabilities, which represent only 14 per cent of current assets, were reduced by $4,908,259, making the net liquid working capital $22,155,277, or almost 1¾ millions more than a year ago.

Sales, for the year, were, according to value, 29% in excess of those of 1924, and, with one exception, exceeded the amount of goods sold in any previous year. Exports, however, very greatly exceeded Canadian sales, the former being no less than 62% of the whole. It will be recalled that in the last report your Directors expressed the opinion that a substantial improvement in conditions at home was in evidence. This has been justified by the important increase in the Canadian business during 1925. While the proportion of business done outside of Canada during the past several years has substantially exceeded the home business, it is gratifying to record a distinct improvement in the domestic demand.

For a number of years the Company has been exporting goods to South Africa through a valued connection, Messrs. R. M. Ross & Company of Capetown, who still handle our line, but the time appeared to be opportune for an extension of operations and for the establishment of the Company's own organization in accordance with its method of carrying on business in other countries. After a most careful survey of the South African field, it was decided to open a Branch at Durban. The results already obtained fully justify the action taken.

Factories, distributing warehouses, and other properties owned by the Company in Canada and overseas, have been maintained in a sound state of repair. The whole of the cost involved in connection with this has been treated as a current expense and charged in the operations of the year. Fire insurance to the extent of approximately 90% of the replacement value is maintained on plants, other properties and inventories.

The high standard of workmanship and construction for which the Company's products has been deservedly noted, has not only been maintained but many outstanding improvements have been made in the development of implements, enabling them to be operated more efficiently in the field, and producing better results for the farmer. The advance which is steadily being made in agriculture is in measure due to the improved character of the implements of production and to the service which the implement manufacturer is rendering to the farmer.

It has been gradually borne in upon the Directors that, in order to maintain the Company's important and desirable business in certain parts of Europe, it would be essential to consider seriously local manufacturing. A small plant, involving a nominal investment, has been in operation in Germany for several years. It now gives promise of becoming more important as conditions in that country improve. During recent years, the necessity of manufacturing in France, where the Company has an important business and a good sales organization, has become quite apparent, and as a consequence, and after a further careful survey of the whole subject, a factory site has been acquired and at present plans are being prepared and tenders sought with the object of proceeding promptly with the construction of a factory and the installation of the necessary manufacturing equipment.

Improved crops, combined with better prices for farm products, at home and abroad, materially helped to re-establish in 1924 the farmer's economic position, while the harvest of 1925 with even better prices in many instances, still further contributed to his welfare, with the result that he is again a substantial purchaser of needed goods. In Europe those conditions which have a bearing upon our interests, while still far from normal, have steadily improved, and there is a justifiable expectation that further advancement in the establishment of confidence and credit will proceed in 1926 and succeeding years. On the whole it is believed that not only have the farmer and the implement manufacturer made substantial progress in re-establishing themselves on a sound basis, but that the immediate future is promising for both and for practically all other Canadian industries.

The Balance Sheet, which accompanies the report, includes the certificate of the auditors appointed by the shareholders at the last Annual Meeting, Messrs. Clarkson, Gordon & Dilworth, and Mr. H. L. Gillson. The audit of the European branches was conducted by Messrs. Howard, Howes & Company, London; of the Argentine Branch, by Messrs. Price, Waterhouse, Faller & Company, Buenos Aires, South America; of the Australasian Branch, by Mr. N. L. A. Mackenzie, Melbourne; and of the Canadian Branches by Mr. H. L. Gillson, Toronto.

To fill the vacancies on the Board caused by the resignation of Mr. Vincent Massey and the death of Mr. Lloyd Harris, Mr. George W. McLaughlin of Oshawa and Mr. Charles S. Blackwell of Toronto were elected Directors. Mr. Massey became a Director in 1919 and was made President in December, 1921. During the whole of the period of his association, his direction, counsel and advice were much valued and appreciated. Mr. Harris in the early years of the Company ably represented its interests in Europe and during the past five years was a valued member of the Board.

The Directors desire to record in no formal manner their deep appreciation of the zealous, efficient and loyal manner in which those in the Company' service, both at home and abroad, have performed their duties during the past year, and to whom, in no small measure, are the shareholders indebted for the improved condition of affairs as reflected in the report.

T. BRADSHAW,	**JOS. N. SHENSTONE,**
General Manager.	*President.*

Toronto, January 22nd, 1926.

MASSEY-HARRIS COMPANY, Limited
BALANCE SHEET, 30th NOVEMBER, 1925

ASSETS

Capital Assets		
Factories—real estate and equipment— Toronto, Brantford, Woodstock and Weston	$ 5,772,305.30	
Branches—real estate, buildings and equipment	2,435,641.81	
Massey-Harris Harvester Co. Inc. 27,361 shares Common stock (Cost $2,783,812.84)	2,730,238.50	
Patents	1.00	$10,938,186.61
Current Assets		
Inventories of raw materials, goods in process and finished goods (valued at cost, not exceeding replacement value)	13,844,922.71	
Expenditures on account of next year's manufacturing operations	1,924,538.23	
Bills and accounts receivable (accrued interest of approximately $880,000.00 not taken into account)	8,677,171.01	
Massey-Harris Harvester Co., Inc., Goods Supplied	877,956.40	
Cash on hand and in banks	462,242.69	25,786,831.04
TOTAL ASSETS		**$36,725,017.65**

LIABILITIES

Capital		
Common—authorized $25,000,000.00— Issued and fully paid up		$24,179,800.00
Current liabilities		
Bills and accounts payable		3,631,554.63
Reserves and Funds		
Taxes—Head Office and foreign branches	$ 312,517.25	
Foreign exchange, etc.	550,211.93	
Pensions	199,748.33	
Buildings and equipment	3,012,997.51	
Possible losses on collections	1,726,990.19	
Fire indemnity	501,314.90	6,303,780.11
Contingent account—per charter	250,000.00	
Profit and loss account	2,359,882.91	2,609,882.91
TOTAL LIABILITIES		**$36,725,017.65**

CONTINGENT LIABILITIES: — Joint Debenture Note issue with the Massey-Harris Harvester Company, Inc. (now reduced to $2,000,000.00) and Bank Loans of that Company guaranteed by this Company $485,000.00.

JOS. N. SHENSTONE, *President*
T. BRADSHAW, *General Manager*

We have examined the Head Office books and accounts of Massey-Harris Company Limited, as of 30th November, 1925, and have accepted the returns from the Branches.

The above figures include the Australasian and Argentine Branch accounts as of 30th June, 1925.

The officials of the Company have assured us that the Reserves for possible Branch losses on collections and for depreciation are sufficient, and that the inventories have been properly valued, and accepting this we certify that in our opinion the above Balance Sheet is properly drawn up to show the true position of the combined Companies at 30th November, 1925, according to the best of our information, the explanations given to us and as shown by the books of the Companies.

We have obtained all the information and explanations we have required.

CLARKSON, GORDON & DILWORTH, C.A.
H. L. GILLSON,

Toronto, 22nd January, 1926. Auditors.