1974

Illustrations of reporting accounting changes: a survey of reporting under APB opinion no. 20; Financial report survey, 02

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

PREFACE

This publication is the second in a series that the Institute's Technical Research Division has produced from its computerized accounting research system. The examples presented are from the financial statements of the more than one thousand annual reports that are stored in the computer information retrieval data base. Consequently, the examples should be used only after considering their appropriateness.

We intend to publish periodically similar information of immediate current interest that deals with particular aspects of financial reporting. The computerized accounting research system enables us to produce and publish the information faster and cheaper.

The views expressed are solely those of the Technical Research Division staff.

D. R. CARMICHAEL, Director
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SCOPE AND PURPOSE OF SURVEY

INTRODUCTION

The existence of alternative generally accepted accounting principles (GAAP) to account for many events and transactions and the existence of different methods of applying GAAP often lead companies to switch from one accepted principle or method to another. Also, companies often make other changes in their methods of financial reporting. An accounting change may significantly affect the presentation of a company's financial position and results of operations for an accounting period and the trends shown in its financial statements for previous periods or in historical summaries of those statements. Consequently, accounting and auditing standards require that companies and their independent auditors report accounting changes so as to facilitate analysis and understanding of financial statements and comparative accounting information.

Both generally accepted accounting principles and generally accepted auditing standards affect the reporting of accounting changes. In July 1971, the Accounting Principles Board (APB) issued Opinion No. 20 (APBO No. 20), "Accounting Changes," to define the various types of accounting changes and to establish guides that companies should follow in reporting each type of change and in reporting corrections of errors in previously issued financial statements. But before the APB issued APBO No. 20, there was no authoritative pronouncement on accounting principles that dealt explicitly and comprehensively with reporting accounting changes. However, Chapter 8 of Statement on Auditing Procedures (SAP) No. 33, originally issued as SAP No. 31 in 1961, specified auditing standards and procedures for reporting on accounting changes. Subsequent to the issuance of APBO No. 20, the Auditing Procedures Committee of the American Institute of Certified Public Accountants (AICPA) issued, in November 1972, SAP No. 53, "Reporting on Consistency and Accounting Changes," to update auditing standards and procedures for reporting on accounting changes to cover applications of the reporting provisions of APBO No. 20. Thus, APBO No. 20 contains most of the present accounting standards for reporting accounting changes and, since the codification of auditing standards and procedures in 1973, sections 420.01-.14, 420.17-.21, 546.01-.11, and 546.14-.17 of Statement on Auditing Standards (SAS) No. 1 contain the pertinent auditing standards and procedures for reporting on accounting changes.

In response to the current interest in reporting accounting changes, this publication discusses the requirements of APBO No. 20 and the pertinent requirements of SAS No. 1 and presents excerpts from annual reports that illustrate reporting of accounting changes in conformity with APBO No. 20 and reporting on those changes in conformity with auditing standards. The information was compiled, utilizing the computerized information system of the AICPA, from the latest financial statements of over 1,000 industrial corporations.

ACCOUNTING STANDARDS

APBO No. 20 establishes definitive standards for reporting accounting changes. The objectives of the APB in issuing APBO No. 20 were to specify the type of changes that constitute accounting changes, to restrict the freedom of companies to make accounting changes so as to avoid unwarranted distortions in reported net income, and to require that companies report the various types of changes in a uniform manner so as to improve, to the extent possible, the comparability of financial statements. The APB made the Opinion effective for fiscal years beginning after July 31, 1971, although it encouraged companies to apply the provisions of the Opinion in reporting an accounting change included in a fiscal year that began before August 1, 1971 but was reported in financial statements issued after the effective date of the Opinion.

Applicability of APBO No. 20

The provisions of APBO No. 20 apply to financial statements that present financial position, changes in financial position, and results of operations in conformity with GAAP. They may apply to financial information presented in other forms or for special purposes. Since companies in regulated industries may apply GAAP differently from nonregulated companies because of the effect of the rate-making process, application of the provisions of the Opinion to the financial statements of those companies should comply with Addendum to APB Opinion No. 2. Since other APB Opinions and AICPA industry audit guides may prescribe the manner of reporting a change in accounting principle, the provisions of APBO No. 20 do not apply to accounting changes that are made in conformity with the requirements in other APB Opinions or in audit guides.

Types of Accounting Changes

An accounting change is a variation in accounting or reporting that affects the comparability of a company's financial statements for a period with its financial statements of a previous period. In APBO No. 20, the APB defined the term "accounting change" to mean a change in:

a. An accounting principle.
b. An accounting estimate.
c. The reporting entity.

A change in the reporting entity is classified in the Opinion as a special type of change in accounting principle. The correction of an error in previously issued financial statements is discussed in the Opinion but is not considered an accounting change.

General Reporting Provisions

Essentially, APBO No. 20 requires a company to justify an accounting change and to disclose the nature and effects of the change in its financial statements for the period in which it makes the change. Except for the significant provision that requires a company to justify an accounting change, the financial reporting provisions in APBO No. 20 are similar to the earlier reporting provisions of SAP No. 33.

Specific Reporting Requirements

The provisions of APBO No. 20 are directed toward the attainment of undistorted comparability of financial statements. Restating previously issued financial statements for an accounting change or presenting pro forma earnings and earnings per share may accomplish that objective. The first method achieves line-by-line comparability. The second method achieves comparability of net results.

APBO No. 20 prescribes three reporting techniques and specific reporting requirements for specific types of accounting changes. First, the direct cumulative effects and related income tax effects computed retroactively of most changes in accounting principles should be recognized in the income statement of the period of the change as a separate item between the captions "extraordinary items" and "net income." And, if determinable, the pro forma effect of retroactive application in determining income before extraordinary items, net income, and primary and fully diluted earnings per share computations should be presented. Second, some specific accounting changes should be reported by restating the financial statements of prior periods. Third, the effect of a change in an accounting estimate should be accounted for prospectively, that is, the effect of the change should be recognized in the period of the change and future periods as appropriate.

APBO No. 20 prescribes three exceptions to the general reporting rule for changes in accounting principle and requires prior period financial statements to be retroactively restated for (a) a change from LIFO to some other inventory pricing method, (b) a change in the method of accounting for long-term construction contracts, and (c) a change to or from the full-cost method of accounting in the extractive industries. The Opinion also contains a special exemption that permits restatement of prior period financial statements for changes in accounting principles when a company first issues its financial statements for (a) obtaining additional equity capital from investors, (b) effecting a business combination, (c) or registering securities. Finally, the Opinion requires financial statements for all prior periods to be retroactively restated for a change in the reporting entity. The following table contains a summary of the reporting requirements of APBO No. 20.

SUMMARY OF REPORTING REQUIREMENTS

Types of Changes	Required Reporting	Paragraphs of APBO No. 20 that Indicate the Required Reporting
I. Change in accounting principle		
A. General changes	Cumulative effect of the change in accounting principle to the beginning of the period should be separately shown in the income statement following extraordinary items but before net income in the year of change.	15-26
B. Special changes 1. Change from LIFO to another inventory method 2. Change in accounting for long-term construction contracts 3. Change to or from "full cost" method of accounting in extractive industries	Retroactive restatement	27-28
C. Special exemption for initial public filing	Restatement is optional	30
II. Change in entities	Retroactive restatement	34-35
III. Change in estimate	Current and future periods only. (No restatement unless conditions are met for a "prior period adjustment" under APBO No. 9).	31-33
IV. Correction of an error	Restatement of financial statements (report as prior period adjustment under APBO No. 9)	36-37

Materiality

The APB concluded in APBO No. 20 (paragraph 38) that a number of factors are relevant to the materiality of accounting changes and corrections of errors in determining both the accounting for those items and the necessity of disclosing them. Materiality should be considered in relation to both the effects of each change separately and the combined effect of all changes. If a change or correction has a material effect on income before extraordinary items or on net income of the current period before the effect of the change, or if a change or correction has a material effect on the trend of earnings, the prescribed reporting should be followed. A change which does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods should be disclosed whenever the financial statements of the period of change are presented.

AUDITING STANDARDS

Auditing standards guide the independent auditor in examining financial statements to express an opinion on them. The second general standard of reporting (the consistency standard) relates to accounting changes (SAS No. 1, Section 420.01):

> The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

Since accounting changes affect the comparability of a company's financial statements for a period with its financial statements of a previous period and, thus, the consistency standard, the independent auditor must be concerned not only with the appropriate presentation of the various types of accounting changes in financial statements but also with the appropriate form and content of his report. Accounting changes that have a material effect on financial statements and that affect the consistency of the financial statements must be recognized in the independent auditor's report.

The objective of the consistency standard, according to section 420.02 of SAS No. 1, is to assure that changes in accounting principles do not affect comparability between the financial statements of an enterprise for two or more periods or, if they do, to require that the independent auditor follow appropriate procedures in reporting on the changes. Implicit in that objective is the assumption that accounting principles are consistently observed within each period.

According to section 420.04 of SAS No. 1, the comparability between the financial statements of an enterprise for different periods may be affected by (a) accounting changes, (b) errors in previously issued financial statements, (c) changes in classification, and (d) events or transactions substantially different from those accounted for in previously issued statements. The independent auditor is required to recognize, in his opinion on consistency, accounting changes that have a material effect on the financial statements. He would not ordinarily comment on other factors affecting comparability in financial statements in his report although those factors may have to be disclosed in the financial statements.

In summary, the sections of SAS No. 1 pertinent to accounting changes:

- Identify accounting changes that involve the consistency standard of reporting.
- Differentiate between accounting changes that involve the consistency standard and changes that do not involve the consistency standard but may affect comparability.
- Discuss the appropriate reporting on accounting changes.

The following table presents a summary of reporting requirements.

SUMMARY OF REQUIREMENTS FOR REPORTING ON ACCOUNTING CHANGES

Types of Changes	Affect on Auditor's Opinion
I. Changes affecting consistency	
Change in accounting principle	
A. Prior period restated	Modification of opinion—no exception as to consistency
B. Prior periods not restated	Modification of opinion—exception as to consistency
II. Changes not affecting consistency	
A. Change in accounting estimate	No affect on opinion
B. Correction of error not involving principle	No affect on opinion

ORGANIZATION

Chapter II contains a discussion of the provisions in APBO No. 20 for reporting a change in accounting principle and presents illustrations of appropriate reporting for that type of an accounting change. Chapter III contains a discussion of the requirements for reporting other types of accounting changes and presents illustrations of appropriate reporting for those types of changes.

Chapter IV contains a discussion of the requirements to report on accounting changes that affect the consistency standard and presents illustrations of reporting on that type of accounting change. Chapter V contains a discussion of the requirements for reporting on accounting changes that do not affect the consistency standard and presents illustrations of appropriate reporting on that type of accounting change.

The final chapter, Chapter VI, contains the complete financial statements of two companies that reported several different types of accounting changes in the same financial statements, illustrating in a comprehensive manner the complexities of reporting accounting changes in financial statements and of reporting on financial statements with multiple accounting changes. Reprints of APBO No. 20 and the pertinent sections of SAS No. 1 are also included in Appendix A and Appendix B respectively.

II

REPORTING CHANGES IN ACCOUNTING PRINCIPLES

DEFINITION OF A CHANGE IN ACCOUNTING PRINCIPLE

Paragraph 7 of APBO No. 20 and section 420.06 of SAS No. 1 define the term "accounting principle" to include "not only accounting principles and practices but also the methods of applying them." If a company adopts a generally accepted accounting principle different from the generally accepted accounting principle that it used previously for financial reporting, a change in accounting principle results. The change involves the substitution of one alternative generally accepted accounting principle for another alternative generally accepted accounting principle that was previously used to account for the same type of transaction or event. "But a change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error," not an accounting change (APBO No. 20, paragraph 13).

Although a change in accounting principle concerns a choice from among alternative accounting principles, neither of the following is a change in accounting principle:

a. The initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that were previously immaterial in their effect.
b. The adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring.

Changes in accounting principles include changes in the methods of applying accounting principles, for example:

- A change from the LIFO method of pricing inventory to the FIFO method.
- A change from the double declining balance method of computing depreciation on fixed assets to the straight line method.
- A change from the completed contract method of accounting for long-term construction-type contracts to the percentage-of-completion method.
- A change from recording research and development expenditures as expenses when incurred to a deferral and amortization method.

GENERAL GUIDELINES FOR REPORTING A CHANGE IN ACCOUNTING PRINCIPLE

The nature and effect of a change in accounting principle should be disclosed in the financial statements of the period of the change with an adequate justification for the change. Although consistent application of accounting principles is important in comparative statements, financial statements for prior periods that are presented for comparison must be presented as previously reported under the general rule for reporting changes in accounting principles. However, the effect of the change on financial statements of prior years should be disclosed as supplemental information.

Justification for a Change

That an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type is a presumption underlying the preparation of financial statements. An enterprise may change an accounting principle only if management justifies an alternative acceptable accounting principle as preferable and explains clearly why the newly adopted accounting principle is preferable.

An APB Opinion or a new accounting standard from the Financial Accounting Standards Board (FASB) that establishes an accounting principle or standard, expresses a preference for an accounting principle, or rejects a specific accounting principle is sufficient support for a change in accounting principle. An AICPA industry audit guide that prescribes preferable reporting practices for an industry constitutes sufficient support for a change in accounting principle. Adoption of the predominant accounting method in an industry or adoption of an accounting principle that provides a better matching of costs with revenue may also constitute sufficient justification for a change.

Cumulative Effect of a Change in Accounting Principle

The cumulative effect of a change in accounting principle is defined in paragraph 20 of APBO No. 20 as the difference between (a) the amount of retained earnings at the beginning of the period of a change and (b) the pro forma amount of retained earnings at that date determined by recognizing only the direct and related income tax effects of applying the change retroactively to the affected prior periods.

APBO No. 20 requires the amount of the cumulative effect to be disclosed separately in the income statement between the captions "extraordinary items" and "net income". Thus, the cumulative effect of a change in an accounting principle and an extraordinary item are similarly reported. The Opinion also requires that the per share information shown on the face of the income statement include the per share amount of the cumulative effect of an accounting change similar to the per share information shown for an extraordinary item.

Pro Forma Effects of Retroactive Application

Paragraph 21 of APBO No. 20 requires that the pro forma effects of retroactive application be shown on the face of the income statement for income before extraordinary items and net income. Also, primary and fully diluted earnings per share amounts, as appropriate under APB Opinion No. 15, "Earnings per Share", for pro forma income before extraordinary items and net income should be shown on the face of the income statement. But if space does not permit that form of presentation, the pro forma per share amounts, together with the actual per share amounts for comparison, may be disclosed prominently in a separate schedule or in tabular form in the notes to the financial statements with appropriate cross reference. Pro forma amounts should be shown in both current and future reports for all periods presented which are prior to the change and which would have been affected. If an income statement is presented for the current period only, the actual and the pro forma amounts (and related per share data) for the immediately preceding period should be disclosed.

The purpose of disclosing the pro forma amounts is to show the earnings trend as if the new accounting principle had been used for all periods presented, whereas the purpose of recognizing the amount of the cumulative effect of the change is to show the magnitude of the cumulative effect, which may differ from the magnitude of the cumulative effect on the pro forma amounts. The cumulative effect on the pro forma amounts is not necessarily the same as the cumulative effect recognized in the accounts because the effects of nondiscretionary items are not recognized in computing the cumulative effect, whereas those effects are recognized in computing the pro forma amounts.

Illustrations of Reporting

The following section presents illustrations of reporting accounting changes under the general rule. The illustrations are classified alphabetically according to the nature of the most significant change described in the illustrations. The illustrations show changes with respect to amortization and depreciation methods, capitalized interest, foreign exchange translations, goodwill and other intangibles, income taxes and investment credit, inventories, land sales, oil and gas leases, and research and development. The reader should note the types of justifications given and reporting with respect to immaterial items.

ILLUSTRATIONS OF REPORTING ACCOUNTING CHANGES UNDER THE GENERAL RULE

AMORTIZATION AND DEPRECIATION

COLUMBIA BROADCASTING SYSTEM

Notes to financial statement

Bookplates, which are included in Other Assets, aggregated $20,610,000 at December 31, 1972 and $18,161,000 at December 31, 1971 net of accumulated amortization.

During 1971 the Company changed its method of computing amortization of certain bookplates from the straight-line method to the sum-of-the-years digits method. The new method was adopted as the result of a management study which indicated that the sum-of-the-years digits method would provide a more accurate matching of revenues and expenses. Net income in 1971 was decreased by $1,384,000 (after applicable income taxes of $1,459,000), the cumulative effect on years prior to 1971 of the aforementioned change. The effect of the change on 1971 income before extraordinary items and accounting change was not material.

	Years ended December 31	
	1972	1971
	(dollars in thousands)	
Extraordinary items and accounting changes:		
Extraordinary items (note 6)	—	3,331
Cumulative effect of accounting change on years prior to 1971 (note 7)	—	1,384
Earnings per share:		
Per share of common stock (note 8):		
Income before extraordinary items and accounting change	$2.88	$2.23
Extraordinary items	—	.12
Cumulative effect of accounting change on years prior to 1971	—	.05
Net income	$2.88	$2.06

ATLAS CORPORATION

Notes to financial statement

Depreciation of property, plant and equipment has been computed by the straight-line method at all manufacturing facilities in 1972. Prior to 1971, depreciation of equipment for one division had been computed on the double-declining balance method. In 1971, the straight-line method was adopted for equipment at this division in order to more appropriately match the remaining depreciation charges with the estimated economic utility of such assets. Pursuant to Opinion 20 of the Accounting Principles Board of the American Institute of Certified Public Accountants, this change in depreciation method was applied retroactively to prior years. The effect of the change was to include $101,991 in net income for 1971, representing the adjustment resulting from retroactive application of the new method.

CONTINENTAL COPPER & STEEL INDUSTRIES, INC.

Notes to financial statement

Prior to fiscal year 1972, the Company's policy was to provide for depreciation of buildings, machinery and equipment on the straight-line and sum-of-the-years digits methods based upon the estimated useful lives of the assets. In 1972 the Company changed its policy and elected to depreciate all such fixed assets on a straight-line basis. This alternative method was adopted in order for the Company's depreciation policy to be consistent with that of other companies in the wire and cable industry and has been applied retroactively to assets which had been acquired in prior years. The adjustment of $1,057,354 (after reduction for income taxes of $973,000), which is the cumulative effect of the new method on prior years, is included in 1972 income as an extraordinary credit. Had the straight-line method been used to compute depreciation in 1971, the net income for that year would have been increased by $140,855 ($.05 per share).

VAN DORN COMPANY

Notes to financial statement

Depreciation on substantially all machinery and equipment acquired prior to 1972 is calculated using the declining balance method. Commencing with 1972 additions, the Company adopted the straight-line method for computing depreciation. The effect of this change increases 1972 net income by approximately $37,000 or $.01 per share. Management is of the opinion that this accounting change will result in financial reporting more consistent with that prevailing in similar industries.

IDEAL TOY CORPORATION

Notes to financial statement

The Company has changed from a combination of straight-line and accelerated methods to straight-line in providing for depreciation on plant and equipment. The change was made so that the Company could now provide for depreciation under a uniform method for all of its plant assets and also to better conform to general practices. The change resulted in an increase in net income for 1972 of $101,455 ($.04 per share). The Company provides depreciation under accelerated methods for income tax purposes. The applicable deferred income taxes of $120,000 is included in other assets.

MAYTAG COMPANY

Notes to financial statement

The cost of plant and equipment is amortized, commencing the year after acquisition, over its estimated useful life using principally an accelerated method for items acquired prior to December 31, 1970 and the straight-line method for items acquired subsequent to that date. The change in depreciation method during the current year was made because it will result in a more appropriate distribution of the cost of the assets over their estimated useful lives; it did not have a material effect on the financial statements for the year ended December 31, 1972.

MONSANTO COMPANY

Notes to financial statement

Depreciation, Obsolescence, Depletion

	1972	1971
	(in millions)	
Charges against income:		
Depreciation and amortization	$168.4	$167.4
Obsolescence	21.7	14.7
Depletion	3.8	4.8
	$193.9	$186.9

Effective January 1, 1972, the Company changed from the sum of the years digits method to the straight line method of computing depreciation for financial statement purposes on domestic assets placed in service on or after that date. The reason for the change in policy was the desire to conform with prevailing industry practice. The change resulted in reduced depreciation charges of $5.0 and an increase in net income of $2.6, or 8 cents a share for the year.

It is estimated that the cumulative effect of the change in method will have a greater impact upon earnings in subsequent years.

The Company continued the use of the sum of the years digits method of computing depreciation on most domestic assets placed in service prior to 1972. The excess of depreciation provided by this method over straight line depreciation on such assets was $13.0 in 1972 and $18.3 in 1971.

CAPITALIZED INTEREST

THE ANACONDA COMPANY
Notes to financial statement

Effective in 1971, the company adopted the policy of capitalizing as a property cost the applicable interest costs incurred during the construction periods of major operating facilities. The net effect of this change was to increase income before extraordinary items in 1972 by $2.7 million (12¢ per share) and in 1971 by $.8 million (4¢ per share). The interest capitalized related primarily to the new aluminum reduction plant being built in Sebree, Kentucky.

FOREIGN EXCHANGE TRANSLATION

THE ANACONDA COMPANY
Notes to financial statement

The continuing weakening of the U.S. dollar in relation to other currencies prompted the company in 1972 to reevaluate its previous practice for translating foreign currency accounts into U.S. dollars. In order to reflect its foreign currency obligations on a conservative basis, the company has changed its practice so that such obligations are now translated to U.S. dollars on the basis of current rather than historical exchange rates. The effect of this change was to recognize in 1972 exchange losses of $6.7 million. After taking into consideration the related income tax effect of $1.5 million, net income per common share was reduced by 24¢. Results reported for prior years would not have been materially affected by earlier adoption of this translation practice.

JOY MANUFACTURING COMPANY
Notes to financial statement

At September 24, 1971, the Company elected to defer the gain amounting to $484,000 arising from the use of the year-end exchange rate as opposed to the former official rate in translating the working capital accounts of the Canadian subsidiaries due to the unsettled and fluctuating exchange rates which then existed on a world-wide basis and with the expectation that fixed or semi-fixed parity rates would be established for world trade. For the same reasons, the accounts of the other foreign subsidiaries for fiscal 1971, except for properties and depreciation, are included at exchange rates in effect prior to the economic policy announcements by the U.S. Government on August 15, 1971.

With the establishment of central rates for many foreign currencies in December, 1971, new translation rates were used and the accounts of the Canadian subsidiaries were translated at current exchange rates. Subsequent adjustments were required in the latter part of fiscal 1972 due to further fluctuations of the British pound and South African rand with respect to the U.S. dollar. All of the above resulted in a net extraordinary gain of $594,000, after giving effect to applicable income taxes which were insignificant. Such adjustments, either gains or losses, are to be expected in periods of unsettled foreign currency exchange conditions.

GOODWILL AND OTHER INTANGIBLES

GOULD INC.

Notes to financial statement

Amortization of Cost of Acquired Businesses in Excess of Net Assets at Acquisition Dates. The substantial portion of these costs arose in the merger with Clevite Corporation and are not being amortized. The Company has adopted the policy of amortizing over a period not to exceed forty years other such costs of acquisitions arising in the year ended June 30, 1972, and in subsequent years.

TWENTIETH CENTURY-FOX FILM CORPORATION

Notes to financial statement

In 1972, because of the decline in the earnings of Wylde Films (a consolidated subsidiary acquired in 1969), the Company commenced amortizing the excess of cost over net assets acquired arising from this acquisition. Such excess is being amortized over 10 years on the straight-line method. The amortization had the effect of decreasing 1972 earnings before extraordinary items and net earnings by $619,000 ($.07 per share).

Music copyrights are being amortized on the straight-line method over 15 years, their estimated economic lives.

INCOME TAXES AND INVESTMENT TAX CREDITS

PANHANDLE EASTERN PIPE LINE COMPANY

Notes to financial statement

The change in accounting, effective January 1, 1972, to adopt the flow-through method of accounting for Investment Tax Credits was deemed appropriate following enactment by Congress in 1971 of the Job Development Investment Credit and the provision that natural gas companies could utilize the credit and retain the benefits in the event the FPC declared the existence of a gas supply shortage, which action the FPC has taken. In prior years the investment tax credit was deferred and amortized over the lives of the properties. Reference is made to Note 2 for the current effect of this change.

Investment Tax Credit: Under the flow-through method of accounting for investment tax credit, the Company and its subsidiaries utilized $5,418,000 of investment tax credit and $1,389,000 of Job Development Investment Credit generated in prior years and $1,806,000 of Job Development Investment Credit generated in 1972. The effect of the change to flow-through in 1972 was to increase income by $6,607,000, or 46 cents per share. If the flow-through method had been applied to 1971, the pro forma increase in net income would have been $2,669,400, or 19 cents per share.

Deferred Investment Tax Credit amounting to $29,070,040 at December 31, 1971 has been included in income for 1972 as an extraordinary item due to a change in accounting policy. This amount was equal to $2.01 per share.

NEW ENGLAND NUCLEAR CORPORATION

Notes to financial statement

The Company has changed its accounting method for reporting the tax effect of loss carryforwards of a purchased subsidiary from prior recognition as extraordinary income when realized to retroactive adjustment of the purchase transaction. The effect of the change was to reduce the stated value of goodwill by $127,612 with a corresponding reduction of retained earnings.

HAMMOND CORPORATION

Notes to financial statement

Effective for fiscal 1972, the allowable investment tax credit has been used to reduce the provision for income taxes. Such credits had previously been credited to the tax provision ratably over the useful life of the related assets. Investment credits recorded in years prior to fiscal 1972 continue to be accounted for on the deferral method. The effect on net earnings of this change in accounting treatment was not significant.

GENERAL FOODS CORPORATION
Notes to financial statement

The investment tax credit for fiscal 1972 has been taken directly into income as a reduction of the provision for taxes on income. Investment tax credits for prior fiscal years have continued to be deferred and are being taken into income over the recapture period of eight years. The effect of this change increased net earnings by approximately four cents per share.

INVENTORY

LATROBE STEEL COMPANY
Notes to financial statement

Effective January 1, 1972, pursuant to permission granted by the Internal Revenue Service, the Company changed to a "singlepool" method of determining the cost of inventories on a last-in-first-out basis ("LIFO"). In 1971 and prior years the LIFO cost of inventories was determined using separate pools for each inventory cost element (material, labor, and overhead). The change was made in order to better recognize the impact on product costs of recent improvements in manufacturing processes and technology and to recognize the changes in the inter-relationship of the elements of inventory costs. This change had the effect of increasing 1972 reported net income by approximately $79,000 ($.07 per share). The net adjustment to apply retroactively the new method to all years prior to 1972 is not material. However, if the single-pool method had been used to determine cost of inventories in 1971, loss before the extraordinary gain in 1971 would have been increased by approximately $274,000 ($.23 per share).

TRIANGLE PACIFIC FOREST PRODUCTS CORP.
Notes to financial statement

The Company changed its method of valuing its framing lumber and construction plywood inventories to last-in, first-out (LIFO) from first-in, first-out (FIFO) in 1972.

If the FIFO method of inventory accounting had been used to cost framing lumber and construction plywood, inventories would have been $2,715,000 higher (including $614,000 attributable to Canadian subsidiaries) than reported at December 29, 1972. The effect of this change in 1972 was to decrease net income by approximately $1,303,000 or $.68 per share.

The Company has made this inventory valuation change in order to allocate incurred costs in a manner to relate them to revenues more nearly on the same cost-price level than under the FIFO inventory costing method used prior to 1972. The effect is to exclude from profits a major portion of the increases in inventory value which result from rising price levels.

REX CHAINBELT INC.
Notes to financial statement

The company adjusted overhead costs in the inventory in 1971. This adjustment was made to meet Internal Revenue Service requirements that certain costs be included in inventory overhead which, pursuant to the company's policy, had been treated as period expenses in the past, and to conform inventory overhead policies of the operating divisions. The amount of $3,670,000, reduced by applicable income taxes of $1,835,000, to be paid thereon over a ten year period, was recorded as extraordinary income in 1971.

LYKES-YOUNGSTOWN CORPORATION
Notes to financial statement

Refractory brick and other supplies, previously expensed upon purchase were included in raw materials and supplies inventories at December 31, 1972, thereby increasing net income in 1972 by $1,361,000 ($.15 per share). This change was made to provide improved custodial and financial control over these items. The pro forma and cumulative effects on net income of prior years are not determinable because the necessary data are unavailable.

MONFORT OF COLORADO, INC.
Notes to financial statement

Live cattle and feed inventories of a feedlot subsidiary, Monfort-Gilcrest Company, have been stated at the lower of principally identified cost or market through August 31, 1971. Effective with the year ended September 2, 1972, Monfort-Gilcrest Company changed its method of stating such inventory costs to the last-in, first-out "LIFO" method. This change was made because management believes LIFO more clearly reflects income by reducing the effect of short-term price fluctuations and generally matches current annual costs against current revenues in the statement of income. This adoption of LIFO also conforms inventory cost methods to those of the Company's other feedlot subsidiary, Monfort Feedlots, Inc. The change has had the effect of reducing inventories at September 2, 1972, by $4,449,867 and net income by $2,224,934 ($.45 a share) for the year then ended. There is no cumulative effect of the change on prior years, since the August 31, 1971 inventory as previously stated at Monfort-Gilcrest Company is also the amount of the beginning inventory under the LIFO method.

Inventories are stated at the lower of cost or market, except for dressed meat and by-products which are stated principally at market, less allowances for distribution and selling expenses. As to live cattle and feed, cost has been determined by LIFO for inventories totaling $59,778,779 ($24,173,486 at August 31, 1971), while principally identified cost was used in stating inventories at $30.997.276 for Monfort-Gilcrest Company at August 31, 1971, as described in the preceding paragraph. Cost has been determined for live sheep and supplies by the first-in, first-out "FIFO" method. Had all live cattle and feed inventories been stated at principally identified cost, the amount of inventories would have been $19,232,336 greater at September 2, 1972, and $10,208,859 greater at August 31, 1971.

Major classes of inventories were as follows:

	September 2 1972	August 31 1971
Live cattle	$56,667,829	$51,555,432
Live sheep	3,307,585	1,342,856
Feed	3,110,950	3,615,280
Dressed meat	5,772,596	5,056,361
By-products	514,830	461,980
Supplies	746,924	682,100
	$70,120,714	$62,714,009

HEWLETT-PACKARD COMPANY
Notes to financial statement

Changes in accounting methods—As described in note 3 below, the Internal Revenue Service has reviewed the 1967 and 1968 federal income tax returns of the Company. In connection therewith, the Service has requested the Company to change its method of accounting for miscellaneous material and labor to include such items in inventories which were previously charged to operations as period costs. The cumulative effect of such change in accounting method, which amounted to $3,290,000 at October 31, 1971, less related cash and retirement profit sharing costs of $688,000, and taxes on income of $1,391,000, has been presented separately in the consolidated statement of income in 1972. Such additional income taxes are being paid over a period of ten years commencing in 1968. The effect on net income and per share amounts in 1971, assuming the change had been applied retroactively, is insignificant. Net income in 1972 increased by $791,000 ($.03 per share) as a result of the change.

	1972	1971
	(thousands of dollars except for share amounts)	
Extraordinary items and accounting changes:		
Extraordinary item-gain on translation of foreign currencies (note 1)	—	1,101
Cumulative effect on prior years (to October 31, 1971) of change in accounting method used for computing inventories (note 1)	1,211	—
Net income	38,461	23,881

Earnings per share:		
Net income per share (note 5):		
Before extraordinary item	$1.40	$.88
Extraordinary item	—	.04
Cumulative effect of change in accounting method	.05	—
Net income per share	$1.45	$.92

MEDCO JEWELRY CORPORATION
Notes to financial statement

Inventories are stated at the lower of cost (first-in, first-out method) or market, as determined by the retail method.

Effective April 1, 1971, the Company changed from specific cost to the retail method of valuing certain categories of inventory (constituting about fifty per cent of the total). The change has no significant effect on the financial statements.

PERMANEER CORPORATION
Notes to financial statement

As of October 31, 1972 the Corporation adopted the practice of inventorying operating supplies and machine parts, as management believes that this practice should now be adopted for better control and to prevent distortions in future operations. This had the effect of increasing income before extraordinary credit for 1972 by $230,000. ($.05 per share.) In prior years such items had been charged to expense when purchased. The impact on operations for individual years prior to 1972 is not determinable but is not considered significant in any one year. The decision to account for these items in this manner was based on the expanded facilities of the Corporation and the adoption of a preventive maintenance program which necessitated a substantial increase in these inventory items. The operating supplies and machine parts on hand at the beginning of 1972 have been estimated and accounted for by a credit of $215,000 (after tax effect of $200,000), as shown separately in the related income statement.

	Year ended October 31 1972	1971
	(in thousands)	
Extraordinary items and accounting changes:		
Extraordinary Credit-Resulting from utilization of Federal Income Tax loss carryforwards	338	101
TOTAL	1,340	824
Cumulative effect on prior years resulting from change in accounting for operating supplies and machine parts (after tax effect of $200,000) (Note 1)	215	
Net income	$1,555	$824
Earnings per share:		
Average Number of Shares of Common Stock Outstanding	4,311,323	4,112,403
Per Share of Common Stock:		
Income before extraordinary credit and cumulative effect on prior years resulting from change in accounting for operating supplies and machine parts	$.23	$.18
Extraordinary credit	.08	.02
TOTAL	.31	.20
Cumulative effect on prior years resulting from change in accounting for operating supplies and machine parts	.05	——
Net income	$.36	$.20

LAND SALES

GREAT WESTERN UNITED CORPORATION
Notes to financial statement

Prior to fiscal 1971, a land sales contract and its costs were recognized when cash equivalent to at least five percent of the sales price plus one monthly installment had been received. On October 1, 1970, Great Western Cities changed, effective with the beginning of fiscal 1971, its method of accounting for land sales whereby cash receipts up to twenty percent of the sales price are reported on the installment basis and gross profit, less related commission expense, is recognized in proportion to the amount received. When twenty percent of the net selling price has been received, the balance of the sale and its related costs are recognized. The twenty percent method delays the recognition of the major portion of a land sale for income purposes as compared to the previous method, results in a more conservative method of reporting balance sheet information, and brings cash flow and reported earnings closer together. The accounting change resulted in a one-time charge of $10,157,000 ($4.90 per share of common stock) against fiscal 1971 income to reflect the elimination from the accounts of all previously recorded sales which had not reached a paid-in total of twenty percent.

	Year ended May 31	
	1972	1971
	(in thousands of dollars)	
Extraordinary items and accounting changes:		
Extraordinary loss (less income tax effect of $985,000) (Note 6)	(704)	——
Cumulative effect on prior years (through May 31, 1970) of land accounting change (less deferred income tax effect of $10,866,000) (Note 10)	——	(10,157)
Net income	5,918	12
Less dividend requirements on preferred stock (Note 7)	4,631	4,648
Net income (loss) applicable to common stock	$1,287	$ (4,636)
Earnings per share:		
Earnings per common share (Note 7):		
Income of continuing operations (less preferred dividends)	$.85	$2.61
Income of discontinued operations	.11	.05
Income before extraordinary loss and cumulative effect of accounting change	.96	2.66
Extraordinary loss (less income tax effect)	(.34)	——
Cumulative effect on prior years (through May 31, 1970) of land accounting change (less income tax effect)	——	(4.90)
Net income (loss)	$.62	$ (2.24)

OIL AND GAS LEASES

AMERADA HESS CORPORATION

Notes to financial statement

Effective January 1, 1972, the Corporation changed its method of accounting for the costs of all undeveloped oil and gas leases. Undeveloped oil and gas leases were previously carried at cost and charged against income in full when properties were relinquished. Under the new method, costs of undeveloped oil and gas leases are amortized over the primary lease term with any unamortized costs charged against income at the time the properties are relinquished. As a result of the substantially higher cost of lease acquisitions in recent years, the newly adopted accounting method is more conservative and preferable in that it provides a systematic write-off of undeveloped oil and gas lease costs from date of acquisition. This accounting change decreased 1972 income before extraordinary items by $1,687,000 ($.05 per share). The cumulative effect of such accounting change on years prior to 1972 amounted to $21,415,000 ($.58 per share) after deducting the related deferred income tax effect of $19,758,000. The pro forma amounts shown in the Statement of Consolidated Income give effect to the retroactive application of this accounting change.

	Year ended December 31	
	1972	1971
	(in thousands of dollars)	
Extraordinary items and accounting changes:		
Extraordinary items, net of income tax effect (Note 11)	1,187	——
Cumulative effect on years prior to 1972 of a change in the method of accounting for costs of undeveloped oil and gas leases, net of income tax effect (Note 2)	(21,415)	——
Net income	$26,001	$133,249
Earnings per share:		
Earnings per share*		
Income before extraordinary items and cumulative effect of a change in the method of accounting for costs of undeveloped oil and gas leases	$1.27	$3.66
Extraordinary items	.03	——
Cumulative effect on years prior to 1972 of a change in the method of accounting for costs of undeveloped oil and gas leases	(.58)	——
Net income	$.72	$3.66
Pro forma amounts under the new method of accounting for costs of undeveloped oil and gas leases (Note 2)		
Income before extraordinary items	$46,229	$127,029
Extraordinary items	1,187	——
Net income	$47,416	$127,029
Earnings per share		
Income before extraordinary items	$1.27	$3.49
Extraordinary items	.03	——
Net income	$1.30	$3.49

*Earnings per share are computed on the basis described in Note 12. As a result of the impact on earnings of the substantial nonrecurring charge in 1972 of $32,515,000 (net of income tax effect) relating to anticipated losses on long-term fixed price contracts and the charge of $21,415,000 (net of income tax effect) pertaining to the change in accounting method, the treatment of cumulative convertible preferred stock as a common stock equivalent has an anti-dilutive effect on 1972 earnings per share after these charges. Because of the unusual and nonrecurring nature of these charges, earnings per share were determined in the same manner (assuming conversion of convertible securities and exercise of outstanding stock options) as in all prior years and are expected to be computed on the same basis in future years. If the cumulative convertible preferred stock were not dealt with as a common stock equivalent in 1972, a computation of earnings per share whereby net income equal to preferred stock dividends is allocable to the convertible preferred stock with the remainder available for common stock would result in income of $1.02 per share before extraordinary items and the cumulative effect of a change in accounting method and $.05 per share in net income.

ARKANSAS LOUISIANA GAS COMPANY

Notes to financial statement

In 1970 and 1971, the Company provided deferred Federal income taxes on differences in tax and accounting income resulting from unsuccessful exploration and development costs capitalized on leases acquired subsequent to October 7, 1969 (See Note 5) heretofore deducted as incurred for tax purposes. In 1972, the Company concluded that such practices are at variance with industry practice and accordingly changed its accounting policy to reflect the tax benefits on a current basis. This change had the effect of increasing income before extraordinary item and cumulative effect of a change in accounting principle in 1972 by $2,271,400 or $0.23 per Common Share.

The following tabulation shows the net income per common share for 1972 and 1971 and the pro forma amounts assuming the change in accounting principle is applied retroactively:

	Year ended December 31, 1972	1971
Net Income per Common Share:		
Income before extraordinary item and cumulative effect of a change in accounting principle	$2.46	$2.35
Extraordinary item	(.14)	——
Cumulative effect on prior years to December 31, 1971 of a change in accounting principle	.18	——
Net Income	$2.50	$2.35

Pro forma amount assuming the change in accounting principle is applied retroactively:

Income before extraordinary item	$24,837,480	$24,797,060
Per share	$2.46	$2.46
Net income after extraordinary item	$23,463,480	$24,797,060
Per share	$2.32	$2.46

	Year ended December 31, 1972 (in thousands)	1971
Extraordinary items and accounting changes:		
Extraordinary item (Note 10)	(1,374)	——
Cumulative effect on prior years to December 31, 1971 of a change in accounting principle (Note 6)	1,748	——
Earnings per share:		
Net Income per Common Share: (Note 6)		
Income before extraordinary item and cumulative effect of a change in accounting principle	$2.46	$2.35
Extraordinary item	(.14)	——
Cumulative effect on prior years to December 31, 1971 of a change in accounting principle	.18	——
Net Income Per Common Share	$2.50	$2.35

RESEARCH AND DEVELOPMENT

SAXON INDUSTRIES, INC.
Notes to financial statement

During 1971, the Company recognized the rapid technological changes taking place in the copier industry and initiated plans to develop, manufacture and distribute a plain paper copier. These events resulted in a determination by the Company to provide for technological obsolescence of its inventories of rental electrofax equipment and copier parts and supplies by writing down such inventories in the aggregate amount of $13,649,712 consisting of $5,112,012 for the rental equipment and $8,537,700 for parts and supplies. In addition, as a further recognition of the above mentioned technological changes taking place in the copier industry, and the resultant increase in obsolescence of existing equipment and related supplies, the Company adopted the policy as of January 1, 1971 of treating research and development costs as current expenses included in cost of goods sold rather than, as in years prior to 1971, capitalizing such costs and amortizing them over future periods. The effect of this change, which was reported as a year-end adjustment in 1971, was to decrease net income before extraordinary charge by $3,448,282 (net of related income taxes of $3,532,044) or $.46 per share in 1971. The adjustment of $1,488,722 (net of related income taxes of $1,524,936) to apply the changed methods of accounting retroactively to December 31, 1970 is included in the statement of operations of 1971 after an extraordinary charge.

COMPUTER SCIENCES CORPORATION
Notes to financial statement

In prior years, it was the company's policy to accumulate all direct, indirect, technical and marketing costs (less any revenue received) incurred in the development and start-up of each proprietary program or system, and thereafter to amortize these costs on the basis of estimated domestic revenues or over the anticipated life, whichever provided the earlier amortization. Effective March 31, 1972, the company changed its accounting policy for such costs and charged to expense the previously deferred items; henceforth these items will be expensed in the year incurred.

The company is developing a network information service (INFONET) utilizing largescale computers in various locations in the United States. On April 2, 1971, and March 31, 1972, the development costs of INFONET amounted to $39,606,000 and $59,887,000 (net of revenues of approximately $3,300,000 and $11,000,000), respectively. At March 31, 1972, these costs were charged to expense in accordance with the change in accounting policy described above.

Had the company expensed its development costs as incurred, the reported pretax income of the company would have been reduced by the following amounts:

Year ended March 29, 1968	$ 69,000
Year ended March 28, 1969	5,165,000
Year ended March 27, 1970	13,293,000
Year ended April 2, 1971	24,019,000
	$42,546,000

Revenues from INFONET through March 31, 1972 have not been included in the reported revenues of the company, as the project was in its development phase and revenues were applied to reduce development costs.

GATES LEARJET CORPORATION
Notes to financial statement

During 1972, the Corporation changed its method of accounting for development costs (including tooling) of new production models to provide for their deferral, where the significant investment involved in developing new models is expected to benefit the results of future operations. It is the opinion of management that this accounting change will result in a more appropriate matching of revenue and expense. Amortization of deferred development costs will be based upon the anticipated number of units to be produced and charged against delivered units over a period of three years, or less if unexpected technological developments reduce the Corporation's original estimate of the benefit to the results of future operations. All other research and development costs are expensed in the year incurred. The effect of this change was to increase earnings for 1972 by $587,000 ($.16 per share) representing the cost of a new model currently in the development stage.

Retroactive application of this change would not affect the 1972 financial statements since all development costs of prior models would have been fully amortized at the end of 1971. Following are the pro forma amounts for 1971 assuming the new method of accounting for development costs was applied retroactively:

	As Originally Reported	Pro Forma
Loss from continuing operations	($121,000)	($866,000)
Per share	($.04)	($.28)
Loss from discontinued operations	($4,512,000)	($4,512,000)
Per share	($1.45)	($1.45)
Net loss	($4,633,000)	($5,378,000)
Per share	($1.49)	($1.73)

INTERNATIONAL CHEMICAL AND NUCLEAR CORPORATION
Notes to financial statement

Prior to 1972 the Company amortized product research costs over a period of five years. Commencing with 1972 such costs are being charged to expense as incurred. This change in accounting practice resulted in a non-recurring charge of $1,626,206 representing the unamortized balance of deferred costs (net of income taxes, $1,643,000) at the beginning of 1972.

	Year ended Nov. 30, 1972	1971
	(in thousands)	
Extraordinary items and accounting changes:		
Extraordinary item-loss on settlement of terminated joint venture net of income tax benefit (Note 13)	(315)	——
Cumulative net effect on prior years (to November 30, 1971) of change in method of accounting for product research costs (Note 5)	(1,626)	——
Net Earnings	$1,396	7,616
Earnings per share:		
Earnings per common and common equivalent share (Note 14):		
Before extraordinary item and cumulative effect of a change in accounting principle	$0.51	1.20
Extraordinary item	(0.05)	——
Cumulative net effect on prior years (to November 30, 1971) of change in method of accounting for product research costs	(0.25)	——
Net earnings	$0.21	1.20
Pro forma results applying the new method of accounting for product research costs retroactively (Note 5):		
Before extraordinary item	$3,337	6,736
Per common and common equivalent share	$0.51	1.06
Pro forma net earnings	$3,022	6,736
Per common and common equivalent share	$0.46	1.06

KORACORP INDUSTRIES

Notes to financial statement

During 1972, the Company changed its method of accounting for research and development costs. It had been the Company's policy to defer these costs and amortize them over a three year period. Research and development costs are now expensed as incurred. The cumulative effect of this change to December 31, 1971 is shown in the accompanying 1972 Statement of Consolidated Income.

	For the 52 weeks ended Dec. 29, 1972	Dec. 31, 1971
	(in thousands)	
Net Income derived from the following:		
Continuing Unicenter operations	$2,162	$2,109
Domestic royalties	79	210
Loss from discontinued operations	(750)	(256)
Change in method of accounting for research and development costs	(887)	—
	$604	$2,063
Earnings per share:		
Earnings per common share and common equivalent share (Note 11):		
Continuing operations—Unicenter operations	$.98	$.95
Domestic royalties	.03	.10
	1.01	1.05
Loss from discontinued operations	(.34)	(.12)
From operations	.67	.93
Cumulative effect of change in method of accounting for research and development costs	(.40)	—
Net Income	$.27	$.93

Pro forma amounts, assuming retroactive application of change in method of accounting for research and development costs (Note 2):		
Income from continuing operations—		
Unicenter operations	$2,162	$1,606
Domestic royalties	79	210
	2,241	1,816
Loss from discontinued operations	(750)	(196)
Net Income	$1,491	$1,620
Earnings per share:		
Continuing operations—Unicenter operations	$.98	$.73
Domestic royalties	.03	.09
	1.01	.82
Loss from discontinued operations	(.34)	(.09)
Net Income	$.67	$.73

COMPUTER IMAGE CORPORATION

Notes to financial statement

Beginning July 1, 1971, the Company adopted the accounting policy of expensing as incurred all research and development costs, except costs applicable to the development of computer systems. During the prior year (the first year the Company began commercial operations) all such costs were deferred. The new method of accounting was adopted to recognize the uncertainty as to the future periods, if any, to be benefited by such costs. The effect of the change on results of operations for the year ended June 30, 1972 was to increase the loss before extraordinary items by approximately $75,000 ($.10 per share). The adjustment of $237,909 to apply the new method retroactively is included in the loss for the current year. The pro forma amounts shown on the consolidated statement of operations disclose the effect of retroactive application of the new accounting method to the prior year.

	Year ended June 30	
	1972	1971
	(in thousands)	
Extraordinary items and accounting changes:		
Extraordinary charges (Note 10)	(168)	—
Cumulative effect on prior year (to June 30, 1971) of changing to a different method of accounting for research and development costs (Note 2)	(237)	—
Net loss	(1571)	(771)
Earnings per share:		
Per common share (Note 11):		
Loss before extraordinary charges and cumulative effect of change in accounting principle	$(1.58)	$(1.07)
Extraordinary charges	(.23)	—
Cumulative effect on prior year (to June 30, 1971) of changing to a different method of accounting for research and devolpment costs	(.32)	—
Net loss	$(2.13)	$(1.07)
Pro forma amounts assuming the new method of accounting for research and development costs were applied retroactively:		
Loss before extraordinary charges	$(1,165)	$(1,009)
Per common share	$(1.58)	$(1.40)
Net loss	$(1,333)	$(1,009)
Per common share	$(1.81)	$(1.40)

VACATION PAY

CONTINENTAL CONNECTOR CORPORATION

Notes to financial statement

The change in policy described in Note A-11 had no material effect on the results of operations for 1971. The cumulative effect of the adjustment of $141,805 resulting from this change in accounting principle, on years prior to 1971, has been charged to income in 1971.

In 1971, two of the Company's subsidiaries adopted the practice of fully accruing all vacation pay; previously, vacation pay was charged to expense when paid. The new policy was adopted to provide a more accurate matching of costs with revenues.

	Year ended Dec. 31	
	1972	1971
Extraordinary items and accounting changes:	(in thousands)	
Extraordinary item		
Federal and state tax benefits arising from utilization of a net operating loss carryforward by a subsidiary	42	—
Cumulative effect on prior years (to December 31, 1970) of change in method of accounting (Note O)	—	141
Earnings per share:		
Earnings per common and common equivalent share (Note N)		
Earnings before extraordinary item and cumulative effect of a change in method of accounting	$1.47	$1.02
Extraordinary item	.02	—
Cumulative effect on prior years (to December 31, 1970) of change in method of accounting (Note O)	—	(.06)
Net earnings	$1.49	$.96

CUMULATIVE EFFECT AND PRO FORMA AMOUNTS NOT DETERMINABLE

Paragraphs 25 and 26 of APBO No. 20 allow companies to omit the disclosure of the pro forma effects of retroactive application and the cumulative effect of a change in accounting principle in those "rare situations" in which the amounts are not determinable. If the cumulative effect on retained earnings at the beginning of the period of change can be determined but pro forma amounts cannot be computed or reasonably estimated for individual prior periods, the cumulative effect should then be reported in the income statement of the period of change and the reason for not showing the pro forma amounts should be explained. If neither can be determined, the required disclosure is limited to showing the effect of the change on the results of operations of the period of change (including per share data) and to explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years. For example:

LYKES-YOUNGSTOWN CORPORATION

Notes to financial statement

Refractory brick and other supplies, previously expensed upon purchase were included in raw materials and supplies inventories at December 31, 1972, thereby increasing net income in 1972 by $1,361,000 ($.15 per share). This change was made to provide improved custodial and financial control over these items. The pro forma and cumulative effects on net income of prior years are not determinable because the necessary data are unavailable.

CHANGE IN METHOD OF AMORTIZATION AND RELATED DISCLOSURE

Companies adopt various acceptable patterns of depreciation, depletion, or amortization for charging costs of long-lived assets to expenses and, in selecting an amortization pattern for identifiable assets, consider various factors which may change, even for similar assets. If a company adopts a new method of amortization for all newly acquired, identifiable, long-lived assets of the same class without changing its method of amortizing previously recorded assets of that class, the general provisions of APBO No. 20 for reporting a change in accounting do not apply. Instead, the company should describe the nature of the change in method and disclose the effect on income before extraordinary items, net income and the related per share amounts in its financial statements. If the company applies the new method of amortization to previously recorded assets of that class, it should follow the general provisions of APBO No. 20 for reporting a change in accounting principle.

Illustrations

The following excerpts from two annual reports illustrate the disclosure required when a company adopts a new method of amortization (a) for newly acquired assets only and (b) for both previously recorded and newly acquired assets.

NEW METHOD OF AMORTIZATION APPLIED TO PREVIOUSLY RECORDED ASSETS

ATLAS CORPORATION

Notes to financial statement

Depreciation of property, plant and equipment has been conputed by the straight-line method at all manufacturing facilities in 1972. Prior to 1971, depreciation of equipment for one division had been computed on the double-declining balance method. In 1971, the straight-line method was adopted for equipment at this division in order to more appropriately match the remaining depreciation charges with the estimated economic utility of such assets. Pursuant to Opinion 20 of the Accounting Principles Board of the American Institute of Certified Public Accountants, this change in depreciation method was applied retroactively to prior years. The effect of the change was to include $101,991 in net income for 1971, representing the adjustment resulting from retroactive application of the new method.

Depletion and amortization of oil and gas properties and mining properties are based generally on units of production as determined by estimates of recoverable reserves. The milling facilities are principally depreciated at rates per unit of sale using a composite rate based on the estimated economic life of the mining properties. Leasehold improvements are amortized on the straight-line basis over the terms of related leases.

	Year ended June 30	
	1972	1971
	(in thousands)	
Extraordinary items and accounting changes:		
Extraordinary credits (Note 12)	162	75
Cumulative effect on prior years (to June 30, 1970) of changing to a different depreciation method (Note 5)	—	101
Net income	704	411
Earnings per share:		
Income per share of common stock (Note 14):		
Income before extraordinary items and cumulative effect of a change in accounting principle	$0.03	$.01
Extraordinary credits	.01	.01
Cumulative effect on prior years (to June 30, 1970) of changing to a different depreciation method	—	.01
Net income	$.04	$.03

NEW METHOD OF AMORTIZATION ADOPTED FOR NEWLY ACQUIRED ASSETS ONLY

UNITED REFINING COMPANY

Notes to financial statement

Depreciation is computed over the useful lives of the various classes of property. Effective January 1, 1972, for financial reporting purposes, the company changed its principal method of computing depreciation for new capital additions from the declining-balance method, used from 1965 through 1971, to the straight-line method, the predominant method used by the petroleum industry, while continuing the former method for assets acquired between 1965 and 1971. Assets acquired prior to 1965 and a pipeline placed in service in 1971 continue to be depreciated on the straight-line method. The accelerated method is being retained for tax purposes and deferred income taxes are provided on the difference between book and tax depreciation. This change in depreciation method increased net income in 1972 by $133,000 ($.07 per share).

RETROACTIVE RESTATEMENT FOR SPECIAL CHANGES

In paragraph 27 of APBO No. 20, the APB concluded that the advantages of retroactive restatement of prior period financial statements outweigh the disadvantages for some special changes in accounting principle and identified those changes as a change

- from the LIFO method of inventory pricing to another method,
- in the method of accounting for long-term construction-type contracts, and
- to or from the "full cost" method of accounting in the extractive industries.

A common characteristic of those changes is that the cumulative effect in the year of the change would usually produce a substantial credit to income that represented revenue earned in prior periods. Given the history of rising price levels over the past decades, a change from the LIFO method of inventory pricing to another method would usually increase substantially the carrying value of inventories with a corresponding credit to income. Since changes in the method of accounting for long-term, construction-type contracts in today's business environment are usually from the completed contract method to the percentage-of-completion method, they, too, usually accelerate substantially the recognition of income. Similarly, a change to the full-cost method of accounting in the extractive industries would require retroactive deferral of substantial costs and thus would produce a substantial credit to income. For each type of change, the credit would probably have been accumulated over several periods, and to report it as income of a single year could be misleading. Consequently, the APB concluded that the best method of reporting the credit is to allocate it retroactively to the periods in which it was earned, since the user of the financial statements could easily overlook or misinterpret supplementary pro forma presentation.

APBO No. 20 requires a company to justify a special change and disclose the nature of the change in its financial statements for the period in which the company adopted the change. In addition, the Opinion requires a company to disclose the effect of the change on income before extraordinary items, net income, and the related per share amounts for all periods presented on the face of the income statement or in the notes to the financial statements. However, the company may omit the disclosure in financial statements of subsequent periods.

Illustrations

The following five excerpts from annual reports illustrate reporting a special change in accounting principle that requires retroactive restatement of the financial statements of prior periods. The excerpts present two examples of changes to full-cost accounting, two examples of changes from LIFO to another method of inventory pricing, and one example of a change from the completed contract method to the percentage-of-completion method.

FULL COST ACCOUNTING

RESERVE OIL AND GAS COMPANY

Notes to financial statement

Expenditures for oil and gas exploration (including geological and geophysical costs: delay drilling rentals and dry hole costs) are expensed as incurred and costs of acquiring non-producing mineral rights are capitalized and charged to expense when surrendered, except that such expenditures incurred by Canadian Reserve after December 31, 1970, are capitalized and amortized under the full-cost method of accounting. The effect of changing to the full-cost method for Canadian Reserve was to increase 1971 consolidated income by $540,000 ($.06 per share) and the estimated 1972 increase is approximately $900,000 ($.10 per share).

	1972	1971
	(in thousands)	
Retained earnings, beginning of year (after restatement)	24,494	21,112
Net income	5,143	3,806
Dividends paid on preferred stock	(424)	(424)
Retained earnings: end of year	$29,213	$24,494

TRITON OIL & GAS CORP.

Notes to financial statement

The Company has adopted the method known as "full cost" in accounting for its costs of exploration and development of oil and gas reserves, whereby all costs associated with these efforts are capitalized. Allowances for depreciation and depletion of these costs are provided on the unit of production basis whereby the unit rate for depreciation and depletion is determined by dividing the total unrecovered book cost of all oil and gas properties in the United States and Canada by the estimated total recoverable reserves. Additional depreciation and depletion is provided as necessary so that oil and gas properties do not exceed their estimated fair value. No gains or losses are recognized on ordinary sales or abandonments of oil and gas properties.

The Company previously capitalized only costs directly associated with lease acquition and with development of productive wells. Equipment costs were depreciated over a 10-year life. Other costs were depleted on a unit of production basis related to the individual leases.

While the accounting principles previously used continue to be generally accepted, management of the Company believes that the full-costing method more clearly reflects the operations of the Company. The financial statements for prior years have been restated to a basis comparable with the statements for 1972. Magna Oil Corporation had used the full-costing method of accounting.

The change has had the effect of increasing the net loss for 1972 by $13,166 and reducing the 1971 net loss by $389,044 and has increased the deficit at June 1, 1970 by $156,676 with a corresponding decrease in the net carrying amount of the properties.

Other property and equipment is depreciated over its estimated useful life, using principally straight-line rates. Renewals and betterments are capitalized, while repairs and maintenance are charged to expense. Assets disposed of are removed from the accounts and any gain or loss is recognized in operations.

Statement of Consolidated Stockholders' Equity

	Preferred stock no par value	Common stock $1.00 par value	Additional paid-in capital	Deficit	Treasury stock Shares	Treasury stock Amount
Balance, June 1, 1970, as previously reported		$1,678	$3,065	$(915)	1	$1
Change in accounting for investments (Note A)				$(152)		
Change in accounting for oil and gas properties (Note A)				$(156)		
Balance, June 1, 1970, as restated		$1,678	$3,065	$(1,223)	1	$1
Issuance of stock for properties		$31	$124			
Sale of 5,000 shares of preferred stock	$50					
Conversion of 2,500 shares of preferred stock	$(25)	$5	$20			
Net loss for the year				$(688)		
Balance, May 31, 1971	$25	$1,714	$3,209	$(1,912)	1	$1
Acquisition of the Howell Corporation and Magna Oil Corporation (Note B)		$2,609	$7,013		5	$20
Issuance of stock for services		$5	$17			
Net loss for the year				$(1,170)		
Balance, May 31, 1972	$25	$4,328	$10,240	$(3,083)	6	$21

LIFO INVENTORY

HANES CORPORATION

Notes to financial statement

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or market. In prior years, the cost of certain inventories of the Company was determined by the last-in, first-out method. In 1972, the Company changed its method of accounting for such inventories to the first-in, first-out method to conform inventory accounting methods. This change has been made retroactively and the financial statements for the prior year have been restated. The restatement increased earnings in 1971 by $75,000 or $.02 per share. The change did not have a significant effect on earnings for 1972. The Company has received permission from the Internal Revenue Service to spread the tax effect of such change over a period of ten years.

	Common Stock	Additional Paid-in Capital	Retained Earnings (Note C)	Total
Year Ended December 31, 1971				
Balance at beginning of year, as previously reported	$3,881	$3,946	$68,662	$76,489
Adjustment relating to change in accounting method—Note A			963	963
Balance, as adjusted	3,881	3,946	69,625	77,452
Net earnings			3,460	3,460
Cash dividends—$.50 per share			(1,940)	(1,940)
Proceeds from sale of warrants		669		669
Fair market value of 409,115 shares of Common Stock issued in acquisition of The Bali Company, Inc.—Note B	409	6,136		6,545
Balance at End of Year	$4,290	$10,751	$71,145	$86,186

Year Ended December 31, 1972				
Balance at beginning of year	$4,290	$10,751	$71,145	$86,186
Net earnings			8,237	8,237
Cash dividends—$.50 per share			(2,145)	(2,145)
Issuance of 1,535 shares of Common Stock upon exercise of stock options	2	17		19
Balance at End of Year	$4,292	$10,768	$77,237	$92,297

THE NATIONAL CASH REGISTER COMPANY

Notes to financial statement

Since 1950, the Company had used the LIFO (last-in, first-out) basis for valuing most domestic inventories. Effective January 1, 1972, the FIFO (first-in, first-out) method of inventory valuation was adopted for inventories previously valued on the LIFO basis. This results in a more uniform valuation method throughout the Company and makes the financial statements with respect to inventory valuation comparable with those of the other major United States business equipment manufacturers. As a result of adopting the FIFO method, the net loss for 1972 is approximately $4,565,000 ($.20 per share) less than it would have been on a LIFO basis. The financial statements for prior years have been retroactively restated for this change and, as a result, earnings retained for use in the business have been increased by $25,297,000 as of January 1, 1971. Also, the 1971 income statement has been restated resulting in an increase in net income of $847,000 ($.04 per share). Inventories at December 31, 1971 are stated higher by $50,276,000 than they would have been had the LIFO method been continued.

Earnings Retained for Use in the Business

	1972	1971*
	(in thousands)	
Balance January 1, as previously reported	$293,148	$308,168
Adjustments resulting from retroactive adoption of FIFO inventory valuation method—Note 2	26,144	25,297
Balance January 1	319,292	333,460
Net income (loss) for the year	(59,612)	2,131
Cash dividends:		
Common—$.40 per share ($.72 in 1971)	(8,982)	(15,819)
Preferred—$1.25 per share	(474)	(480)
Balance December 31	$250,224	$319,292

* Restated for a change in inventory valuation from a LIFO to a FIFO method.

LONG-TERM CONTRACTS

WHITTAKER CORPORATION

Notes to financial statement

During 1972, Whittaker changed its method of accounting for housing development programs to the percentage of cost completion method. Prior to the change, Whittaker had recorded a substantial portion of housing development income when development work was completed and Whittaker believed that the performance risk on programs had been transferred to third parties, regardless of the status of actual construction. In practice, this method left Whittaker vulnerable to unfavorable income adjustments in the event of unanticipated increases in its cost of delivering a completed project. In connection with the change, a reexamination of cost to complete estimates for housing development programs revealed the existence of facts at October 31, 1971 and prior years that had not been appropriately considered by Whittaker at the time the cost to complete estimates during such periods were prepared. As a result, Whittaker's financial statements for periods prior to 1972 have been restated in accordance with Accounting Principles Board Opinion No. 20.

The change in method of accounting and correction of prior period accounting errors relating to housing development programs resulted in a $1,365,000 ($.07 per share) reduction of previously reported net income for 1971 and a reduction of $1,790,000 for periods prior to 1971.

Consolidated Statements of Additional Paid-In Capital and Retained Earnings

	For the Years Ended October 31	
	1972	1971
	(in thousands)	
Retained Earnings		
Balance, beginning of year, as previously reported	$76,753	$69,209
Deduct retroactive adjustments (Note 1)		
Change in accounting method and correction of prior period accounting errors relating to housing development programs	(3,155)	(1,790)
Correction of prior period accounting errors relating to inventory shortage and receivables	(5,264)	(2,898)
Balance, beginning of year, as adjusted	68,334	64,521
Add or (deduct)		
Net income	7,040	5,781
Cash dividends on preferred stock	(1,014)	(993)
Cost of treasury stock and warrants, net of amount recorded in additional paid-in capital	(3,944)	(975)
Balance, end of year (restricted—Note 4)	$70,416	$68,334

RESTATEMENT IN COMPLIANCE WITH APB OPINIONS OR AICPA INDUSTRY AUDIT GUIDES

Since APBO No. 20 (paragraph 3) reaffirms the provisions of previous APB Opinions that prescribe reporting for accounting changes and exempts from its provisions accounting changes made in conformity with AICPA industry audit guides, accounting changes in conformity with provisions of other APB Opinions or industry audit guides are exempt from the reporting provisions of APBO No. 20. The following excerpts from annual reports illustrate restatements for changes in conformity with the provisions of:

- APB Opinions
  - Investments (APB Opinion No. 18)
  - Taxes on Undistributed Earnings of Foreign Subsidiaries (APB Opinion No. 23)
- Industry Audit Guides
  - Adoption of GAAP by life insurance subsidiary (Audits of Life Insurance Companies)
  - Land sales (Accounting for Retail Land Sales)

INVESTMENT (APBO No. 18)

GENERAL CABLE CORPORATION
Notes to financial statement

Investments in associated foreign companies represent the Company's equity interests in companies as listed on the inside back cover of this report, including the Company's 27% investment in Phillips Cables Limited and its 17% stock interest in Aluminum Bahrain, a corporate joint venture which was entered into by the Company to obtain an economical source of raw material. These investments are accounted for under the equity method of accounting which adjusts the investments for the Company's share of undistributed net earnings or losses. The cumulative undistributed amount of such earnings included in consolidated retained earnings amounted to $11,700,000 at December 31, 1972. Investments in these companies include $2,600,000 (1971—$3,800,000) representing the aggregate excess of cost over equity. No amortization is required for excess of cost over equity of investments made prior to November 1, 1970 and management believes there has been no diminution in value. In accordance with Opinion 18 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company in 1971 retroactively adopted the equity method of accounting for its investment in Phillips Cables Limited. Prior to then, only dividend income was recorded. The effect of this change was to increase earnings before extraordinary item and net earnings for 1971 by $711,000—$.05 per share. Phillips Cables Limited is the only investment accounted for under the equity method for which a quoted market price is available. At December 31, 1972 the carrying value of this investment was $8,600,000 and based on the quoted market price its value was $13,700,000.

W. R. GRACE & CO.
Notes to financial statement

In 1971, the basis of accounting for certain investments in less than majority owned companies was changed from the cost method to the equity method, in accordance with Accounting Principles Board Opinion #18, "The Equity Method of Accounting for Investments in Common Stock." As a result, income before extraordinary items in 1971 was increased by $101,000. Also in 1971, the Company adopted the policy of deferring unrealized foreign currency translation adjustments arising from the translation of indebtedness incurred specifically to finance additions to properties and equipment. Had this change not occurred, net income in 1971 would have been $1,240,000 lower ($.05 per share).

THE STANLEY WORKS
Notes to financial statement

One of the Company's subsidiaries has been investing increasing amounts in tooling for primarily proprietary lines of hardware. The subsidiary has had the policy of expensing the costs of this tooling in the year acquired. Because these expenditures are becoming substantial, and since the tooling will benefit future periods, the subsidiary has adopted the policy of capitalizing expenditures for this type of tooling, and depreciating them on a straight-line basis over three years. As a result of this change in accounting method, net earnings for 1972 were increased by approximately $213,000, ($.03 per share).

Commencing in 1972 the Company adopted the equity method of accounting for investments in 50% owned companies (see Note A). As a result of this change, net earnings were increased by $222,069 ($.03 per share) and $75,729 ($.01 per share) in 1972 and 1971, respectively.

Commencing in 1972 the Company adopted the practice of consolidating the accounts and operations of certain foreign subsidiaries which were previously carried on the equity method of accounting (see Notes A and B). There was no effect on net earnings as a result of this change.

In 1971 the Company changed its method of accounting for property taxes in accordance with the terms of a ruling from the Internal Revenue Service. As a result of this change, net earnings for 1971 were increased by $33,414.

STELBER INDUSTRIES, INC.
Notes to financial statement

For periods prior to the fiscal year ended June 30, 1971, Castagna has been presented as a majority interest (reflecting investment in excess of 50%) on a consolidated basis with the minority interest indicated and adjusted.

During the fiscal year ended June 30, 1971, Stelber's equity interest in Castagna Electronics Corporation, previously representing a 57% majority interest, was reduced to a 45.57% ownership, as a result of Castagna issuing additional shares of its common stock to a third party interest. As a result of this stock issuance, Stelber's ownership in Castagna was reduced to a minority interest and was, therefore, not included in Stelber's Consolidated Financial Statements for the fiscal year ended June 30, 1971.

ECONOMICS LABORATORY, INC.

Notes to financial statement

In accordance with Opinion No. 23 of the Accounting Principles Board, the Company has provided for U.S. income taxes on undistributed earnings of international subsidiaries not permanently invested or scheduled for permanent investment by the subsidiaries in facilities and other assets. Prior to 1972, U.S. income taxes on undistributed earnings were provided only when the taxable transfer of earnings to the Company was relatively certain. Financial statements have been restated to apply the new method retroactively. The effect of this change was to decrease net income by $425,000 in 1972 and $144,000 in 1971 and net income per common and common equivalent share by $.04 in 1972 and $.01 in 1971. At June 30, 1972, the cumulative amount of undistributed earnings permanently invested and for which the Company has not recognized U.S. income taxes was $4,100,000. If such permanently invested earnings of international subsidiaries are ever remitted to the Company in a taxable distribution, the U.S. income taxes would be offset by available foreign tax credits.

Statement of Stockholders' Equity
(in thousands)

	Common Stock (Par Value $1 a Share)	Additional Paid-in Capital	Retained Earnings	Treasury Stock at Cost	Total
Balance June 30, 1971 as previously reported	$11,959	$14,101	$19,258	$ (384)	$44,934
Adjustment to provide income taxes on distributed prior year earnings of international subsidiaries			(775)		(775)
Balance June 30, 1971 as adjusted	11,959	14,101	18,483	(384)	44,159
Add (deduct):					
Net income for the year			8,034		8,034
Exercise of employee stock options	48	332			380
Sale of treasury stock		89		153	242
Conversion of 4¾% debentures	40	854			894
Cash dividends at $.25 a share			(3,011)		(3,011)
Balance June 30, 1971	12,047	15,376	23,506	(231)	50,698
Add (deduct):					
Net income for the year			9,652		9,652
Amounts added by pooled companies	111		280		391
Exercise of employee stock options	86	1,185			1,271
Conversion of 4¾% debentures	56	1,182			1,238
Cash dividends at $.28 a share			(3 395)		(3,395)
Balance June 30, 1972	$12,300	$17,743	$30,043	(231)	$59,855

THE GORMAN-RUPP COMPANY

Notes to financial statement

In accordance with a new Opinion of the Accounting Principles Board, the Company, in 1972, retroactively provided for deferred income taxes on the undistributed earnings of its Canadian subsidiary. As a result of this change in accounting method, retained earnings as of January 1, 1971, has been reduced by $60,000 and net income as previously reported for 1971 has been reduced by $19,000 ($.02 per share). This change reduced net income for 1972 by $23,000 ($.02 per share) from that which would have been reported if the change was not adopted. In addition, the Company has provided United States current and deferred income taxes on the income of its Domestic International Sales Corporation (DISC) which was organized during 1972.

Shareholders' Equity

	(in thousands)		
	Common Shares	Retained Earnings	Total
Balance at January 1, 1971—as originally reported	$1,133	$ 9,903	$11,037
Provision for deferred taxes on undistributed earnings of subsidiary—Note B		(60)	(60)
Balance at January 1, 1971—as restated	1,133	9,843	10,977
Net Income		1,551	1,551
Cash dividends—$.80 a share		(907)	(907)
Balance at December 31, 1971	1,133	10,487	11,621
Net Income		2,012	2,012
Cash dividends—$.80 a share		(907)	(907)
Balance at December 31, 1972	$1,133	$11,593	$12,727

LIBBY, McNEILL & LIBBY

Notes to financial statement

In accordance with Opinion No. 23 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company has recorded in the accounts estimated income taxes which will become payable when certain undistributed earnings of foreign subsidiaries are distributed as dividends. As a result of this change in accounting method, earnings retained in the business as of July 5, 1970 have been reduced by $710,000 and net earnings as previously reported for the year ended July 3, 1971 have been reduced by $116,000. The cumulative amount of undistributed foreign subsidiary earnings at July 1, 1972 on which the Company has not recognized U.S. income taxes is $27,000,000. It is the intention of the Company to reinvest such undistributed earnings.

TOKHEIM CORPORATION

Notes to financial statement

In accordance with Opinion No. 23 of the Accounting Principles Board, the Company has provided for U.S. income taxes on undistributed earnings of its foreign subsidiaries. Prior to 1972, U.S. income taxes on earnings of foreign subsidiaries were generally provided when the earnings were distributed to the company. Financial statements for the 1971 year have been restated to apply the new method retroactively. The effect of this change was to increase 1972 net earnings by $5,000 and decrease 1971 net earnings by $2,000.

	1972	1971
	(in thousands)	
Retained Earnings		
Beginning of year, as previously reported	10,967	9,885
Adjustment to provide U.S. income taxes on undistributed prior years' earnings of foreign subsidiaries	(232)	(230)
As restated	10,734	9,654
Net earnings	1,844	1,499
Cash dividends paid, $.33¾ in 1972 and $.30 in 1971	(498)	(419)
Amount transferred to common stock in connection with two-for-one stock split	(2,713)	——
End of year	9,367	10,734

ADOPTION OF GAAP BY INSURANCE SUBSIDIARY (AUDIT GUIDE: AUDITS OF LIFE INSURANCE COMPANIES)

AVCO CORPORATION

Notes to financial statement

Financial Review

Accounting Practices—The accounting practices of life insurance companies prescribed for reporting to regulatory authorities differ from the practices which were recommended in 1972 by the American Institute of Certified Public Accountants for financial reporting by stock life insurance companies and which were adopted by Paul Revere Life for preparation of the accompanying combined financial statements of Avco's insurance subsidiaries.

The major changes affect the accounting for costs of acquiring new business and the determination of the liability for future policy benefits. Costs of acquiring new business (principally commissions and underwriting and policy issue costs) were formerly charged against income as incurred, whereas under the new accounting method, such costs are deferred and amortized over the terms of the policies.

In determining the liability for future policy benefits, insurance regulatory authorities require the use of interest rates generally lower than those actually earned on investments and mortality and morbidity tables not derived from the company's own experience, and they do not make provision for policy terminations for reasons other than death or maturity. Under the new principles, future policy benefit liabilities are determined by use of actual company experience. Additional information concerning these changes and the effect thereof on earnings is shown under Consolidated Earnings above and in Note 2 to the combined financial statements of Avco's insurance subsidiaries.

INA CORPORATION

Notes to financial statement

As noted in the Summary of Significant Accounting Policies, the prior year's financial statements have been restated. Consolidated net income and the Life and Group Insurance Division's "income excluding realized investment gain" for the year 1971 have been increased by $1,344,000 net of related deferred income taxes ($.05 per share). Consolidated shareholders' equity and the Life and Group Insurance Division's net assets at January 1, 1971, have been increased by $6,333,000. In addition, the Life and Group Insurance Division's net assets at January 1, 1971 have been increased by $8,225,000 related to nonadmitted assets and similar items which were previously reclassified for consolidated financial statement purposes only.

The adjustments to conform the Life and Group Insurance Division's statutory financial statements with the newly approved generally accepted accounting principles relate principally to the deferral of acquisition costs, the establishment of liabilities for future benefits to policyholders based on more realistic interest, mortality and withdrawal rates and provision for deferred income taxes related to such items.

At December 31, 1972, the liability for future benefits to policyholders under ordinary life insurance contracts aggregates $82,118,000 and is included on the Life and Group Insurance Division's balance sheet in the caption "claims and benefits". The significant assumptions used in calculating the liabilities on ordinary life insurance are as follows:

	Years of Issue		
	1966-1972	1963-1965	Prior to 1963
Assumptions:			
Investment yield	5% graded to 4½% after 20 years	4½% graded to 4% after 10 years	3½%
Mortality	Basic select and ultimate 1955-1960	1961 Company table	Select and ultimate 1946-1949
Withdrawal	Company experience —20% first year lapse	Linton BA—25% first year lapse	Linton BA—25% first year lapse

	1966-1972	Years of Issue 1963-1965	Prior to 1963
Applied to:			
Ordinary life insurance in force of	$1,173,232,000	$155,931,000	$184,789,000
Result in:			
Liabilties for future benefits to policyholders in the amount of	$ 34,265,000	$ 17,394,000	$ 30,459,000

Summary of significant accounting policies

The Company's financial statements are presented in accordance with generally accepted accounting principles. The prior year's financial statements, in which the Life and Group Insurance Division were previously presented on a statutory basis, have been restated to conform with the Audit Guide of the American Institute of Certified Public Accountants (AICPA) for stock life insurance companies (See Note 1). The Corporation and its subsidiaries supply additional financial statements to the Securities and Exchange Commission and other regulatory bodies on forms prescribed by them. We believe, however, that the statements herein provide our shareholders with the most meaningful view of our significant areas of operations on the basis of generally accepted accounting principles.

The Board of Directors and Shareholders

INA Corporation

We have examined the accompanying consolidated balance sheets of INA Corporation at December 31, 1972 and 1971, the related consolidated statements of income, shareholders' equity and the consolidating statement of changes in financial position for the years then ended, the combined balance sheets of the Property & Casualty and Life & Group Insurance divisions at December 31, 1972 and 1971 and the related combined statements of operations for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of INA Corporation, the combined financial position of the Property & Casualty and Life & Group Insurance divisions at December 31, 1972 and 1971, the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement of the prior year as explained in Note 1.

LAND SALES (AUDIT GUIDE: ACCOUNTING FOR RETAIL LAND SALES)

BEVERLY ENTERPRISES

Notes to financial statement

Land development activities carried on by Shastina comprise the Lake Shastina project located in Northern California consisting of 16,000 acres of which approximately 3,500 acres were developed, under development or sold, and the Pendaries project located in Northern New Mexico consisting of 3,800 acres of which approximately 400 acres were developed or under development.

In December 1972, a new guide for accounting for retail land sales companies was approved by the Accounting Principles Board of the American Institute of Certified Public Accountants. The guide, "Accounting for Retail Land Sales," is effective for years ended December 31, 1972 and thereafter, and requires that all prior years be retroactively restated in accordance with its guidelines. Accordingly, Shastina retroactively changed its method of recognizing revenue from retail lot sales, which is Shastina's principal business activity, from the accrual method (under which income is recognized in the year of sale), to the installment method, as described below. There was no change in accounting required for other types of real estate transactions.

As described in Note 1, retail lot sales sold through Shastina have been accounted for on the installment method of accounting for 1972 and were retroactively restated on the installment method for prior years as follows:

	New Method		*Previous Reporting Method*	
	Net Income (Loss)	*Net Income (Loss) Per Share*	*Net Income (Loss)*	*Net Income (Loss) Per Share*
1971	$ 729,000	$ .12	$ 2,683,000	$ .46
1970	(4,188,000)	(.71)	(2,985,000)	(.51)
1969	2,384,000	.43	2,754,000	.50
1968	1,398,000	.31	1,502,000	.33

Consolidated net income for Beverly was $2,481,000 or $.42 per share for the year ended December 31, 1972. In Beverly's last published quarterly report, before restatement to the installment method, Beverly reported net income (unaudited) of $2,745,000 or $.47 per share for the nine months ended September 30, 1972.

The change in accounting to the installment method for retail lot sales for Shastina resulted in deferred gross profit of $8,539,436 at December 31, 1972 which will be recognized in Beverly's consolidated statement of operations in future periods as cash is received from principal payments on notes receivable. The following table shows the periods in which this deferred gross profit is estimated to be realized. This table does not give effect to possible future note receivable cancellations or notes receivable paid off before due.

Year	Amount	Year	Amount
1973	$530,000	1976	$ 795,000
1974	544,000	1977	1,179,000
1975	626,000	1978-1982	4,865,436

Notes receivable at December 31, 1972 for Shastina were $25,450,065 and are estimated to be collected over the next five years as follows: 1973—$1,555,000; 1974—$1,662,000; 1975—$1,883,000; 1976—$2,283,000; 1977—$3,629,000.

Consolidated Statement of Stockholders' Equity

Years ended December 31, 1972 and 1971
(in thousands)

	Common Stock	*Capital in Excess of Par Value*	*Retained Earnings*	*Total*
Balances at December 31, 1970, as previously reported	$424	$26,226	$3,383	$30,034
Adjustment for retroactive change in accounting for retail land sales, net of related taxes of $575,000 based on income (Notes 1 and 2)	—	—	(1,685)	(1,685)
Balances at December 31, 1970, as restated	424	26,226	1,697	28,348
Shares issued in connection with previous poolings of interest — 263,598 shares plus 570 treasury shares	26	(13)	—	12
Shares issued in connection wih previous purchase of company — 3,408 shares	—	18	—	19
Stock options exercised — 8,400 shares	1	20	—	21
Purchase of real property and other assets — 18,406 shares	1	178	—	180
Issuance of warants to purchase 320,000 shares	—	82	—	82
Treasury stock received as adjustment of shares issued in connection with previously acquired companies — 46,857 treasury shares	—	4	(104)	(100)
Net income, as restated (Notes 1 and 2)	—	—	728	728

			Years ended December 31, 1972 and 1971 (in thousands)	
	Common Stock	*Capital in Excess of Par Value*	*Retained Earnings*	*Total*
Balances at December 31, 1971, as restated	453	26,517	2,322	29,293
Stock options exercised — 15,000 shares	1	36	——	37
Shares issued in connection with previous poolings of interest and acquisitions — 117,915 shares plus 55,982 treasury shares	11	3	——	15
Treasury shares received as adjustment of shares issued in connection with previously acquired companies — 555 shares	——	4	(4)	——
Increase in capital in excess of par value arising from the sale by Shastina of 400,000 shares of stock and issuance by Shastina of stock for purchase of land and other assets	——	2,966	——	2,966
Net income	——	——	2,480	2,480
Balances at December 31, 1972 (Notes 1, 2, 7, 8)	$467	$29,527	$4,798	$34,793

DART INDUSTRIES INC.

Notes to financial statement

Land development—Substantially all land development activity relates to the retail sale of single lots to individuals. Until 1972, sales of property were recognized at the close of escrow in which at least 10% of the sales price had been received in cash. The balance of the sales price is evidenced by a note secured by a deed of trust payable generally in periodic instalments for periods up to ten years. The notes bear interest at rates which usually vary from 8¼% to 8¾% depending upon the amount of the customer's down payment. In accordance with the provisions of Opinion 21 of the Accounting Principles Board of the American Institute of Certified Public Accountants, additional interest was imputed relative to property sales made after September 30, 1971. Cost of land and related improvements were charged to operations generally based on the relative sales value of the parcel to the estimated sales value of the project.

In January 1973, the Committee on Land Development Companies of the American Institute of Certified Public Accountants announced an Accounting Guide on "Accounting for Retail Land Sales", to be applied to all companies in the industry. The application of the Guide is mandatory for 1972 and the results of operations of prior years must be restated in accordance with its provisions. To conform with these new industry-wide accounting requirements, Dart retroactively has changed its method of accounting for retail land sales to a method under which, on a project by project basis, the instalment method is used until actual collection experience for a project indicates that collectibility of receivable balances is reasonably predictable, after which the accrual method as defined in the Guide will be used. Under the instalment method, the gross profit less selling expenses related to the portion of the sales price which is not received in cash is deferred at the time of sale and recognized as cash is collected. In the opinion of management, none of Dart's projects qualifies under the provisions of the Guide for the accrual method at December 31, 1972. Reference is made to the note on Land Development Operations for the effects of the restatement required by this accounting change.

Interest and property taxes related to land held for improvement are charged to earnings as incurred.

Land development operations. As described in the Summary of Accounting Policies, in 1972 Dart changed its method of accounting for land development operations in accordance with new industry-wide requirements. Financial statements have been restated retroactively to reflect this accounting change. The effect of this retroactive application is to decrease net earnings and earnings per share of Common Stock and Common Stock equivalents for 1972 by $1,208,000 and $.06, and for 1971 by $3,806,000 and $.20. Financial statements for years prior to 1971 have not been presented herein because land sales were relatively small in 1970 and 1969. The downward per share earnings effect for such years was $.03 and $.01, respectively.

SPECIAL EXEMPTION FOR AN INITIAL PUBLIC DISTRIBUTION

Paragraph 29 of APBO No. 20 contains a special exemption that permits retroactive restatement of prior period financial statements for changes in accounting principles when a company first issues its financial statements for obtaining additional equity capital from investors, effecting a business combination, or registering securities. For example, a privately-owned company may change from one acceptable accounting principle to another in preparation for a public offering of its common stock. In that event, income statements for a period of years reflecting the newly adopted accounting principles may better serve the interests of potential investors. A company may use the exemption only once for accounting changes that it makes when it first issues its financial statements for one of the designated purposes. A company that uses the exemption should disclose in its financial statements the nature of the change in accounting principle and the justification for the change.

III

REPORTING OTHER ACCOUNTING CHANGES

CHANGE IN AN ACCOUNTING ESTIMATE

To prepare periodic financial statements, a company must estimate the effects of future events on completed and incomplete earning cycles. Thus, accounting estimates are an essential part of accounting. They are the opinions and judgments that a company's management makes to determine its financial position and results of operations. They are necessary to match costs with revenue in measuring periodic net income. Since future events and their effects cannot be perceived with certainty, accounting estimates may change as new events occur, as more experience is acquired, or as additional information is obtained. Changes in estimates may be necessary, for example, in determining:

- Uncollectible receivables.
- Inventory obsolescence.
- Service lives and salvage value of depreciable assets.
- Warranty costs.
- Periods benefited.

A change in estimate differs from a prior period adjustment. The criteria for prior period adjustments in APB Opinion No. 9 limit those adjustments to material adjustments that:

a. can be specifically identified with and directly related to the business activities of particular prior periods.
b. are not attributable to economic events occurring subsequent to the date of the financial statements for the prior period.
c. depend primarily on determination by persons other than management.
d. were not susceptible to reasonable estimation prior to such determination.

Inasmuch as the most reasonable accounting estimate may change as new economic events occur, as more experience is acquired, or as additional information is obtained, a change in estimate generally cannot meet the criteria for a prior period adjustment.

REPORTING A CHANGE IN ACCOUNTING ESTIMATE

The APB concluded in APBO No. 20 that the effect of a change in accounting estimate should be accounted for in (a) the period of the change if the change affects that period only or (b) the period of the change and future periods if the change affects both. Neither restating amounts reported in financial statements of prior periods nor reporting pro forma amounts for prior periods is required in reporting a change in an accounting estimate. Even a change in an accounting estimate that results from a resolution of an uncertainty that caused the independent auditor to qualify his opinion on previous financial statements does not require the restatement of the financial statements of the prior period, unless the change meets the criteria for a prior period adjustment (paragraph 23 of APB Opinion No. 9).

Paragraph 33 of APBO No. 20 requires disclosure of the effect on income before extraordinary items, net income, and the related per share amounts of the current period for a change in an accounting estimate that affects several future periods, such as a change in service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for accounting estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, the Opinion recommends disclosure if the effect of a change in the estimate is material.

Illustrations

The following examples illustrate the type of disclosure required for changes in accounting estimates:

DEPRECIATION

EMPIRE GAS CORPORATION
Notes to financial statement

Depreciation is provided for financial statement purposes by the straight-line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Storage facilities	33 years
Customer service facilities	25 years
Transportation equipment	4-10 years
Office and other equipment	10 years

As a result of a survey conducted during the year, the Company extended the lives on bulk storage facilities from 20 to 33 years and on customer service facilities from 20 to 25 years. As a result of extending these lives, the net earnings of the Company for the current year were increased $185,000 or $.09 per common share on a fully diluted basis.

For income tax purposes, depreciation is computed by accelerated methods.

MISSOURI PORTLAND CEMENT COMPANY
Notes to financial statement

During 1972, the Company discontinued the practice of packaging finished cement at two locations. Equipment associated with this activity has been dismantled and sold where possible. All remaining related equipment and facilities are considered to be of no further usefulness and accordingly have been written-off.

In 1972 the Company also reduced the estimated useful lives of some of its barges and related equipment and certain kiln facilities to reflect their diminished value due to newer technologies, past experience and industry practice.

The effect of these aforementioned items was to reduce net income and net income per share in 1972 by approximately $311,000 and $.20 respectively.

THE NATIONAL CASH REGISTER COMPANY
Notes to financial statement

Beginning with 1972 additions, the Company changed its method of computing depreciation on rental equipment and on property, plant and equipment in the United States from the sum-of-the-years digits method to the straight-line method while continuing the former method for assets acquired prior to 1972. This change in depreciation method was made to bring the company in line with general accounting practices in the business equipment industry. Concurrent with the change in depreciation method, for additions after January 1, 1972 the Company reduced the estimated useful life of rental equipment from 6 to 5 years and changed the estimated useful lives of certain other fixed assets. The effect of the change in depreciation method was to reduce the net loss after tax for the year 1972 by approximately $2,400,000 ($.11 per share), while the effect of the change in useful lives was not significant.

TRANSITRON ELECTRONIC CORPORATION

Notes to financial statement

During fiscal 1972, the Company revised the estimated useful lives of a subsidiary's machinery and equipment from 8 to 15 years. The effect of this change in accounting estimate on the 1972 statement of income (loss) was to reduce depreciation expense by approximately $180,000 or $.01 per share.

INTANGIBLES/GOODWILL

CURTIS NOLL CORPORATION

Notes to financial statement

Through 1971, the Company had been amortizing the excess of cost of investment over equity in a company over an assumed life of fifteen years at a rate of $155,183 annually. Effective January 1, 1972 management determined that no further amortization would be required and the change resulting from this determination did not have a material effect on consolidated net income. An excess of $1,033,061 of cost of investment over equity in another company has not been amortized.

GENERAL FOODS CORPORATION

Notes to financial statement

Goodwill ($11,738,000) acquired after October 31, 1970, the effective date of Opinion Number 17 of the Accounting Principles Board, is being amortized by the straight-line method over a period of 40 years. Also, based upon the continuing evaluation of goodwill by management, amortization was commenced in fiscal 1972 for $30,370,000 of goodwill acquired prior to November 1, 1970. This goodwill is also being amortized by the straight-line method over a period of 40 years. The balance of the goodwill ($51,136,000) acquired prior to November 1, 1970 continues to be carried at cost.

PENSION—ACTUARIAL RATE ASSUMPTION

ADMIRAL CORPORATION

Notes to financial statement

Pension Expense was $1,393,000 in 1972 and $1,263,000 in 1971. During 1971, changes in assumptions (primarily the assumed rate of return on investments to reflect actual experience) used in the actuarial calculations reduced pension expense by approximately $368,000. Based on actuarial estimates as of December 26, 1971 (latest data available), the computed value of vested benefits exceeded the total assets of the respective pension trusts plus balance sheet accruals by approximately $3,400,000.

CHAMBERLAIN MANUFACTURING CORPORATION

Notes to financial statement

Chamberlain has various pension and retirement plans, covering substantially all salaried and certain hourly employees. Pension expense for all plans, including plans provided for in labor agreements, was $554,000 in 1972 and $426,000 in 1971. The actuarially computed value of vested benefits for certain of the plans exceeded the total of the pension fund assets and balance sheet accruals by approximately $760,000 at June 30, 1972 and 1971.

As to one of the plans, an amendment increasing pension benefits and a change in the interest rate assumption to reflect current conditions had the net effect of increasing pension expense for 1972 by approximately $100,000.

DANA CORPORATION

Notes to financial statement

Dana provides retirement benefits for employees under several pension plans. Pension expense approximated $22,800,000 and $13,800,000 in the years ending August 31, 1972 and 1971, respectively, and the actuarially computed value of vested benefits for certain plans exceeded, as of the most recent valuation dates, the total market value of the assets in the related pension funds and balance sheet accruals by approximately $41,600,000.

One plan covering salaried employees, which had provided for contributory benefits, was replaced by a new non-contributory plan affecting retirements after March 1, 1971. The pension plans covering hourly employees were amended in 1971 to provide increased benefits payable, for the most part, beginning late in the year ending August 31, 1971. In addition, the investment return interest rate assumption used in the actuarial calculations was revised. The effect of these changes was to decrease net income for 1972 by $4,600,000. The effect on 1971 net income was not material.

FIBREBOARD CORPORATION
Notes to financial statement

The Company has several retirement plans covering substantially all of its employees. In 1971, the plan covering employees who are members of the Association of Western Pulp and Paper Workers was amended from a contributory to a noncontributory plan. A similar amendment was made in the salaried employees plan in 1972. In addition, those salaried employees who previously were not participants became eligible for retirement benefits with full credit given for prior service. Concurrently, in 1972, certain actuarial assumptions were modified to more properly reflect recent experience. These changes increased pension expense by $538,000 in 1972 and $638,000 in 1971.

Total pension expense for the years ended December 31, 1972 and 1971 was $2,759,000 and $2,025,000, respectively, which includes annual installments on the unfunded balance of past service costs (1972—$17,800,000) and related interest estimated to complete the funding by the year 2001. The Company's policy is to fund pension expense as accrued.

WHEELABRATOR-FRYE INC.
Notes to financial statement

The Company presently has trusteed pension, profit sharing and savings plans for substantially all employees. During 1972, various employee benefit plans were consolidated, certain actuarial assumptions and methods changed and pension benefits improved. The cost of these plans, which is funded currently, aggregated $1,752,000 in 1972 and $1,502,000 in 1971, including amortization of prior service costs. As a result of the changes in the plans, the actuarially computed value of vested benefits exceeded the total assets under the plans by $800,000 as of December 31, 1972. Unamortized prior service costs, which are provided for over periods ranging from 18 to 25 years approximated $1,680,000 as of December 31, 1972.

PENSION - AMORTIZATION OF PRIOR SERVICE COST

BELDING HEMINWAY COMPANY, INC.
Notes to financial statement

Effective January 1, 1972, subject to Internal Revenue Service approval, the Company adopted a new retirement plan to provide for increased pension benefits and employee coverage. Under the new plans actuarial cost computations were modified and the amortization period for past service costs (approximately $7,000,000 at January 1, 1972) was increased from 13 years to 30 years. The company's policy is to fund pension costs accrued. As of January 1, 1972 (date of latest calculation), the actuarially computed value of vested benefits exceeded the total of the pension fund and balance sheet accruals by approximately $2,500.000.

Pension expense for 1971 (under the old plans) was $486,000 and for 1972 (under the new plan) was $627,000. The Company estimates that the change in the amortization period of prior service costs had the effect of increasing net income for the year by approximately $160,000 ($.05 per share).

POWERS REGULATOR COMPANY
Notes to financial statement

Pension costs accrued under several pension plans covering substantially all employees are funded as accrued. During 1972, unfunded past service costs were amortized over periods ranging from 10 to 30 years. Prior to 1972, such unfunded prior service costs were being amortized over periods ranging from 10 to 21 years. The effect of this change is not material to the consolidated financial statements.

STANDARD PRUDENTIAL CORPORATION
Notes to financial statement

The finance company and certain of the industrial subsidiaries have pension and profit sharing plans for the benefit of substantially all of their employees. During the year, the finance company amended its plan to provide benefits based on employee earnings received in certain years immediately prior to retirement and increased the amortization period for past service costs to 30 years, none of which changes had a significant effect on net income for the year. The Company funds all pension costs accrued. The finance company's actuarially computed value of vested benefits exceeded the total retirement funds by approximately $106,247 at December 31, 1971, the date of the latest valuation.

The cost of all plans for the consolidated companies for 1972 and 1971 amounted to $387,641 and $316,478, respectively.

CHANGE IN ESTIMATE EFFECTED BY A CHANGE IN ACCOUNTING PRINCIPLE

A change in an accounting estimate may be effected by a change in an accounting principle. A company may adopt a new accounting method to recognize a change in its estimate of the future benefits of deferred costs; for example, a company may change from the practice of deferring and amortizing research and development expenditures to the practice of recording the expenditures as expenses when incurred because the future benefits expected to be derived from the expenditures became doubtful. That type of change often relates to the continuing process of obtaining additional information and revising estimates. Since the effect of the change in accounting principle is inseparable from the effect of the change in accounting estimate, that type of change is considered a change in an accounting estimate in APBO No. 20.

Illustrations

The following examples from annual reports illustrate the special form of changes in accounting estimates that are effected by changes in accounting principle.

ILLUSTRATIONS OF CHANGES IN ACCOUNTING ESTIMATES EFFECTED BY CHANGES IN ACCOUNTING PRINCIPLES

DEPRECIATION

DPA, INC.
Notes to financial statement

Data Processing Equipment for Lease to Others and Other Property and Equipment:

	1972	1971
Data processing equipment for lease to others	$52,669,625	$53,087,617
Less-Accumulated depreciation	(44,700,556)	(40,944,804)
	$ 7,969,069	$12,142,813
Other property and equipment	$ 2,645,556	$ 2,361,813
Less-Accumulated depreciation and amortization	(868,050)	(684,507)
	$ 1,777,506	$ 1,677,306

Depreciation and amortization of the respective classes of property and equipment is being provided at the following rates:

Data processing equipment for lease to others: Sum of the years digits to November 30, 1974 (after providing for 10% salvage on certain computer equipment)

Machinery and equipment: 5% to 25% straight-line

Buildings, furniture and fixtures and other: 3% to 25% straight-line

Leasehold improvements: Life of lease—straight-line

The provision for depreciation included in the accompanying statement of consolidated operations amounted to $5,620,719 in 1972 and $16,091,570 in 1971 (of which $11,100,000 is applicable to a change in depreciation method and estimated useful life of data processing equipment). The special provision of $11,911,432 for additional depreciation and amortization has been made to write-down the net book value of the data processing equipment and related assets at November 30, 1971, to an amount which can be reasonably anticipated to be recovered from future equipment-leasing operations. These adjustments were made to recognize obsolescence created by the introduction into the market of new data processing equipment and by other competitive forces.

UNIVERSITY COMPUTING COMPANY
Notes to financial statement

Prior to 1972, computer equipment held for or under lease was depreciated under the straight-line method over a 10-year life. During 1972, the Company recognized the development of significant unfavorable trends in its rental revenues and projected such revenues and related marketing, administrative, service and interest costs through 1978. The Company expects a continuing decline in rental rates due to increased competition and technological change as well as increased cost of remarketing equipment. Such projection indicated that the carrying value of computer equipment held for or under lease exceeded aggregate future revenues less related costs. Accordingly, $22,600,000 has been included in 1972 as an additional depreciation charge. In addition, the Company provided depreciation for 1972 by the group method equal to actual revenues net of related costs. This depreciation method resulted in additional depreciation expense in 1972 of $3,400,000. In future years, the Company will continue to provide annual depreciation by the group method equal to actual revenues less related costs, with the result that the equipment is expected to be fully depreciated by December 31, 1978. Since revenues are projected to decline, depreciation charges will also decline. The projection of revenues and related costs will be reviewed periodically, and additional adjustment could be required depending on the accuracy of the original projection.

At December 31, 1972 the net book value of computer equipment held for or under lease was $49,000,000.

RESEARCH AND DEVELOPMENT

COMPUTER IMAGE CORPORATION
Notes to financial statement

Beginning July 1, 1971, the Company adopted the accounting policy of expensing as incurred all research and development costs, except costs applicable to the development of computer systems. During the prior year (the first year the Company began commercial operations) all such costs were deferred. The new method of accounting was adopted to recognize the uncertainty as to the future periods, if any, to be benefited by such costs. The effect of the change on results of operations for the year ended June 30, 1972 was to increase the loss before extraordinary items by approximately $75,000 ($.10 per share). The adjustment of $237,909 to apply the new method retroactively is included in the loss for the current year. The pro forma amounts shown on the consolidated statement of operations disclose the effect of retroactive application of the new accounting method to the prior year.

SALES AND PRODUCT ADJUSTMENT

LEESONA CORPORATION
Notes to financial statement

Prior to 1971, it had been the practice of the Company to provide for sales and product adjustments as incurred. Commencing in 1971, due to the prevailing economic conditions in the textile industry, the Company adopted the practice of providing allowances for anticipated adjustments in these areas. This resulted in increasing the net loss, net of applicable income taxes, for the year ended December 31, 1971 by approximately $450,000 ($.26 per share).

CHANGES IN THE REPORTING ENTITY

A change in the reporting entity is a type of change in accounting principle that results in financial statements which, in effect, are those of a different reporting entity. Examples of that type of change are:

a. Presenting consolidated or combined statements in place of statements of individual companies.
b. Changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and
c. Changing the companies included in combined financial statements.

A different group of companies comprise the reporting entity after each change. A business combination accounted for by the pooling of interests method also results in a different reporting entity. However, a change in reporting entity does not result from the creation, cessation, purchase or disposition of a subsidiary or other business unit.

REPORTING A CHANGE IN THE REPORTING ENTITY

Paragraph 34 of APBO No. 20 covers reporting for a change in the reporting entity. Accounting changes which result in financial statements that are in effect the statements of a different reporting entity should be reported by restating the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods.

The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items, net income, and related per share amounts should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures.

Illustrations

The following examples illustrate appropriate reporting for a change in the reporting entity:

JOY MANUFACTURING COMPANY
Notes to financial statement

For fiscal 1971, the accounts and operations of the wholly owned Peruvian subsidiaries are included in consolidation. For fiscal 1972, these subsidiaries are carried at equity in net assets due to unusually stringent currency exchange restrictions. This change had an insignificant effect on the financial statements.

OLIN CORPORATION
Notes to financial statement

The consolidated financial statements include all significant subsidiaries other than Olin-American, Inc. (OAI) which is accounted for on the equity basis. In October, 1972, the company transferred the assets and operations of its housing group to OAI, and at year-end owned approximately 95% of OAI's common shares.

Equity accounting has been adopted for OAI in recognition of significant differences between its activities in housing and real estate and those of the company's other businesses. In prior years, the accounts of the housing group were included in the consolidated financial statements. The accompanying 1971 financial statements have been restated; however, such restatement had no effect on net income or shareholders' equity.

Pooling of Interests

A different reporting entity also results from a business combination accounted for by the pooling of interests method. (Paragraphs 56 to 65 and 93 to 96 of APB Opinion No. 16, "Business Combinations," describe the manner of reporting and the disclosures required for a change in reporting entity that occurs because of a business combination.)

For example:

ALCO STANDARD CORPORATION
Notes to financial statement

All domestic and foreign subsidiaries are consolidated and significant inter-company transactions have been eliminated. During the year five acquisitions were made, three accounted for as poolings of interests and the others as purchases. Revenues or earnings of the Company were not materially affected by these transactions. The financial statements for 1971, shown for comparison, have been restated to reflect the pooling acquisitions and also to conform to the 1972 account classifications.

Consolidated Statement of Retained Earnings
Fiscal Year Ended September 30

	1972	1971
	(in thousands)	
Retained Earnings at beginning of year	$81,377	$68,380
Net income	12,515	19,114
Retained earnings of pooled companies at October 1, 1970		56
Deductions as follows:		
Adjustment to pooling of interests transaction		466
Dividends paid:		
Pooled companies prior to combination with the Corporation	10	1,898
Preference and serial preferred stock at various rates per share (note 4)	1,374	1,480
Common stock, 1972—$.33 per share; 1971—$.30 per share	3,282	2,188
Charges resulting from transactions involving treasury shares	260	139
Costs on redemption of $1 convertible preference stock	5	
Retained Earnings at end of year	$88,959	$81,377

PARKER HANNIFIN CORPORATION
Notes to financial statement

On December 31, 1971, the Company acquired the stock of Ideal Corporation, a manufacturer of hose clamps and other products for the automotive aftermarket in exchange for 570 000 common shares. The acquisition has been accounted for as a pooling of interests.

The net sales and net income of Ideal for the six months ended December 31, 1971 included in the consolidated results of operations for the year ended June 30, 1972 amounted to $13,745,019 and $779,058 respectively. The financial statements for the year ended June 30, 1971 have been restated to reflect this pooling of interests and accordingly the 1971 net sales and net earnings were increased $29,964,017 and $1,582,012 respectively.

Historically, Ideal has reported on the basis of a fiscal year ended December 31 of each year. In the consolidated statement of earnings, Ideal's results of operations for the year ended December 31, 1971 have been combined with Parker's results for the year ended June 30, 1971 and the results of operations of both companies for the twelve months ended June 30, 1972 have been combined. Retained earnings has been adjusted for the net income of Ideal for the period June 1, 1971 to December 31, 1971, which has been duplicated in the consolidated statements of earnings. During that period, Ideal had net sales of $13,745,019 and net income of $779,058.

Consolidated Statements of Shareholders' Equity
For the years ended June 30, 1972 and 1971

	(in thousands)			
	Common Shares	Additional Capital	Earnings Retained in the Business	Total
Balances, June 30, 1970:				
As previously reported	$1,601	$15,730	$55,612	$72,944
Adjustments arising from pooling of interests (Note 2)	285	1,215	6,184	7,684
As restated	1,886	16,945	61,796	80,629
Net earnings for the year			8,322	8,322
Cash dividends paid on common stock, $1.00 per share (adjusted for stock split)			(4,751)	(4,751)
Balances June 30, 1971	1,886	16,945	65,367	84,199
Net earnings for the year			11,070	11,070
Adjustments in connection with stock split (Note 4)				
Transfer to common shares	943	(943)		
Cash payments			(11)	(11)
4,425 shares issued under stock option plans (Note 4)	2	96		99
Cash dividends paid on common stock $1.02 per share			(5,293)	(5,293)
Adjustment to conform pooled company's fiscal year (Note 2)			(779)	(779)
Balances June 30, 1972	$2,832	$16,099	$70,354	$89,285

SEALED POWER CORPORATION
Notes to financial statement

On May 31, 1972, the Company issued 359,280 shares of common stock (after giving effect to the stock split referred to in Note 3) in exchange for all of the outstanding stock of Johnson Products Inc., which became a wholly-owned subsidiary. The transaction was accounted for as a pooling-of-interests and, accordingly, the accounts of Johnson are included in the accompanying consolidated financial statements in 1972 and 1971, as restated. Net sales and net income of Johnson were respectively $9,141,306 and $613,825 in 1971 and $4,594,000 and $415,000 for the period from January 1, 1972 to May 31, 1972. The results of operations of Johnson Products Inc. for the year ended December 31, 1972 have been adjusted to reflect a change in depreciation to make the financial statements of Johnson comparable to those of the Company. The effect of this change on 1971 net income is immaterial.

SYBRON CORPORATION
Notes to financial statement

During 1972 the Corporation acquired four companies in exchange for 138,434 shares of common stock. Such acquisitions have been accounted for on a "pooling of interests" basis. The financial statements for 1971 have been restated to include these companies, with net sales and net income for that full year being increased by $3,794,000 and $199,000, respectively. The 1972 operations of these companies reported in the Statement of Income include net sales of $731,000 and net income of $9,000 attributable to the partial periods of the year prior to the acquisition dates.

Statement of Retained Earnings Year Ended December 31,	1972	1971
	(in thousands)	
Balance at beginning of year:		
As previously reported		$101,152
Retained earnings of companies acquired on a "pooling of interests" basis		252
Cumulative effect of the change to the equity method of accounting for associated corporations		4,418
Adjusted balance, beginning of year	$115,232	105,822
Net income for the year	23,315	18,187
	138,547	124,009
Dividends paid by:		
Sybron Corporation:		
Preferred stock	2,971	2,899
Common stock	6,206	5,828
Companies acquired prior to acquisition	11	50
Total	9,188	8,777
Balance at end of year	$129,359	$115,232

Statement of Changes in Additional Paid-in Capital	1972	1971
Balance at beginning of year:		
As previously reported		$10,779
Adjustments relative to companies acquired on a "pooling of interests" basis		(208)
Adjusted balance, beginning of year	$12,371	10,571
Excess of proceeds over par value of common and preferred shares issued under stock options	1,127	649
Excess of principal amount of debentures over the par value of shares issued in conversion	235	1,151
Balance at end of year	$13,733	$12,371

CORRECTION OF AN ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS

APBO No. 20 also covers reporting a correction of an error in previously issued financial statements because reporting the correction of an error involves factors similar to those that relate to reporting an accounting change. Corrections of errors, although not deemed to be accounting changes by APBO No. 20 and SAS No. 1, include the following:

a. Mathematical mistakes.
b. Mistakes in the application of accounting principles.
c. Oversight or misuse of facts in existence at the time financial statements were prepared.

A correction of an error differs from a change in an accounting estimate in that a change in estimate results from new information or subsequent developments and, accordingly, from better insight or improved judgment.

A change from an accounting principle that is not generally accepted to one that is generally accepted is also a correction of an error.

REPORTING A CORRECTION OF AN ERROR

The APB concluded in APBO No. 20 that the correction of an error in previously issued financial statements is not an accounting change and, if discovered subsequent to the issuance of the financial statements, should be reported as a prior period adjustment.

(Paragraph 18 of APB Opinion No. 9 covers the manner of reporting prior period adjustments.)

APBO No. 20 requires disclosures of the nature of an error in previously issued financial statements and the effect of its correction on income before extraordinary items, net income, and the related per share amounts in the period in which the error was discovered and corrected. Financial statements of subsequent periods need not repeat the disclosures.

Illustrations

Some examples of reporting a correction of an error in previously issued financial statements follow:

CONTRACT - DEFERRED INCOME

SUPREME EQUIPMENT & SYSTEMS CORP.

Notes to financial statement

The accompanying financial statements for the fiscal year ended July 28, 1972 have been retroactively restated to correct an overstatement in sales and earnings on a long-term electronics contract, as a result of a billing which was inadvertently attributed to fiscal 1972 sales rather than deferred until fiscal 1973. The effect of the restatement of the 1972 statement of consolidated income is as follows:

	As Previously Reported	As Restated
Net sales	$14,007,600	$13,590,200
Income before provision for income taxes	1,210,500	1,013,806
Net income	704,900	509,500
Earnings per share of common stock	$ .70	$ .51

The accompanying statement of consolidated income for 1972 has been reclassified to conform with the 1973 presentation.

INVENTORY/PRODUCT GUARANTEE LIABILITY

ADMIRAL CORPORATION

Notes to financial statement

Restated Financial Statements for 1971 are presented because it was determined during an audit for the first quarter of 1972 that there was an overstatement of operating income of $182,000 ($.04 per share) and of net income of $590,000 ($.12 per share) for the year ended December 26, 1971. Errors in compilation resulted in previously reported consolidated inventories of $73,744,000 being overstated by approximately $907,000 and the liability for product and service warranties of $11,404,000 being overstated by approximately $453,000 at December 26, 1971. The restatement gives effect to corrections of these items, together with their related effect on profit sharing expense, provisions for income taxes and the extraordinary credit arising from utilization of U.S. income tax net operating loss carryover.

INVENTORY/RECEIVABLES

WHITTAKER CORPORATION

Notes to financial statement

A physical inventory taken in March 1972 at a discontinued unit in connection with the sale of its assets disclosed an inventory shortage of approximately $6,300,000, which resulted in the rescission of the sale. Whittaker's investigation of the circumstances surrounding the inventory shortage has shown that the shortage occurred over a four year period and was concealed by the alteration of accounting records, including physical inventory quantities. Further investigation also revealed the erroneous recording of receivables during that period. As a result, Whittaker's financial statements for periods prior to fiscal 1972 have been restated in accordance with Accounting Principles Board Opinion No. 20. Whittaker has filed a claim against its fidelity insurance carrier with respect to its loss related to the inventory shortage.

The correction of prior period accounting errors relating to the inventory shortage and receivables resulted in a $2,366,000 ($.11 per share) reduction of previously reported net income for 1971 and a reduction of $2,898,000 for periods prior to 1971.

RECEIVABLES

U.S. INDUSTRIES, INC.
Notes to financial statement

In the latter part of 1972, it became apparent that the allowance for collection losses at December 31, 1971 for a wholly-owned health spa company was significantly understated. In early 1973, after an extensive investigation of contracts sold to members prior to December 31, 1971, the Corporation determined that the provision for collection losses for the year ended December 31, 1971 should have been $1,964,000 rather than $564,000 as previously reported and that the $1,400,000 addition should have been charged against earnings in 1971. In the accompanying financial statements 1971 balances have been corrected. The provision for collection losses for the year ended December 31 ,1971 has been increased by $1,400,000 and net income for 1971 has been reduced by $702,000 (a reduction of $.02 per share).

SALES CALCULATIONS

THE LTV CORPORATION
Notes to financial statement

In the course of an extensive operational audit by LTV of the vocational school operations of a subsidiary in 1972, it became apparent that accounting errors had been made in all periods since the acquisition of the school operations in 1969. The errors arose in calculating tuition income, primarily because of incorrect data, reported from the field as to the rate and number of student drop-outs. The resulting required reductions in sales and results of operations for years prior to 1972 are as follows (in thousands except per share amounts):

Year	Sales	Results of operations	Per share
1969	$320	$167	$0.04
1970	3,173	1,650	0.39
1971	910	473	0.07
	$4,403	$2,290	

HISTORICAL SUMMARIES OF FINANCIAL INFORMATION

In addition to their financial statements, most companies include in their annual reports historical summaries of key data from their primary financial statements for periods of five, ten, or more years. The financial highlights in many annual reports present similarly information in capsule form. Historical summaries usually contain condensed income statements for the periods covered and related earnings per share. The APB concluded in paragraph 39 of APBO No. 20 that accounting changes should be reported in historical summaries in the manner prescribed for the primary financial statements, including the presentation of the required pro forma amounts. A historical summary that covers a period in which an accounting change occurred should disclose separately in the summary (not parenthetically or in a note) the amount of the cumulative effect of the change, net income, and the related amounts per share.

Illustrations

Examples of historical summaries that report accounting changes follow:

FUQUA INDUSTRIES INC.

Financial Highlights*

(In Thousands Except Earnings Per Share)

	1970	1971	1972	Forecast 1973
Sales and Revenues	$339,308	$358,783	$433,960	$484,000
Pre-Tax Operating Income	22,139	26,452	35,475	42,400
% of Sales and Revenues	6.5%	7.4%	8.2%	8.8%
Net Operating Income	11,109	13,493	18,069	21,400
Operating Earnings Per Share				
Primary	$1.31	$1.53	$1.87	$2.09
Fully Diluted	1.30	1.39	1.81	2.09
Average Number of Common Shares and Common Share Equivalents				
Primary	8,151	8,551	9,424	10,000**
Fully Diluted	8,189	9,747	9,823	10,000**
Net Worth (as Originally Reported)	97,503	117,614	146,803	

*Restated for poolings and stock dividends except where indicated. See inside back cover for additional highlights.

**Does not include shares which may be issued in either stock dividends or in acquisitions.

MILGO ELECTRONIC CORPORATION

Financial Folio

Operating Results	1973	1972	1971	1970	1969
Sales (Millions)	21.9	13.8	9.1	13.9	8.3
Net Earnings (Thousands):					
Before extraordinary items	2,990	2,107	240	1,747	278
Extraordinary items	—	—	—	440	510
Net earnings	2,990	2,107	240	2,187	788
Average Common Share and Common Share Equivalents (Thousands)	1,584	1,598	1,580	1,572	1,490
Earnings per Common Share and Common Share Equivalents:					
Before extraordinary items	1.89	1.32	.15	1.11	.19
Extraordinary items	—	—	—	.28	.34
Net earnings	1.89	1.32	.15	1.39	.53
Financial Positions (Year-end)					
Net Working Capital (Millions)	10.601	7.701	3.817	6.045	3.367
Property and Equipment — Net (Thousands)	10,606	5,682	3,509	1,675	840
Current Assets (Millions)	15.787	10.598	6.461	8.086	4.958
Current Liabilities (Millions)	5.186	2.897	2.644	2.041	1.590
Net Worth (Millions)	12.838	9.706	7.525	7.231	3.953
Equity Per Share	8.17	6.20	4.82	4.65	2.64
General Statistics (Year-end)					
Shares Outstanding	1,570,774	1,566,584	1,562,314	1,555,905	1,498,400
Depreciation and Amortization of Property and Equipment (Thousands)	1,999	1,152	640	265	313
Interest Expense (Thousands)	611	155	109	86	106
Number of Employees	1,018	751	457	454	422

NOTE: Fiscal years 1970 and 1969 have been adjusted to reflect (1) the acquisition of the minority interest in ICC on a "pooling-of-interests" basis, and (2) a 1 for 1 stock distribution effected March 20, 1970.

BEVERLY ENTERPRISE

Five-Year Summary

	(in thousands)				
	1972	*1971**	*1970**	*1969**	*1968**
General hospitals					
Revenue (net)	$ 30,604	$ 28,379	$ 23,756	$ 16,424	$ 7,883
Income before taxes based on income	1,671	1,691	1,229	1,413	426
Skilled nursing care					
Revenue (net)	37,810	31,124	27,888	21,169	10,485
Income (loss) before taxes based on income	921	(1,348)	(1,741)	268	878
Land development					
Revenue (gross)	16,001	13,997	7,517	3,332	403
Revenue (net)	7,063	4,465	2,243	1,050	66
Income (loss) before taxes based on income	82	186	97	121	(125)
Other					
Revenue	4,022	3,544	3,196	3,319	2,652
Income (loss) before taxes based on income	315	335	(674)	656	649
Total					
Revenue (net)	79,501	67,514	57,085	41,964	21,088
Income (loss) from continuing operations before taxes based on income	2,991	865	(1,088)	2,459	1,828
Provision (credit) for taxes based on income	1,195	445	(426)	941	622
Income (loss) from continuing operations	1,796	420	(662)	1,517	1,206
Income (loss) from discontinued operations	(144)	182	(1,330)	866	191
Extraordinary items	828	125	(2,105)	—	—
Net income (loss)	$ 2,480	$ 728	$ (4,187)	$ 2,383	$ 1,398
Income (loss) per share of common stock and equivalents:					
Continuing operations	$ .30	$ .07	$ (.11)	$ .27	$ .27
Discontinued operations	(.02)	.03	(.23)	.16	.04
Extraordinary items	.14	.02	(.37)	—	—
Net income (loss)	$ .42	$ .12	$ (.71)	$ .43	$ .31
Total assets	$119,216	$113,653	$103,932	$ 82,095	$ 39,104
Total stockholders' equity	34,793	29,294	28,349	30,533	12,853
Net property and equipment	62,846	63,871	59,233	46,805	21,717

**As restated see Notes 1 and 2 of Notes to the Consolidated Financial Statements.*

SEALED POWER CORPORATION

Financial Highlights

	1972	1971*	*Percent Change*
Net Sales	$99,026,069	$82,214,483	*+20.4%*
Net Income Before Taxes	13,271,296	9,342,697	*+42.0%*
Provision For Income Taxes	6,425,000	4,430,400	*+45.0%*
Net Income	6,846,296	4,912,297	*+39.4%*
Income Per Common Share	2.25	1.63**	*+38.0%*
Dividends Paid	2,114,711	2,021,683	*+4.6%*
Dividends Paid Per Common Share	.69⅓	.66⅔**	*+4.0%*
Additions To Plant and Equipment	4,692,308	3,506,410	*+33.8%*
Average Common Shares Outstanding	3,041,613	3,017,502**	*+0.8%*

**Restated to reflect the acquisition of Johnson Products Inc. on a pooling of interest basis.*

***Adjusted to reflect 3 for 2 stock split effective June 9, 1972.*

NATIONAL CASH REGISTER COMPANY

Highlights

	1972	1971*
For Years Ended December 31		
Income from Sales, Services and Equipment Rentals	$1,557,699,000	$1,465,701,000
Net Income (Loss) after Taxes*	(59,612,000)	2,131,000
Dividends	9,456,000	16,299,000
Expenditures for Property, Plant and Equipment	152,803,000	166,551,000
Depreciation	141,939,000	143,620,000
At Year End		
Working Capital	$ 483,098,000	$ 582,505,000
Total Assets	1,689,304,000	1,715,442,000
Long-Term Debt	524,266,000	522,479,000
Stockholders' Equity	580,712,000	636,212,000
Number of Common Shares Outstanding	22,594,324	22,083,082
Number of Stockholders	54,985	57,264
Number of Employees	90,000	95,000
Per Common Share		
Fully Diluted Earnings (Loss)*	$ (2.68)	$ .08
Dividends	.40	.72
Stockholders' Equity	25.62	28.73

*The 1971 financial data has been restated principally for a change in inventory valuation from a LIFO to a FIFO method. The reported net loss of $59,612,000 for 1972 resulted from year-end charges totaling $134,744,000 before taxes (see Note 3, page 26). These charges had an unfavorable after tax effect on earnings of $70,067,000.

THE NATIONAL CASH REGISTER COMPANY AND SUBSIDIARY COMPANIES

10 Year Review*
(in thousands)

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Results of operations										
Income from sales, services and equipment rentals	$1,557,699	$1,465,701	$1,420,576	$1,264,942	$1,135,046	$1,038,013	$941,187	$783,055	$692,592	$592,580
Net income, as previously reported	—	1,284	30,246	46,167	38,725	39,882	36,855	31,940	26,692	22,417
Effect of accounting change	—	847	6,242	3,778	2,116	209	804	1,172	(294)	275
Net income (loss)**	(59,612)	2,131	36,488	49,945	40,841	40,091	37,659	33,112	26,398	22,692
Fully diluted earnings (loss) per common share as previously reported***	—	.04	1.37	2.11	1.85	1.91	1.89	1.68	1.45	1.35
Effect of accounting change	—	.04	.29	.17	.10	.01	.04	.06	(.02)	.02
Fully diluted earnings (loss) per common share***	(2.68)	.08	1.66	2.28	1.95	1.92	1.93	1.74	1.43	1.37
Cash dividends per common share***	.40	.72	.69	.60	.60	.60	.60	.58	.57	.57
Financial position										
Assets										
Current assets	$ 994,854	$1,068,546	$1,048,100	$ 943,455	$ 764,838	$ 724,894	$628,535	$551,632	$514,470	$473,100
Property, plant and equipment	609,589	642,204	614,825	574,315	506,813	467,853	415,922	367,087	310,269	281,803
Less: Accumulated depreciation	*307,762*	*313,169*	*285,984*	*269,956*	*241,277*	*221,713*	*202,549*	*178,252*	*152,723*	*134,897*
Rental equipment	573,159	566,831	526,794	415,638	313,471	250,392	185,843	130,253	97,500	70,634
Less: Accumulated depreciation	*318,759*	*281,831*	*247,055*	*193,833*	*150,724*	*116,687*	*79,818*	*56,217*	*39,468*	*22,878*
Other assets	138,223	32,861	30,903	25,674	11,945	7,400	5,396	4,939	5,423	4,194
Total	$1,689,304	$1,715,442	$1,687,583	$1,495,293	$1,205,066	$1,112,139	$953,329	$819,442	$735,471	$671,956

Liabilities and stockholders' equity	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Current liabilities	$ 511,756	$ 486,041	$ 486,704	$ 474,485	$ 355,926	$ 336,644	$317,495	$288,199	$237,009	$205,642
Long-term debt	524,266	522,479	498,658	353,657	234,466	289,257	187,210	123,333	131,185	130,205
Other non-current items	45,733	48,516	45,551	41,048	31,538	26,221	21,744	19,514	17,140	14,477
Minority interests	26,837	22,194	18,673	16,161	14,270	10,870	12,317	11,618	10,554	9,138
Stockholders' equity	580,712	636,212	637,997	609,942	568,866	449,147	414,563	376,778	339,583	312,494
Total	$1,689,304	$1,715,442	$1,687,583	$1,495,293	$1,205,066	$1,112,139	$953,329	$819,442	$735,471	$671,956
Other data										
Additions to property, plant and equipment	$ 59,784	$ 58,538	$ 78,353	$ 84,127	$ 66,919	$ 71,818	$ 54,786	$ 43,236	$ 32,659	$ 26,948
Additions to rental equipment	93,019	108,013	144,075	125,080	92,211	79,284	67,295	40,992	33,771	30,716
Depreciation provision—property, plant and equipment	52,466	54,584	50,712	43,626	39,905	37,075	34,316	30,230	26,875	25,537
Depreciation provision—rental equipment	89,473	89,036	76,873	60,863	54,816	46,278	31,410	22,667	19,486	12,359
Research and development expenditures	59,061	51,981	46,965	40,989	35,840	33,742	29,799	25,393	22,175	20,027
Shares of common stock outstanding***	22,594	22,083	21,641	21,403	21,209	19,312	19,061	19,023	18,481	17,429
Number of stockholders	54	57	46	30	30	26	26	25	23	24
Number of employees	90	95	98	103	92	87	79	73	65	61

*The financial data prior to 1972 has been restated principally for a change in inventory valuation from a LIFO to a FIFO method.

**The reported net loss of $59,612,000 for 1972 resulted from year-end charges totaling $134,744,000 before taxes (see Note 3, page 26). These charges had an unfavorable after tax effect on earnings of $70,067,000.

***Adjusted for stock dividends and stock split.

IV

REPORTING ON ACCOUNTING CHANGES AFFECTING CONSISTENCY

Auditing standards for reporting on accounting changes that affect consistency are discussed in this chapter, and reporting practices are illustrated. Standards for reporting on accounting changes that do not affect the consistency standard are considered in the next chapter. In both chapters, pertinent sections of Statement on Auditing Standards (SAS) No. 1 are presented in the text, as appropriate, preceded by the number of the section.

PERIODS AFFECTED

Since consistency concerns the comparability between the financial statements of an enterprise for two or more periods, the consistency standard relates not only to reporting on the financial statements of the period in which an accounting change occurs but also to reporting on those of the preceding and subsequent periods. The following section of SAS No. 1 specifies the periods to which the consistency standard relates.

> **420.20** When the independent auditor reports only on the current period, he should report on the consistency of the application of accounting principles in relation to the preceding period, regardless of whether financial statements for the preceding period are presented. (The term "current period" means the most recent year, or period of less than one year, upon which the independent auditor is reporting.) When the independent auditor reports on two or more years, he should report on the consistency of the application of accounting principles between such years and also on the consistency of such years with the year prior thereto if such prior year is presented with the financial statements being reported upon.

The language used to express an opinion on consistency differs with the reporting circumstance. The following section prescribes the appropriate form of consistency expression for various reporting circumstances.

> **420.21** When the independent auditor is expressing an opinion on the financial statements of a single year, the phrase "on a basis consistent with that of the preceding year" is appropriate; however, if the financial statements are for the initial accounting period of a company, he should not refer to consistency because no previous period exists with which to make a comparison. If the auditor's report covers two or more years, language similar to "applied on a consistent basis" should be used. In such cases, if the year preceding the earliest year being reported upon is also presented, language similar to "consistently applied during the period on a basis consistent with that of the preceding year" should be used.

CHANGE IN ACCOUNTING PRINCIPLE

A change in accounting principle is defined in SAS No. 1 the same as it is in APBO

No. 20. The consistency standard applies to a change in accounting principle and requires an auditor to recognize the change in his opinion on consistency.

Modification of Opinion

An auditor is required to modify his opinion when reporting on a change in accounting principle.

> **546.01** When there is a change in accounting principle, the independent auditor should modify his opinion as to consistency, indicating the nature of the change. The auditor's concurrence with a change is implicit unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. Nevertheless, in order to be more informative the auditor should make his concurrence explicit (unless the change is the correction of an error) using the expression "with which we concur." The form of modification of the opinion depends on the method of accounting for the effect of the change, as explained in paragraphs .02 and .03.

Different forms of reporting are prescribed for reporting on (a) a change in accounting principle that should be reported by restating the financial statements of prior years and (b) one that should be reported by methods other than restating financial statements.

Reporting on Restated Financial Statements

As explained in Chapter II, APBO No. 20 requires companies to restate prior-period financial statements for some specified changes in accounting principle and for a change in the reporting entity, which is a special type of change in accounting principle. The Opinion also permits a privately-owned company to restate its prior-period financial statement for changes in accounting principle when it first issues its statements for certain designated purposes. Other APB Opinions and some AICPA industry audit guides prescribe reporting requirements for changes in accounting principle that are reported by restating prior-period financial statements.

General reporting provisions for restated financial statements. The following section of SAS No. 1 prescribes the appropriate form of language to use in reporting on a change in accounting principle that is reported by restating prior-period financial statements.

> **546.02** If there has been a change in accounting principle which should be reported by restating the financial statements of prior years, the appropriate reference to consistency is that the statements are consistent after giving retroactive effect to the change. Illustrations of appropriate reporting follow:
>
> (Opinion paragraph covering one year)
>
> . . . applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.
>
> (Opinion paragraph covering two years)
>
> . . . applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.
>
> The auditor's report need not refer to a change in accounting principle and restatement made in conformity with generally accepted accounting principles if the statements for the year of change are reported upon together with the financial statements for a year subsequent to the year of change.

Illustrations. The following seven examples of auditors' opinions and related notes illustrate the appropriate method of reporting on a change in accounting principle that should be reported by restating the financial statements of prior periods and of expressing concurrence with the change.

OPINION PARAGRAPH COVERING ONE YEAR

KOEHRING COMPANY

Notes to financial statement

Restatement of Prior Years—In accordance with Accounting Principles Board Opinion No. 24, the Company in 1972 provided for potential U.S. income taxes on the undistributed earnings of Koehring Overseas Corporation, S.A. Accordingly, prior years have been restated to provide for such taxes on the earnings recognized in those years. The effect on earnings is a reduction of $806,000 ($.28 per share) in 1972 and $800,000 ($.27 per share) in 1971. Earnings retained in the business have been reduced by $3,270,000 as of December 1, 1970, to reflect the prior year's effect of the restatement.

The consolidated financial statements for 1971, after the above described restatement for the change in accounting, which are presented for comparative purposes, were examined and reported on by public accountants other than Arthur Andersen & Co.

Auditor's Opinion

To the Stockholders and The Board of Directors

We have examined the consolidated balance sheet of Koehring Company (a Wisconsin corporation) and consolidated subsidiaries as of November 30, 1972, and the related consolidated statements of earnings, capital stock and additional paid-in capital, earnings retained in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Koehring Company and consolidated subsidiaries as of November 30, 1972, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change (with which we concur) in the method of accounting for income taxes on undistributed earnings of an international affiliate referred to in Note 1 to the financial statements.

OPINION PARAGRAPH COVERING TWO YEARS

BEVERLY ENTERPRISES

Notes to financial statement

Land development activities carried on by Shastina comprise the Lake Shastina project located in Northern California consisting of 16,000 acres of which approximately 3,500 acres were developed, under development or sold, and the Pendaries project located in Northern New Mexico consisting of 3,800 acres of which approximately 400 acres were developed or under development.

In December 1972, a new guide for accounting for retail land sales companies was approved by the Accounting Principles Board of the American Institute of Certified Public Accountants. The guide, "Accounting for Retail Land Sales," is effective for years ended December 31, 1972 and thereafter, and requires that all prior years be retroactively restated in accordance with its guidelines. Accordingly, Shastina retroactively changed its method of recognizing revenue from retail lot sales, which is Shastina's principal business activity, from the accrual method (under which income is recognized in the year of sale), to the installment method, as described below. There was no change in accounting required for other types of real estate transactions.

Results of Restatement of Retail Land Sales to the Installment Method of Accounting

As described in Note 1, retail lot sales sold through Shastina have been accounted for on the installment method of accounting for 1972 and were retroactively restated on the installment method for prior years as follows:

	New Method		Previous Reporting Method	
	Net Income (Loss)	Net Income (Loss) Per Share	Net Income (Loss)	Net Income (Loss) Per Share
1971	$ 729,000	$ .12	$ 2,683,000	$ .46
1970	(4,188,000)	(.71)	(2,985,000)	(.51)
1969	2,384,000	.43	2,754,000	.50
1968	1,398,000	.31	1,502,000	.33

Consolidated net income for Beverly was $2,481,000 or $.42 per share for the year ended December 31, 1972. In Beverly's last published quarterly report, before restatement to the installment method, Beverly reported net income (unaudited) of $2,745,000 or $.47 per share for the nine months ended September 30, 1972.

The change in accounting to the installment method for retail lot sales for Shastina resulted in deferred gross profit of $8,539,436 at December 31, 1972 which will be recognized in Beverly's consolidated statement of operations in future periods as cash is received from principal payments on notes receivable. The following table shows the periods in which this deferred gross profit is estimated to be realized. This table does not give effect to possible future note receivable cancellations or notes receivable paid off before due.

Year	Amount	Year	Amount
1973	$530,000	1976	$ 795,000
1974	544,000	1977	1,179,000
1975	626,000	1978-1982	4,865,436

Auditor's Opinion

The Board of Directors and Stockholders
Beverly Enterprises

We have examined the accompanying consolidated balance sheet of Beverly Enterprises at December 31, 1972 and the related consolidated statements of operations, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the consolidated financial statements for the prior two years.

In our opinion, subject to the final outcome of the matters discussed in Note 14 to the consolidated financial statements, the statements mentioned above present fairly the consolidated financial position of Beverly Enterprises at December 31, 1971 and December 31, 1972, the consolidated results of its operations and the changes in its consolidated financial position for the three years ended December 31, 1972, in conformity with generally accepted accounting principles applied on a consistent basis during the period after the restatement for the change, with which we concur, as described in Note 1 (Land Development Activities) and Note 2 to the consolidated financial statements.

HANES CORPORATION

Notes to financial statement

Inventories are stated at the lower of cost (first-in, first-out method) or market. In prior years, the cost of certain inventories of the Company was determined by the last-in, first-out method. In 1972, the Company changed its method of accounting for such inventories to the first-in, first-out method to conform inventory accounting methods. This change has been made retroactively and the financial statements for the prior year have been restated. The restatement increased earnings in 1971 by $75,000 or \$.02 per share. The change did not have a significant effect on earnings for 1972. The Company has received permission from the Internal Revenue Service to spread the tax effect of such change over a period of ten years.

Auditor's Opinion

To The Board of Directors
Hanes Corporation
Winston-Salem, North Carolina

We have examined the statement of financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1972 and 1971, and the related statements of earnings, shareholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of The Bali Company, Inc. (Bali) for the year ended December 31, 1971. The assets of Bali constituted 13% of the consolidated totals at December 31, 1971. The equity in the earnings of Bali represents 16% of the consolidated net earnings for 1971. The statements of Bali were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Bali in 1971, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of the other auditors, the aforementioned financial statements present fairly the financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1972 and 1971, and the consolidated results of their operations, changes in shareholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in method of accounting for inventories as explained in Note H of Notes to Financial Statements.

NATIONAL CASH REGISTER COMPANY

Notes to financial statement

Since 1950, the Company had used the LIFO (last-in, first-out) basis for valuing most domestic inventories. Effective January 1, 1972, the FIFO (first-in, first-out) method of inventory valuation was adopted for inventories previously valued on the LIFO basis. This results in a more uniform valuation method throughout the Company and makes the financial statements with respect to inventory valuation comparable with those of the other major United States business equipment manufacturers. As a result of adopting the FIFO method, the net loss for 1972 is approximately \$4,565,000 (\$.20 per share) less than it would have been on a LIFO basis. The financial statements for prior years have been retroactively restated for this change and, as a result, earnings retained for use in the business have been increased by \$25,297,000 as of January 1, 1971. Also, the 1971 income statement has been restated resulting in an increase in net income of \$847,000 (\$.04 per share). Inventories at December 31, 1971 are stated higher by \$50,276,000 than they would have been had the LIFO method been continued.

Beginning with 1972 additions, the Company changed its method of computing depreciation on rental equipment and on property, plant and equipment in the United States from the sum-of-the-years digits method to the straight-line method while continuing the former method for assets acquired prior to 1972. This change in depreciation method was made to bring the Company in line with general accounting practices in the business equipment industry. Concurrent with the change in depreciation method, for additions after January 1, 1972 the Company reduced the estimated useful life of rental equipment from 6 to 5 years and changed the estimated useful lives of certain other fixed assets. The effect of the change in depreciation method was to reduce the net loss after tax for the year 1972 by approximately \$2,400,000 (\$.11 per share), while the effect of the change in useful lives was not significant.

Auditor's Opinion

To the Stockholders of The National Cash Register Company

We have examined the accompanying consolidated financial statements (pages 21-29) of The National Cash Register Company as of December 31, 1972 and 1971. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not examine the financial statements of The National Cash Register Company (Japan) Ltd., a consolidated subsidiary, which accounts for approximately 9% of the consolidated assets and revenues. These statements were examined by other independent accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for The National Cash Register Company (Japan) Ltd., is based solely upon the reports of the other independent accountants.

As more fully described in Note 2 to the financial statements, the methods of accounting for inventories and of computing depreciation were changed in 1972, and we concur with such changes. Also, the financial statements for prior years have been appropriately restated for the change in accounting for inventories.

In our opinion, based on our examinations, and the reports mentioned above of other independent accountants, the accompanying consolidated financial statements present fairly the financial position of The National Cash Register Company and its subsidiaries at December 31, 1972 and 1971, the results of their operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles which, except for the change in depreciation, have been applied on a consistent basis after restatement for the change in accounting for inventories. Also, in our opinion, the ten year review on pages 30 and 31, after restatement for the change in accounting for inventories, presents fairly the financial information included therein.

REYNOLDS METALS COMPANY

Notes to financial statement

Taxes on Income—As a result of the issuance of Opinions by the Accounting Principles Board of the American Institute of Certified Public Accountants, in 1972, the Company retroactively provided deferred income taxes on undistributed earnings of certain subsidiaries and associated companies. Prior thereto, income taxes were provided only as earnings were distributed to the Company. This change had the effect of decreasing net income for 1972 and 1971 by $474,000 and $340,000, respectively ($.03 and $.02 per share). The amount of undistributed earnings not taxed, the remittance of which is expected to be indefinitely postponed, was immaterial after exclusion of unremitted earnings of domestic tax-consolidated subsidiaries and those earnings which will be remitted in tax-free form.

Auditor's Opinion

Board of Directors

Reynolds Metals Company

We have examined the consolidated financial statements of Reynolds Metals Company and consolidated subsidiaries for the years ended December 31, 1972 and 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were furnished financial statements of two consolidated foreign subsidiaries and the principal associated company, which companies constituted approximately 13% of the consolidated assets, and reports thereon by their auditors.

In our opinion, based upon our examinations and the aforementioned reports of other auditors, the accompanying balance sheet and statements of income and retained earnings and changes in financial position present fairly the consolidated financial position of Reynolds Metals Company and consolidated subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations and changes in financial position and stockholders' equity for each of the years then ended in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in method of providing for income taxes on undistributed earnings of subsidiaries and associated companies as described in Note N.

UNITED MERCHANTS AND MANUFACTURERS INC.
Notes to financial statement

During the year ended June 30, 1972, subsidiaries operating in Argentina and Brazil changed the method of translating their financial statements to United States dollars with respect to merchandise and spare parts inventories from the use of approximate free market rates of exchange at the close of the year to the use of historical rates in effect at the date of purchase or manufacture. This method of translation was adopted so as not to distort the dollar equivalent of cost of sales which the Company believes would have occurred as a result of substantial devaluations experienced in such countries. This change had the effect of increasing net income (by reducing cost of sales) for the year ended June 30, 1972 by approximately $2,763,000 ($.45 per share). In addition, such subsidiaries changed their methods of accounting for spare parts from a write-off over an estimated period (one or two years) without regard to actual consumption to a method of expensing such items as used, in order to more accurately assign the cost of these items to the period benefitted. This change had the effect of increasing net income for the year ended June 30, 1972 by approximately $400,000 ($.07 per share).

As a result of the issuance of Opinion 23 of the Accounting Principles Board of the American Institute of Certified Public Accountants, Federal income taxes have been provided with respect to all undistributed earnings of foreign subsidiaries and corporate joint ventures, except to the extent that such earnings have been or will be reinvested. Prior thereto Federal income taxes were provided only to the extent that earnings were distributed to the Company. Federal income taxes applicable to foreign earnings which have been or are intended to be distributed to the Company have been retroactively charged to income of the year in which the foreign earnings were generated. As a result of the foregoing, net income was increased by approximately $969,000 ($.16 per share) for 1972 and decreased by approximately $84,000 ($.02 per share) for 1971 and earned surplus at June 30, 1970 was decreased by $3,371,000. Federal income taxes have not been provided with respect to undistributed earnings of domestic subsidiaries since the Company believes that such earnings either have been or will be reinvested or transferred to the Company without Federal income tax consequences.

Auditor's Opinion
To the Board of Directors
United Merchants and Manufacturers, Inc.
New York, N.Y.

We have examined the consolidated balance sheets of United Merchants and Manufacturers, Inc. and subsidiary companies as at June 30, 1972 and 1971, and the related consolidated statements of income, surplus and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the principal foreign subsidiaries, which statements reflect total assets and revenues constituting 19% and 17%, respectively, in both 1972 and 1971, of the related consolidated totals after intercompany eliminations. These financial statements were examined by other public accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such foreign subsidiaries, is based solely upon the reports of the other public accountants; certain of their reports comment upon a change (which they approve) in method of translating certain inventories to United States dollars—see Note A.

In our opinion, based upon our examination and the aforementioned reports of other public accountants, the above-mentioned consolidated financial statements present fairly the consolidated financial position of United Merchants and Manufacturers, Inc. and subsidiary companies at June 30, 1972 and 1971, and the consolidated results of their operations and consolidated changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis, except for the change referred to above and after giving retroactive effect to the change (which we approve) commented upon in the next to last paragraph of Note A.

Reporting a change in the reporting entity. A change in the reporting entity in SAS No. 1 includes not only the special type of change in accounting principle identified in APBO No. 20 but also changes among the cost, equity and consolidation methods.

> **420.07** Since a change in the reporting entity is a special type of change in accounting principle, the consistency standard is applicable. Changes in reporting entity that require recognition in the auditor's opinion include the following:
>
> a. Presenting consolidated or combined statements in place of statements of individual companies.
> b. Changing specific subsidiaries comprising the group of companies for which consolidated statements are presented.
> c. Changing the companies included in combined financial statements.
> d. Changing among the cost, equity and consolidation method of accounting for subsidiaries or other investments in common stock.

Illustrations. The following examples of auditors' opinions and related notes illustrate appropriate reporting on financial statements that have been restated for a change in accounting principle classified as a change in the reporting entity.

OPINION PARAGRAPH COVERING ONE YEAR

A. J. INDUSTRIES, INC.

Notes to financial statement

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, including A.J. Land Company, which subsidiary was previously excluded because of its inactive status. Financial statements for the year ended March 31, 1971 have been restated to give effect to this consolidation. The Company formerly accounted for its investment in this entity on the equity basis, therefore, this change in consolidation practice had no effect on income before extraordinary items or net income for any period.

Auditor's Opinion

To the Stockholders and Directors of A.J. Industries, Inc.:

We have examined the consolidated balance sheet of A.J. Industries, Inc. as of March 31, 1972 and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the companies at March 31, 1972, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after restatement of 1971 financial statements to reflect the change in consolidation practice described in Note 1.

OPINION PARAGRAPH COVERING TWO YEARS

BURNDY CORPORATION

Notes to financial statement

The Company has a 50% ownership in BICC-Burndy, Ltd., a United Kingdom company and a 33⅓% ownership in Burndy Japan Ltd., a Japanese company and until July 13, 1972 the Company had a 50% interest in a Brazilian company (See Note 3 for purchase of remaining 50% interest). In 1972, the Company changed its method of accounting for investments in unconsolidated affiliates from the cost to the equity method in accordance with Opinion No. 18 of the Accounting Principles Board. The consolidated statement of earnings for 1971 has been appropriately restated. As a result of this change, consolidated earned surplus at January 1, 1971 was increased by $556.651 reflecting the Company's cumulative equity in earnings of years prior to 1971, and net earnings and earnings per share for 1972 and 1971 were increased by $226,677 ($.08 per share) and $117,768 ($.04 per share), respectively, after additional provision for federal income taxes.

Auditor's Opinion

Board of Directors and Shareowners
Burndy Corporation

We have examined the consolidated balance sheet of Burndy Corporation and subsidiary companies as of December 31, 1972 and 1971, and the related statements of earnings, surplus and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Burndy Corporation and subsidiary companies at December 31, 1972 and 1971, and the results of their operations and changes of their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for investments now required by the Accounting Principles Board, as described in Note 2.

CALIFORNIA PORTLAND CEMENT COMPANY

Notes to financial statement

The accompanying consolidated financial statements include an investment of 31 percent in the outstanding capital stock of Conrock Co.

The Company changed from the cost method to the equity method of accounting for this investment during the year ended April 30, 1972 in order to comply with Opinion No. 18 of the Accounting Principles Board of the American Institute of Certified Public Accountants. The Accounting Principles Board determined that ownership of 20 percent or more of the outstanding voting stock of an entity generally indicates an ability to exercise significant influence over the entity; however, the Company has not and does not now exercise any such influence. The Company's ownership is solely for the purpose of investment.

The investment is carried on the consolidated balance sheet at April 30, 1972 and 1971 at amounts equal to the Company's equity in the net assets of Conrock Co. at December 31, 1971 and 1970, respectively (the end of its 1971 and 1970 fiscal years). The Company's equity in the undistributed net income of Conrock Co. for the years ended April 30, 1972 and 1971, which is included on the statement of consolidated income, is based on Conrock Co.'s net income for the years ended December 31, 1971 and 1970, respectively.

The effect on the financial statements of the change to the equity method of accounting for the investment is summarized as follows:

	Investment	Applicable Deferred Income Taxes	Net
Balance, May 1, 1970 (original cost)	$ 1,257,000		$1,257,000
Add-Cumulative effect of change on prior fiscal years (reflected on statement of consolidated retained earnings)	8,708,000	2,956,000	5,752,000
Balance, May 1, 1970 as restated	9,965,000	2,956,000	7,009,000
Equity in undistributed net income-Fiscal year 1971*	657,000	223,000	434,000
Balance, April 30, 1971	10,622,000	3,179,000	7,443,000
Equity in undistributed net income-Fiscal year 1972*	968,000	329,000	639,000
Balance, April 30, 1972	$11,590,000	$3,508,000	$8,082,000

* Excludes cash dividends received during the year of $401,000, which have been included in other income.

Auditor's Opinion

To the Shareholders and the Board of Directors of California Portland Cement Company:

We have examined the consolidated balance sheet of California Portland Cement Company and consolidated subsidiaries as of April 30, 1972 and 1971 and the related statements of consolidated income, consolidated retained earnings, and consolidated changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting reports and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company and its consolidated subsidiaries at April 30, 1972 and 1971 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after the restatement explained in Note 2.

KORACORP INDUSTRIES INC.

Auditor's Opinion

To the Stockholders of Koracorp Industries.:

We have examined the consolidated balance sheet of Koracorp Industries Inc. (a Delaware corporation) and Consolidated Subsidiaries as of December 29, 1972, and December 31, 1971, and the related statements of consolidated income, retained earnings and changes in financial position for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the effect on the consolidated financial statements of any adjustments that may result from the litigation and the collection of royalties discussed in Note 3, the accompanying consolidated financial statements present fairly the financial position of Koracorp Industries Inc., and Consolidated Subsidiaries as of December 29, 1972, and December 31, 1971, and the results of their operations and changes in retained earnings and in financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for research and development costs, as discussed in Note 2 to the consolidated financial statements, were applied on a consistent basis with that of the preceding year. after giving retroactive effect to the change (with which we concur) in the method of recording investments in common stocks of affiliates, as explained in Note 2 to the consolidated financial statements.

P. R. MALLORY & CO. INC.

Notes to financial statement

Effective January 1, 1972, in compliance with an opinion of the Accounting Principles Board, the Company adopted the equity method of accounting for its investments (including advances) in unconsolidated subsidiaries and affiliates in which there is an ownership interest of 20% or more. Under this method, these investments are carried in the balance sheet at a value which reflects the Company's equity in the underlying net assets of these companies and consolidated net earnings includes the Company's share of the net earnings of these subsidiaries and affiliates as they accrue.

Previously, it had been the Company's practice to carry these investments at cost and to include in consolidated net earnings the Company's share of dividends as and when declared by these companies. During 1971, the Company's share of the net earnings of these companies was $126,235. In the same year, the Company's share of dividends declared by these companies amounted to $553.880 which amount was included in previously reported consolidated net earnings for 1971. As a result of the adoption of the equity method, retained earnings at January 1, 1971 have been increased by $3,243,801 and net earnings for 1971 have been reduced by $427,645, the equivalent of $.11 per share, this being the difference between the dividends declared and the earnings of these companies for 1971.

The Company's ownership interest in such unconsolidated subsidiaries and affiliates ranges from 35% to 100%. These companies maintain their accounts on various fiscal year bases and in most cases their financial statements are examined by independent public accountants.

Condensed financial data relating to the unconsolidated subsidiaries and affiliates for their fiscal years ended during 1972 and 1971 are shown in the following summary:

	1972	1971
Current assets	$27,651,630	$23,346,420
Other assets	9,492,776	8,891,060
	37,144,406	32,237,480
Liabilities	24,310,635	19,659,653
Shareholders' equity	12,833,771	12,577,827
	37,144,406	32,237,480
Net earnings	$ 953,295	$ 593,088

The Company's share of the net earnings of these companies aggregated $402,509 and $126,235 for 1972 and 1971, respectively, and the dividends received during the respective years amounted to $284,440 and $553,880.

Auditor's Opinion

The Board of Directors

P. R. Mallory & Co. Inc.:

We have examined the consolidated balance sheets of P. R. Mallory & Co. Inc. and subsidiaries as of December 31, 1972 and 1971 and the related statements of consolidated earnings and retained earnings and changes in consolidated financial position for the respective years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of P. R. Mallory & Co. Inc. and subsidiaries at December 31, 1972 and 1971 and the results of their operations and the changes in consolidated financial position for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for investments in unconsolidated subsidiaries and affiliates as described in note 2 to the consolidated financial statements.

OWENS-ILLINOIS, INC.

Notes to financial statement

The consolidated financial statements include the accounts of all active subsidiaries except several minor companies which, considered in the aggregate, are not material in relation to consolidated assets or revenues. In 1971 the Company consolidated for the first time its two Brazilian subsidiaries; other subsidiaries organized or acquired in 1972 and 1971 have been consolidated from the respective dates of organization or acquisition. These items did not have a significant effect on consolidated net revenues, net earnings or assets.

Auditor's Opinion

The Board of Directors
Owens-Illinois, Inc.

We have examined the accompanying consolidated balance sheet of Owens-Illinois, Inc. at December 31, 1972 and 1971 and the related consolidated statements of earnings, retained earnings, capital in excess of stated value and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Owens-Illinois, Inc. at December 31, 1972 and 1971 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

REPUBLIC STEEL CORPORATION

Notes to financial statement

Restatement—Effective January 1, 1972, the Corporation adopted the equity method of accounting for investments in foreign subsidiaries, companies in which a 20% or greater interest is held, and corporate joint ventures. This change from the cost method was made to comply with an opinion of the Accounting Principles Board. Previously, the equity method was used only for domestic subsidiaries and 50% owned companies. Financial statements of prior years have been restated to reflect an increase, as of January 1, 1971, in investments ($20,798,140), deferred income taxes ($5,337,277) and income retained and invested in the business ($15,460,863). Net income for the year 1971 was reduced by $1,282,765, or $.08 per share of common stock, from the amount previously reported. This change had no significant effect on net income for 1972.

Auditor's Opinion

To the Stockholders and Board of Directors of
Republic Steel Corporation

We have examined the balance sheet of Republic Steel Corporation and consolidated subsidiaries as of December 31, 1972 and 1971, and the related statements of income, income retained and invested in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Republic Steel Corporation and consolidated subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations and changes in stockholders' equity and financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, in the method of accounting for certain investments as described in Note A to the consolidated financial statements.

VEEDER INDUSTRIES INC.

Notes to financial statement

In 1972 the Company's wholly owned Brazilian subsidiary was consolidated in order to more fully incorporate this operation in the Company's financial statements, since the economic conditions in Brazil appear to be more stable than in the past. Previously the Brazilian subsidiary had been included in the consolidated statements at cost, less reserve. The financial statements for 1971 have been restated for comparative purposes. This change in accounting entity, together with related adjustments, resulted in an increase to income before extraordinary items and to net income of $205,149 for 1972 and $121,631 for 1971. Income before extraordinary items and net income per share of Common Stock increased $.17 for 1972 and $.10 for 1971.

Auditor's Opinion
To the Stockholders of
Veeder Industries Inc.

We have examined the consolidated balance sheets of Veeder Industries Inc. and consolidated subsidiaries as at December 3, 1972 and December 31, 1971 and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and retained earnings and changes in financial position present fairly the consolidated financial position of Veeder Industries Inc. and its consolidated subsidiaries at December 31, 1972 and December 31, 1971, and the consolidated results of their operations, changes in stockholders' equity and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change, with which we concur, in the method of accounting for the Brazilian subsidiary as described in Note A to the financial statements.

Reporting on a pooling of interest. A pooling of interest is identified as a change in the reporting entity in both APBO No. 20 and SAS No. 1. The pertinent sections of SAS No. 1 state:

420.08 A business combination accounted for by the pooling-of-interests method also results in a change in reporting entity. The application of the consistency standard to this type of change is discussed in section 546.12-.13.

420.09 For purposes of application of the consistency standard, a change in reporting entity does not result from the creation, cessation, purchase or disposition of a subsidiary or other business unit.

SAS No. 1 contains special provisions for reports following a pooling of interests:

546.12 When companies have merged or combined in accordance with the accounting concept known as a "pooling of interests," appropriate effect of the pooling should be given in the presentation of financial position, results of operations, changes in financial position, and other historical financial data of the continuing business for the year in which the combination is consummated and, in comparative financial statements, for years prior to the year of pooling, as described in Accounting Principles Board Opinion No. 16, "Business Combinations." If prior year financial statements, presented in comparison with current year financial statements, are not restated to give appropriate recognition to a pooling of interests, the comparative financial statements are not presented on a consistent basis. In this case, the inconsistency arises not from a change in the application of an accounting principle in the current year, but from the lack of such application to prior years. Such inconsistency would require a qualification in the independent auditor's report. In addition, failure to give appropriate recognition to the pooling in comparative financial statements is a departure from an Opinion of the Accounting Principles Board. Therefore, the auditor must also give appropriate consideration to the provisions of [Rule 203 of the AICPA Code of Professional Ethics in reporting departures from generally accepted accounting principles. (Effective March 1, 1973)]

546.13 When single-year statements only are presented for the year in which a combination is consummated, a note to the financial statements should adequately disclose the pooling transaction and state the revenues, extraordinary items, and net income of the constituent companies for the preceding year on a combined basis. In such instances, the disclosure and consistency standards are met. Omission of disclosure of the pooling transaction and its effect on the preceding year would require qualifications as to the lack of disclosure and consistency in the independent auditor's report.

Illustrations. The following examples of auditors' opinions and related notes illustrate appropriate reporting on financial statements restated for a pooling of interests.

OPINION PARAGRAPH COVERING ONE YEAR

LEAR SIEGLER, INC.
Notes to financial statement

During the current year, the company issued 105,000 shares of common stock in exchange for the business and net assets of a company acquired in a pooling of interests transaction.

The consolidated financial statements for fiscal 1971 have been restated to include the accounts of the pooled company. The operations of the pooled company did not have a material effect on the financial statements for fiscal 1972 and 1971.

The company also acquired a 70% interest in another company for cash. The operations of this company are included in the consolidated financial statements from acquisition date. The operations do not have a material effect on the financial statements for fiscal 1972.

Auditor's Opinion
Board of Directors and Stockholders
Lear Siegler, Inc.

We have examined the consolidated balance sheet of Lear Siegler, Inc. and Subsidiaries as of June 30, 1972 and the related consolidated statements of earnings, retained earnings, contributed capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year ended June 30, 1971.

In our opinion, the financial statements referred to above present fairly the financial position of Lear Siegler, Inc. and Subsidiaries at June 30, 1972 and the results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the restated preceding year.

OPINION PARAGRAPH COVERING TWO YEARS

ARUNDEL CORPORATION
Notes to financial statement

Pooling of Interests. Financial data for 1971 has been restated to include an acquision during 1972, of a company involved in real estate development, which has been accounted for on a pooling of interests basis.

Auditor's Opinion
To the Board of Directors
The Arundel Corporation

We have examined the consolidated balance sheet of The Arundel Corporation and subsidiaries as of December 31, 1972 and 1971, and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain construction joint ventures in which the Company has varying interests and which resulted in a reduction in net earnings of $934,000 in 1972. We have been furnished with the other auditors' reports thereon whose opinion on one of the ventures was subject to the ultimate amount of the contract loss as discussed in Note C to the financial statements.

In our opinion, based on our examination and the reports of other independent accountants and subject to the ultimate amount of the contract loss, the aforementioned financial statements present fairly the financial position of The Arundel Corporation and subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis as restated (See Note A6).

BEATRICE FOODS CO.

Notes to financial statement

During the year ended February 28, 1973, the Company acquired several companies in transactions accounted for by the pooling of interests method. In connection therewith the Company issued a total of 2,282,062 shares of its common stock. Net sales and earnings of the acquired companies for the period March 1, 1972, to dates of merger with the Company totaled $36,644,000 and $2,630,000 respectively. During the year the Company issued 132,184 common shares in the purchase of another company.

Auditor's Opinion

The Stockholders
Beatrice Foods Co.:

We have examined the consolidated balance sheets of Beatrice Foods Co. and subsidiaries as of February 28, 1973, and February 29, 1972 (restated for poolings) and the related statements of earnings, capital surplus and earnings invested in the business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Beatrice Foods Co. and subsidiaries at February 28, 1973, and February 29, 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis as restated (note 3).

HOST INTERNATIONAL, INC.

Notes to financial statement

In April 1972, the Company issued 130,270 shares of Common Stock in exchange for all of the common stock of Marine Tobacco Company, Inc. and in December 1972 issued 301,471 shares of Common Stock in exchange for substantially all of the net assets of Sparky's Virgin Islands, Inc., in poolings of interests. Previously issued financial statements have been restated to give effect to these transactions; sales and net income of Marine and Sparky's were included in the accompanying statement of consolidated income in the following amounts:

	Sales	Net income
Restatement of 1971 operations	$17,348,000	$ 938,000
1972 before combination	13,422,000	675,000
1972 after combination	7,555,000	480,000
Amounts included in 1972 operations	$20,977,000	$1,155,000

The Company has agreed to exchange 256,000 shares of its Common Stock for all of the common stock of a group of companies which operate Red Onion Mexican-style restaurants. The consummation of this combination is contingent, among other things, upon receipt of a favorable tax ruling.

Auditor's Opinion

To the Board of Directors and Stockholders of Host International, Inc.:

We have examined the consolidated balance sheets of Host International, Inc. and subsidiaries as of December 31, 1972 and 1971 and the related statements of consolidated income, stockholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Marine Tobacco Company, Inc. or Sparky's Virgin Islands, Inc. which underlie the restatement of the consolidated financial statements for the year ended December 31, 1971 (see Note 2), and which reflect total assets, sales, and net income constituting 11%, 13%, and 17%, of the respective 1971 consolidated totals. These statements were examined by other auditors whose opinions thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Marine Tobacco Company, Inc. and Sparky's Virgin Islands, Inc. for 1971 is based solely upon the opinions of the other auditors.

In our opinion, based upon our examination and the opinions of the other auditors, the aforementioned consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Correction of an error in principle. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error. The correction of an error in principle affects the consistency standard.

420.10 A change from an accounting principle that is not generally accepted to one that is generally accepted, including correction of a mistake in the application of a principle, is a correction of an error. Although this type of change in accounting principle should be accounted for as the correction of an error, the change requires recognition in the auditor's opinion as to consistency.

Other changes requiring restatement. Although changes in classification and variations in format (discussed in Chapter V) are not considered in APBO No. 20 and do not ordinarily affect consistency, the following section of SAS No. 1 defines a variation in the terms used to express changes in financial position as a change in the application of accounting principles.

420.16 However, variations between periods in the terms used to express changes in financial position, such as changing from cash to working capital, constitute a change in the application of accounting principles and involve the consistency standard. When such a change occurs and the independent auditor deems it to be material, he should express in his opinion an exception as to consistency. An entity making such a change in the current period may present comparative financial statements for a prior period that have been restated to conform with those of the current period. Such a restatement places both periods on the same basis with respect to the use and application of accounting principles. The restatement should be disclosed and the auditor should refer to it in his report.

Illustrations. The following example of an auditor's opinion and the related note illustrate the appropriate method of reporting on financial statements reflecting a variation in the terms used to express changes in financial position.

USM CORPORATION

Notes to financial statement

In fiscal 1972, the company retroactively adopted the practice of reporting changes in financial position on a working capital basis. Previously the company reported such changes on a cash and short-term investment basis. Certain account balances in 1971 have been reclassified to be comparable with those of 1972.

Auditor's Opinion

To the Board of Directors and Shareowners
USM Corporation

We have examined the consolidated balance sheet of USM Corporation and Subsidiaries at February 29, 1972, and the related consolidated statements of income (loss) and retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiary companies, which statements reflect total assets and revenues constituting approximately 31% in 1972 (30% in 1971) of the related consolidated totals. These statements were examined by other auditors whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely upon such reports. We previously made a similar examination of and reported upon the consolidated financial statements for the preceding year which have been restated, with our concurrence, to reflect the change in the reporting of changes in financial position and the change in accounting for investments in affiliated companies as described in Notes A and B, respectively, to the consolidated financial statements.

In our opinion, based upon our examination and the reports of other auditors, the aforementioned financial statements present fairly the consolidated financial position of USM Corporation and Subsidiaries at February 29, 1972 and February 28, 1971, and the consolidated results of their operations and the changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Prior Periods Not Restated for a Change

Under the general provisions of APBO No. 20 (paragraphs 19-22) for reporting a change in accounting principle, prior period financial statements may not be restated for the effects of the change and the Opinion requires that the cumulative effect be reported in the year of the change and the pro forma effects of retroactive application on income before extraordinary items, net income, and related per share amounts be reported as supplementary information. Also, under the provision of that Opinion (paragraph 24) for reporting the effects of a change in the method of amortization for newly acquired assets only require the effects of the change to be recognized in the period of the change.

Section 546.03 of SAS No. 1 contains the requirements for reporting on a change in accounting principle that should not be reported by restating the financial statements of prior periods. The requirements differ for reporting on:

- The year of the change only.
- Two or more years—year of change other than earliest year.
- Two or more years—year of change earliest year.
- Earliest year subsequent to year of change.

Year of change only. The following provisions apply to a report on the year of change only.

546.03 If there has been a change in accounting principle which should be reported by means other than by restating the financial statements of prior years and the independent auditor is reporting only on the year during which the change was made, his report should state that accounting principles have been consistenly applied except for the change. An example of such reporting follows:

(Opinion paragraph)

. . . in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of computing depreciation as described in Note X to the financial statements, have been applied on a basis consistent with that of the preceding year.

Illustrations. The following examples of auditors' opinions and related notes illustrate the method of reporting on the year of change only and expressing concurrence with the change.

THE YEAR OF THE CHANGE ONLY

INTERNATIONAL CHEMICAL & NUCLEAR CORPORATION

Notes to financial statement

Prior to 1972 the Company amortized product research costs over a period of five years. Commencing with 1972 such costs are being charged to expense as incurred. This change in accounting practice resulted in a non-recurring charge of $1,626,206 representing the unamortized balance of deferred costs (net of income taxes, $1,643,000) at the beginning of 1972.

Auditor's Opinion

The Board of Directors and Shareholders
International Chemical & Nuclear Corporation:

We have examined the consolidated balance sheet of International Chemical & Nuclear Corporation and subsidiaries as of November 30, 1972, and the related statements of earnings, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of International Chemical & Nuclear Corporation and subsidiaries at November 30, 1972 and the results of their operations and the changes in their financial position and shareholders' equity for the year then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in accounting for product research costs as described in note 5 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

SOUTHLAND PAPER MILLS, INC.

Notes to financial statement

Investment in 50 percent owned company—

Included in investments and other assets is an investment in a 50 percent owned company which, prior to 1972, was accounted for at cost. In 1972, the company changed to the equity method of accounting for this investment, resulting in an addition of approximately $400,000 to the investment. The difference between dividends received and Southland's equity in the earnings of this company has been relatively immaterial for the past several years. Accordingly, prior years have not been restated and the entire amount of the cumulative difference through December 31, 1971, less the related deferred taxes, has been credited to retained earnings.

Auditor's Opinion

To the Shareholders of Southland Paper Mills, Inc.:

We have examined the balance sheet of Southland Paper Mills, Inc. (a Texas corporation), as of December 31, 1972, and the related statements of income, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying financial statements present fairly the financial position of Southland Paper Mills, Inc., as of December 31, 1972, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles which, other than for the change (with which we concur) to the equity method of accounting for the investment in a 50 percent owned company, as explained in Note 1 to the financial statements, were applied on a basis consistent with that of the preceding year.

UNITED ARTISTS CORPORATION

Notes to financial statement

Motion Pictures, Record and Tape Operations. Advances and investments made in connection with feature films not owned by the Company are recovered from producers' share of film rentals. The Company's share of profits derived from such films or groups of films is not reflected until all related advances and investments have been recouped. Investments in feature films and television series owned by the Company are amortized in the proportion that the net revenue realized in each year bears to the estimate of the total ultimate net revenue expected to be realized from theatrical and television exhibition. Rentals from theatrical exhibition of motion pictures are recognized after the film is exhibited and rentals become billable to exhibitors. Rentals from licensing motion pictures to television stations are recognized (discounted for amounts due after one year) upon execution of the contracts. Such discounting, first implemented in 1972, decreased net income in that year by $1,200,000.

Income from the sale of records and tapes is recognized upon shipment to the customer. However, in accordance with industry practice, such sales are usually made with certain return and exchange privileges and a reserve for returns is maintained in order to anticipate, based upon historical experience, the effect on gross profits of estimated future returns.

Auditor's Opinion

Board of Directors
United Artists Corporation

We have examined the condensed consolidated balance sheet of United Artists Corporation (a wholly-owned subsidiary of Transamerica Corporation) and subsidiaries as of December 30, 1972, and the related statements of income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned condensed financial statements present fairly, in summarized form, the financial position of United Artists Corporation and subsidiaries at December 30, 1972, and results of their operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change (with which we concur) in recording long-term, non-interest bearing receivables and payables commencing in the current year to conform with Accounting Principles Board Opinion No. 21 as described in Note A to the financial statements.

Two years—change in latest year. The following reporting provisions apply to a report on two or more years if the year of change is not the earliest year.

> **546.03** . . . If the independent auditor is reporting on two or more years when reporting on a subsequent year's financial statements, he should make appropriate reference to the change as long as the year of change is included in the years being reported upon. If the year of change was other than the earliest year being reported upon, the following example would be an appropriate form of reporting:
>
> (Opinion paragraph)
>
> . . . in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in computing the method of depreciation as described in Note X to the financial statements.

Illustrations. The following examples of auditors' opinions and the related notes illustrate the method of reporting on two years when the change occurred in the second year and expressing concurrence with the change.

TWO YEARS—CHANGE IN LATEST YEAR

AMERADA HESS CORPORATION

Notes to financial statement

Effective January 1, 1972, the Corporation changed its method of accounting for the costs of all undeveloped oil and gas leases. Undeveloped oil and gas leases were previously carried at cost and charged against income in full when properties were relinquished. Under the new method, costs of undeveloped oil and gas leases are amortized over the primary lease term with any unamortized costs charged against income at the time the properties are relinquished. As a result of the substantially higher cost of lease acquisitions in recent years, the newly adopted accounting method is more conservative and preferable in that it provides a systematic write-off of undeveloped oil and gas lease costs from date of acquisition. This accounting change decreased 1972 income before extraordinary items by $1,687,000 ($.05 per share). The cumulative effect of such accounting change on years prior to 1972 amounted to $21,415,000 ($.58 per share) after deducting the related deferred income tax effect of $19,758,000. The pro forma amounts shown in the Statement of Consolidated Income give effect to the retroactive application of this accounting change.

Auditor's Opinion

The Board of Directors and Stockholders
Amerada Hess Corporation

We have examined the accompanying consolidated balance sheet of Amerada Hess Corporation and consolidated subsidiaries at December 31, 1972 and 1971 and the related statements of consolidated income, consolidated retained earnings, consolidated changes in capital stock and capital in excess of par value, and changes in consolidated financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Amerada Hess Corporation and consolidated subsidiaries at December 31, 1972 and 1971, and the consolidated results of operations and the changes in consolidated financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of accounting for costs of undeveloped oil and gas leases as described in Note 2 to the consolidated financial statements.

FLORIDA STEEL CORPORATION
Notes to financial statement

Inventories. Inventories are stated at the lower of cost (determined principally by use of the last-in, first-out method in 1973, and the first-in, first-out method in 1972) or market. See Note B for additional information concerning the change in method of stating inventory costs.

Change in Accounting Method and Inventories
Effective with the year ended September 30, 1973, the Company changed its method of stating inventory costs from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method for substantially all inventories. This change was made because management believes LIFO more clearly reflects income by providing a closer matching of current costs against current revenues. The LIFO inventory cost method is a practice common in the steel industry. The change had the effect of reducing inventories at September 30, 1973, by $1,958,666 and net income by $958,666 (equal to $.65 per share of Common Stock) for the year then ended. Under Accounting Principles Board Opinion No. 20 there is no cumulative effect of the change on prior years, since the September 30, 1972, inventory as previously stated using the FIFO method is treated as the amount of the beginning inventory for the current year under the LIFO method. Accordingly, pro-forma results for prior years under the LIFO method are not applicable.

A summary of inventories follows:

	September 30	
	1973	1972
Finished goods	$ 9,506,378	$ 4,730,998
Work in process	2,984,044	2,727,740
Raw materials and operating supplies	6,263,346	5,718,776
	18,753,768	13,177,514
Reserve to state inventories principally at LIFO cost	1,958,666	—
	$16,795,102	$13,177,514

The "LIFO reserve" of $1,958,666 represents the difference between the inventory value determined using the LIFO method and the inventory value determined as though the FIFO method were used.

Consolidated Statement of Earnings

	Year Ended September 30	
	1973	1972
	(in thousands)	
Net Sales	$105,835	$82,809
Other Income	360	236
	106,195	83,045
Costs and Expenses		
Cost of sales, excluding depreciation	85,738	63,322
Selling and administrative expenses	6,459	5,616
Depreciation — Note A	1,977	1,812
Interest expense	648	368
	94,824	71,119
Income Before Income Taxes	11,371	11,926
Income Taxes — Notes A and D	5,538	5,883
Net Earnings	$ 5,833	$ 6,043

Net Earnings Per Share *(See Notes A and B for information concerning a change during 1973 from the FIFO to the LIFO method of stating inventory costs and its effect on net earnings. Restatement cf 1972 results is not appropriate under the provisions of Accounting Principles Board Opinion No. 20.)*	$3.96	$4.10

Auditor's Opinion

Board of Directors and Shareowners

Florida Steel Corporation
Tampa, Florida

We have examined the consolidated financial statements of Florida Steel Corporation and subsidiary for the years ended September 30, 1973 and 1972. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of financial position and statements of earnings, shareowners' equity and changes in financial position present fairly the consolidated financial position of Florida Steel Corporation and subsidiary at September 30, 1973 and 1972, and the consolidated results of their operations, changes in shareowners' equity and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of stating inventories as described in Note B to the financial statements.

HEWLETT-PACKARD COMPANY

Notes to financial statement

As described in note 3 below, the Internal Revenue Service has reviewed the 1967 and 1968 federal income tax returns of the Company. In connection therewith, the Service has requested the Company to change its method of accounting for miscellaneous material and labor to include such items in inventories which were previously charged to operations as period costs. The cumulative effect of such change in accounting method, which amounted to $3,290,000 at October 31, 1971, less related cash and retirement profit sharing costs of $688,000, and taxes on income of $1,391,000, has been presented separately in the consolidated statement of income in 1972. Such additional income taxes are being paid over a period of ten years commencing in 1968. The effect on net income and per share amounts in 1971, assuming the change had been applied retroactively, is insignificant. Net income in 1972 increased by $791,000 ($.03 per share) as a result of the change.

In 1971, the Company adopted the policy of accounting for its investment in an unconsolidated foreign affiliate (49% owned) at its equity in the underlying net assets. As a result of the change, net income in 1971 was increased by approximately $426,000 ($.02 per share) compared to amounts resulting from the cost method previously employed.

Auditor's Opinion

The Board of Directors and Shareholders
Hewlett-Packard Company:

We have examined the statement of consolidated financial position of Hewlett-Packard Company and subsidiaries as of October 31, 1972 and 1971, and the related consolidated statements of income, capital in excess of par value, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Hewlett-Packard Company and subsidiaries at October 31, 1972 and 1971, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the accounting method used for computing inventories, as described in note 1 of notes to the financial statements.

MONFORT OF COLORADO, INC.

Auditor's Opinion

Stockholders and Board of Directors

Monfort of Colorado, Inc.
Greeley, Colorado

We have examined the consolidated financial statements of Monfort of Colorado, Inc. and subsidiaries for the years ended September 2, 1972 and August 31, 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income and retained earnings and changes in financial position present fairly the consolidated financial position of Monfort of Colorado, Inc. and subsidiaries at September 2, 1972 and August 31, 1971, and the consolidated results of their operations, changes in stockholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of stating inventories of a subsidiary described in Note B.

PERMANEER CORPORATION

Notes to financial statement

As of October 31, 1972 the Corporation adopted the practice of inventorying operating supplies and machine parts, as management believes that this practice should now be adopted for better control and to prevent distortions in future operations. This had the effect of increasing income before extraordinary credit for 1972 by $230,000. ($.05 per share.) In prior years such items had been charged to expense when purchased. The impact on operations for individual years prior to 1972 is not determinable but is not considered significant in any one year. The decision to account for these items in this manner was based on the expanded facilities of the Corporation and the adoption of a preventive maintenance program which necessitated a substantial increase in these inventory items. The operating supplies and machine parts on hand at the beginning of 1972 have been estimated and accounted for by a credit of $215,000 (after tax effect of $200,000), as shown separately in the related income statement.

Auditor's Opinion

Permaneer Corporation:

We have examined the consolidated balance sheet of Permaneer Corporation and subsidiaries as of October 31, 1972 and 1971 and the related statements of consolidated income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the consolidated financial position of Permaneer Corporation and its subsidiaries at October 31, 1972 and 1971 and the consolidated results of their operations and changes in their consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied, except for the change in 1972, with which we concur, in accounting for operating supplies and machine parts as explained in Note 1 to the financial statements, on a consistent basis.

PHOENIX STEEL CORPORATION

Notes to financial statement

Long-Term Debt—Effective January 1, 1972 the company adopted the accounting policy of including discounts on the repurchase of its debt obligations in income in the year of the repurchase. This change was made to conform to the required treatment for future debt repurchases resulting from the issuance of an Opinion of the Accounting Principles Board. The effect of this change was to decrease net loss for 1972 by $360,000 ($.09 per share). The repurchase discount has been included as a reduction of interest and amortization of debt discount and expense. Prior to 1972 the company followed the practice of crediting purchase discount on bonds repurchased against the unamortized balance of original issue discount and expense.

Auditor's Opinion

To the Shareholders and Board of Directors
Phoenix Steel Corporation

We have examined the accompanying statement of financial position of Phoenix Steel Corporation as of December 31, 1972 and 1971 and the related statements of operations and accumulated deficit and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 5 to the financial statements the company has changed its method of accounting for the repurchase of its debt obligations.

In our opinion the financial statements examined by us present fairly the financial position of Phoenix Steel Corporation at December 31, 1972 and 1971, the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied, except for the change, with which we concur, in the method of accounting for the repurchases of debt obligations.

SPERRY RAND CORPORATION

Notes to financial statement

Investments in companies in Japan and India representing ownership interests of between 31% and 50% were carried at cost until March, 1972, when the equity method of accounting for such investments was adopted. As a result of this change, income was credited $5.2 million, representing the excess, $5.8 million, of the Corporation's equity in the net assets of such companies as of March 31, 1971 (based on the latest audited financial statements) over the cost of investments therein, less dividends of $0.6 million received during fiscal 1972 previously credited to income. The prior year's financial statements have not been restated because the change would be immaterial.

Auditor's Opinion

To the Stockholders and Board of Directors of Sperry Rand Corporation:

We have examined the consolidated balance sheet of Sperry Rand Corporation as of March 31, 1972, and the related consolidated statements of income and retained earnings, additional paid-in capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Confirmations of certain accounts with United States Government departments and agencies were not obtainable, but other auditing procedures deemed appropriate were followed in respect of such accounts. We previously examined and reported upon the Corporation's consolidated financial statements for the preceding year.

In our opinion, the aforementioned consolidated financial statements present fairly the consolidated financial position of Sperry Rand Corporation at March 31, 1972 and 1971 and the consolidated results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, in which we concur, to the equity method of accounting for certain investments as described on page 27.

Two years—change in earliest year. The following reporting provisions apply to a report on two or more years if the change occurred in the earliest year.

546.03 . . . If the year of change is the earliest year being reported upon, there is no inconsistency in the application of accounting principles during the period subsequent to the change, but the auditor should make reference to the change having been made in such year. Following is an example of appropriate reporting:

(Opinion paragraph)

. . . in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 19—, in the method of computing depreciation as described in Note X to the financial statements.

Illustrations. The following examples of auditors' opinions and related notes illustrate the appropriate method of reporting on two years when the change occurred in the first year and expressing concurrence with the change.

TWO YEARS—CHANGE IN EARLIEST YEAR

CHICAGO, ROCK ISLAND AND PACIFIC RAILROAD COMPANY

Notes to financial statement

Based on studies made in 1971, the Company changed its method of valuing inventories of secondhand rail. As a result, such inventories were repriced as at January 1, 1971, from estimated scrap value to estimated net realizable value. The effect of this change was to reduce the net loss for 1971 by $875,000, or $0.30 per share.

Auditor's Opinion

To the Shareholders and Board of Directors of
Chicago, Rock Island and Pacific Railroad Company

We have examined the balance sheet as of December 31, 1972 and 1971 and the related statements of operations and retained income and of changes in financial position for the years then ended of Chicago, Rock Island and Pacific Railroad Company and of the Company and its subsidiaries consolidated. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 3, the Company is required to maintain its accounts in accordance with the accounting rules of the Interstate Commerce Commission. Accordingly, deferred federal income taxes have not been reflected in the accompanying financial statements as required by generally accepted accounting principles.

In view of the 1972 operating results and the prospects for 1973 the Company's future is dependent upon many factors (some of which are beyond its control), such as, adequate increases in freight rates, subsidization of commuter and intercity passenger services, or favorable action by the Interstate Commerce Commission in the Rock Island-Union Pacific merger case.

In our opinion, except that deferred federal income taxes are not reflected and subject to the satisfactory resolution of the matters described in the preceding paragraph, the accompanying financial statements examined by us present fairly the financial position at December 31, 1972 and 1971 and the results of operations and changes in financial position for the years then ended of Chicago, Rock Island and Pacific Railroad Company and of the Company and its subsidiaries consolidated, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, which we approve, made as of January 1, 1971 in the method of valuing certain inventories as described in Note 8.

LACLEDE STEEL COMPANY

Notes to financial statement

Prior to 1971, inventories of semi-finished products and raw materials were valued on the basis of the inventory price at December 31, 1939, to the extent that quantities equivalent to those on hand at that date were on hand at the year end, and the excess at average cost for the year. In connection with the development of a cost accounting system which is more informative to management, the Company changed its inventory valuation method effective January 1, 1971. All inventories on hand at that date and subsequently are stated at the lower of moving average cost or market.

The change in the January 1, 1971 inventory value resulted in an extraordinary credit of $1,086,000 (after provision in lieu of federal income taxes of $1,002,000—Note 6) to earnings, as shown separately in the consolidated statement of earnings for 1971. Had the previous method been continued, net earnings for the year ended December 31, 1971 (which includes the extraordinary credit to earnings of $1,086,000 mentioned above) would have been reduced by approximately $1,347,000 or $3.26 per share.

Auditor's Opinion

To the Board of Directors and Stockholders of Laclede Steel Company

We have examined the consolidated balance sheet of Laclede Steel Company and its subsidiaries as of December 31, 1972 and 1971 and the related consolidated statements of earnings and earnings retained for use in the business and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 3 to the consolidated financial statements, Laclede Steel Company changed its method of inventory valuation effective January 1, 1971.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Laclede Steel Company and its subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1971, referred to in the preceding paragraph.

PENN-DIXIE CEMENT CORPORATION

Notes to financial statement

The extraordinary loss of $220,000 in 1972 represents the Company's share of the write down, net of tax effect, to estimated realizable value, as determined by current sales negotiations, of Castle Capital's investment in its subsidiary, Life of America Insurance Company.

In 1971 the Company realized a net gain, after taxes, of $677,000 on the sale of various capital assets and the proposed sale (later withdrawn) and disposal of certain other operating facilities.

The Company also changed in 1971 the method of valuing certain of the inventories of Continental Steel Corporation for consolidated financial statement purposes from average cost to last-in, first-out. The cumulative effect of this change on prior years' net income, $595,000, was reported as a special item.

Auditor's Opinion

The Shareholders and Board of Directors of Penn-Dixie Cement Corporation

We have examined the balance sheet of Penn-Dixie Cement Corporation and consolidated subsidiaries as of December 31, 1972 and December 31, 1971 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of one consolidated subsidiary for the year ended December 31, 1972 and the financial statements of two consolidated subsidiaries for the year ended December 31, 1971 which statements reflect total assets and revenues constituting 10% and 8%, respectively, for the year ended December 31, 1972 and 25% and 30% respectively for the year ended December 31, 1971 of the related consolidated totals. Such statements were examined by other independent public accountants whose reports thereon have been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon such reports.

In our opinion, based upon our examination and the reports of other independent public accountants, the accompanying financial statements present fairly the financial position of Penn-Dixie Cement Corporation and consolidated subsidiaries at December 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods subsequent to the change, with which we concur, made as of January 1, 1971, in the method of valuation of certain inventories as explained in the note on extraordinary and special items.

STANADYNE INC.

Notes to financial statement

Effective January 1, 1971, the Company changed its method of computing depreciation of plant and equipment for financial statement purposes from accelerated methods to the straight-line method. The effect of this change was to increase earnings for 1971 by $414,000 or 8 cents per share. Accelerated methods are used for tax purposes. Composite group lives used to compute depreciation range from 4 years for production tooling to 45 years for buildings, with the major portion of machinery and equipment at 12 years. Renewals and betterments are capitalized; repairs and maintenance are charged to expense when incurred. Upon disposal of plant and equipment, unless unusual in nature or amount, cost less salvage is charged against accumulated depreciation.

Auditor's Opinion

To the Board of Directors and Stockholders of Stanadyne, Inc.

In our opinion, the accompanying consolidated balance sheets, the related consolidated statements of income and earnings reinvested in the business, and the consolidated statements of changes in financial position present fairly the financial position of Stanadyne, Inc., at December 31, 1972 and 1971, the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1971, in the method of computing depreciation as described in Note 1 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

SCOTT PAPER COMPANY

Notes to financial statement

In 1971, the Company adopted the "deferral" method of accounting for investment credits. The deferral method takes the credits into income over the life of the assets and minimizes fluctuations in income arising from changes in rates of capital spending. The Company has not restated prior years when it used the "flow through" method which takes credits into income in the year capital projects are completed. Earnings in 1972 and 1971 would have been higher by $1,611,000 and $489,000, respectively, under the "flow through" method.

Auditor's Opinion

To the Board of Directors and Shareholders
Scott Paper Company

We have examined the consolidated balance sheets of Scott Paper Company and its subsidiaries as of December 31, 1972 and 1971, and the related statements of consolidated operations, reinvested earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in the financial review, in 1971 the company changed its method of accounting for the investment credit.

In our opinion, the accompanying consolidated financial statements, including the financial review, examined by us present fairly the financial position of Scott Paper Company and its subsidiaries at December 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1971, referred to in the preceding paragraph.

Earliest year subsequent to year of change. The following provisions apply to a report on the financial statements for a year immediately subsequent to the year in which a change in accounting principle occurred.

> **546.03** . . . A change in accounting principle made at the beginning of the year preceding the earliest year being reported upon by the auditor does not result in an inconsistency between such preceding year and later years. In reporting on consistency of a later year with such preceding year, reference to a change is not necessary.

Thus, the auditor's opinion need not mention the change, but the change may be disclosed in the notes to the financial statements.

Illustrations. The following examples of auditors' opinions and related notes illustrate the appropriate method of reporting on the financial statements for a period immediately subsequent to the period in which the change occurred.

EARLIEST YEAR SUBSEQUENT TO YEAR OF CHANGE

ADDRESSOGRAPH MULTIGRAPH CORPORATION

Notes to financial statement

Prior to 1971, the Company and its subsidiaries used principally the straight-line method of computing depreciation for financial reporting purposes with accelerated methods for the balance. In 1971, the Company extended the straight-line method of depreciation to all depreciable property. This change increased net income for 1971 by $1,125,000 or $.14 per share.

The provision for depreciation amounted to $13,293,000 in 1972 and $14,138,000 in 1971.

Auditor's Opinion

To the Shareholders and Board of Directors, Addressograph Multigraph Corporation

In our opinion, the accompanying consolidated balance sheets and the related statements of consolidated income and retained earnings and of changes in financial position present fairly the financial position of Addressograph Multigraph Corporation and its subsidiaries at July 31, 1972 and 1971, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

COLLINS RADIO COMPANY

Notes to financial statement

Accounting Change—In 1971 the Company changed its treatment for company-sponsored new product engineering design from the deferral and amortization of such costs over related product deliveries to the practice of immediately expensing the costs as incurred. As a result of this change, costs deferred net of amortization at the effective date of change were written off.

Auditor's Opinion

To the Shareholders, Collins Radio Company:

We have examined the consolidated balance sheet of Collins Radio Company and Subsidiaries as of July 28, 1972 and the related consolidated statements of operations and retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements for the year ended July 30, 1971.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Collins Radio Company and Subsidiaries at July 28, 1972 and July 30, 1971 and the consolidated results of their operations and changes in financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Change in principle inseparable from change in estimate. The effect of a change in accounting principle may be inseparable from the effect of a change in estimate. In that event SAS No. 1 requires recognition in the auditor's opinion as to consistency.

420.11 The effect of a change in accounting principle may be inseparable from the effect of a change in estimate. Although the accounting for such a change is the same as that accorded a change only in estimate, a change in principle is involved. Accordingly, this type of change requires recognition in the independent auditor's opinion as to consistency.

Illustrations. The following example of an auditor's opinion and the related note illustrate the appropriate reporting on financial statements that reflect a change in estimate effected by a change in accounting principle.

STANLEY WORKS

Notes to financial statement

One of the Company's subsidiaries has been investing increasing amounts in tooling for primarily proprietary lines of hardware. The subsidiary has had the policy of expensing the costs of this tooling in the year acquired. Because these expenditures are becoming substantial, and since the tooling will benefit future periods, the subsidiary has adopted the policy of capitalizing expenditures for this type of tooling, and depreciating them on a straight-line basis over three years. As a result of this change in accounting method, net earnings for 1972 were increased by approximatly $213,000, ($.03 per share).

Auditor's Opinion

To the Stockholders

The Stanley Works, New Britain, Connecticut

We have examined the consolidated financial statements of The Stanley Works and subsidiary companies for the years ended December 31, 1972 and January 2, 1972. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries, which statements were examined by other Independent accountants. The accounts and operations of these subsidiaries have been included in the consolidated financial statements as reported on by the other independent accountants.

In our opinion, based upon our examinations and the reports of other independent accountants, subject to the effect of the possible divestiture of Amerock Corporation and subsidiary referred to in Note F, the accompanying balance sheet and statements of earnings, stockholders' equity, and changes in financial position present fairly the consolidated financial position of the Stanley Works and subsidiary companies at December 31, 1972 and January 2, 1972, and the consolidated results of their operations, changes in stockholders' equity, and changes in financial position for the two fiscal years then ended, in conformity with generally accepted accounting principles, which, except for the changes (which we approve) referred to in Note G, have been applied on a consistent basis.

V

REPORTING ON ACCOUNTING CHANGES NOT AFFECTING CONSISTENCY

A change in accounting estimate that is not effected by a change in accounting principle and a correction of an error in previously issued financial statements that was not an error in the application of accounting principle do not affect the consistency standard. The prescribed reporting in APBO No. 20 for a change in accounting estimate is to account for the effects in the period of the change or in that period and future periods, as appropriate, and the prescribed reporting for a correction of error is to account for the correction as a prior period adjustment.

Reporting on changes in accounting estimates, corrections of errors, and other changes that, according to the provisions of SAS No. 1, do not affect the consistency standard are discussed and illustrated in this chapter.

CHANGE IN ACCOUNTING ESTIMATE

An auditor need not recognize in his report a change in accounting estimate that is not effected by a change in accounting principle, although a material change of that type may need to be disclosed in the financial statements.

> **420.12** Accounting estimates (such as service lives and salvage values of depreciable assets and provisions for warranty costs, uncollectible receivables, and inventory obsolescence) are necessary in the preparation of financial statements. Accounting estimates change as new events occur and as additional experience and information are required. This type of accounting change is required by altered conditions that affect comparability but do not involve the consistency standard. The independent auditor, in addition to satisfying himself with respect to the conditions giving rise to the change in accounting estimate, should satisfy himself that the change does not include the effect of a change in accounting principle. Provided he is so satisfied, he need not comment on the change in his report because it does not affect his opinion as to consistency. However, an accounting change of this type having a material effect on the financial statements may require disclosure in a note to the financial statements.

Illustrations

The following examples of notes and auditors' opinions illustrate the appropriate method of reporting on financial statements reflecting a change in accounting estimate that is not effected by a change in accounting principle.

AMERICAN SHIP BUILDING CO.
Notes to financial statement

For financial reporting purposes, the Company and its subsidiaries provide depreciation principally on a straight-line method at annual rates based upon the estimated service lives of the property. During 1972, the lives of certain assets were extended, which had the effect of increasing net income for the year by approximately $137,000.

Auditor's Opinion
To the Board of Directors and Shareholders,
The American Ship Building Company:

We have examined the consolidated balance sheets of The American Ship Building

Company (a New Jersey corporation) and Subsidiaries as of October 1, 1972, and October 3, 1971, and the related consolidated statements of income, shareholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose assets represent less than 20% of total consolidated assets and whose income represents less than 15% of total consolidated income. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon the reports of the other auditors.

In our opinion, based upon our examination and the reports of other auditors referred to above, and subject to the collectibility of certain claims referred to in Note 9 on the accompanying consolidated balance sheets and statements of shareholders' equity, the accompanying consolidated financial statements present fairly the financial position of The American Ship Building Company and Subsidiaries as of October 1, 1972, and October 3, 1971, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

CAMERON IRON WORKS, INC.

Notes to financial statement

The Company and its subsidiaries have retirement plans covering substantially all of its United States, British, Mexican and Canadian employees. Retirement plan cost charged to income was $2,185,000 in 1972 and $1,893,000 in 1971 representing cost of current service plus provision to amortize prior service cost over a period of 30 years in 1972 and 40 years in 1971. This change in the amortization period for prior service cost did not have a significant effect on retirement plan expense for 1972. The Company's policy is to fund pension costs accrued.

Auditor's Opinion

To the Stockholders,
Cameron Iron Works, Inc.:

We have examined the consolidated balance sheet of Cameron Iron Works, Inc. (a Texas corporation), and subsidiaries as of June 30, 1972, and the related statements of consolidated income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, subject to the ultimate collection of accounts receivable from Rolls-Royce Limited as discussed in Note 2, the accompanying consolidated financial statements present fairly the financial position of Cameron Iron Works, Inc., and subsidiaries as of June 30, 1972, and the results of their operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CASTLE & COOKE, INC.

Notes to financial statement

Castle & Cooke and its consolidated subsidiaries have qualified retirement plans covering most full-time employees. The cost of these plans amounted to $2,687,000 for the nine months ended December 31, 1972 and $3,211,000 for the year ended March 31, 1972. During the latest period, the effect of an increase in the assumed interest rate approximately offset the cost of increased benefits provided under certain plans. The policy is to fund accrued pension costs by deposits with trustees or insurance companies. The value of the pension fund assets and balance sheet accruals at December 31, 1972 exceeded the actuarially computed value of vested benefits for all plans.

Auditor's Opinion

To the Stockholders of Castle & Cooke, Inc.:

We have examined the consolidated balance sheet of Castle & Cooke, Inc. and its consolidated subsidiaries as of December 31, 1972 and March 31, 1972 and the related statements of consolidated income and retained earnings and changes in consolidated financial position for the nine months ended December 31, 1972 and the year ended March 31, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Standard Fruit and Steamship Company and its subsidiaries and Castle & Cooke Worldwide Limited included in consolidation for the year ended March 31, 1972 which reflect total assets and revenues constituting 22% and 30% of the respective consolidated totals for that year. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in consolidation for the year ended March 31, 1972 for those companies, is based solely upon the reports of the other auditors.

In our opinion, based on our examination and the reports of other auditors referred to above, the aforementioned consolidated financial statements present fairly the financial position of Castle & Cooke, Inc. and its consolidated subsidiaries at December 31, 1972 and March 31, 1972 and the results of their operations and the changes in their financial position for the stated periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

WHEELING-PITTSBURGH STEEL CORPORATION

Notes to financial statement

Effective January 1, 1971, the depreciation rates for certain steel-making facilities were adjusted to approximate more closely the estimated remaining service lives of the related property units. These changes increased net income for the year 1971 by $2,161,000 ($.59 per common share) after deduction of applicable income taxes of $700,000.

Auditor's Opinion

To the Stockholders of Wheeling-Pittsburgh Steel Corporation:

We have examined the consolidated balance sheets of Wheeling-Pittsburgh Steel Corporation and subsidiaries as of December 31, 1972 and 1971 and the related consolidated statements of income and accumulated earnings and statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

On January 1, 1972, the Corporation adopted the equity method of accounting, which we approve, as described in Note F to the financial statements. As of January 1, 1971, certain revisions, which we approve, were made to the estimated useful lives of steel-making facilities, as described in Note B to the financial statements.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Wheeling-Pittsburgh Steel Corporation and subsidiaries at December 31, 1972 and 1971, the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied after giving retroactive effect to the adoption of the equity method of accounting.

CORRECTION OF ERROR NOT INVOLVING PRINCIPLE

When an auditor reports on financial statements that reflect a correction of an error that was not an error in the application of accounting principles, he is not required to recognize the error in expressing an opinion on consistency. APBO No. 20 requires the disclosure of the nature of the error and the effect of its correction on income before extraordinary items, net income, and the related per share amounts in the period in which the correction is made. Since the effect is accounted for as a prior period adjustment, the financial statements of the affected prior period should be marked "restated."

> **420.13** Correction of an error in previously issued financial statements resulting from mathematical mistakes, oversight, or misuse of facts that existed at the time the financial statements were originally prepared does not involve the consistency standard if no element of accounting principles or their application is included. Accordingly, the independent auditor need not recognize the correction in his opinion as to consistency.

Illustrations

The following examples of auditors' opinions and notes to financial statements illustrate the appropriate method of reporting on financial statements reflecting a correction of an error that was not an error in the application of an accounting principle.

ADMIRAL CORPORATION

Notes to financial statement

Restated Financial Statements for 1971 are presented because it was determined during an audit for the first quarter of 1972 that there was an overstatement of operating income of $182,000 ($.04 per share) and of net income of $590,000 ($.12 per share) for the year ended December 26, 1971. Errors in compilation resulted in previously reported consolidated inventories of $73,744,000 being overstated by approximately $907,000 and the liability for product and service warranties of $11,404,000 being overstated by approximately $453,000 at December 26, 1971. The restatement gives effect to corrections of these items, together with their related effect on profit sharing expense, provisions for income taxes and the extraordinary credit arising from utilization of U.S. income tax net operating loss carryover.

Auditor's Opinion

To the Board of Directors and Stockholders of Admiral Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and retained earnings and changes in financial position present fairly the financial position of Admiral Corporation and its consolidated subsidiary companies at December 31, 1972 and December 26, 1971, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. The consolidated financial statements for the year ended December 26, 1971 have been restated as described in the "Financial Review." Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

LTV CORPORATION

Notes to financial statement

In the course of an extensive operational audit by LTV of the vocational school operations of a subsidiary in 1972, it became apparent that accounting errors had been made in all periods since the acquisition of the school operations in 1969. The errors arose in calculating tuition income, primarily because of incorrect data reported from the field as to the rate and number of student drop-outs. The resulting required reductions in sales and results of operations for years prior to 1972 are as follows (in thousands except per share amounts):

Year	Sales	Results of operations	Per share
1969	$ 320	$ 167	$0.04
1970	3,173	1,650	0.39
1971	910	473	0.07
	$4,403	$2,290	

Auditor's Report
To The Shareholders and Board of Directors
The LTV Corporation—Dallas, Texas

We have examined the statements of financial position, long-term debt and shareholders' equity of The LTV Corporation (Parent Company) and of The LTV Corporation and subsidiaries as of December 31, 1972, and the related statements of operations, capital surplus and retained earnings, and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of two subsidiaries of the Company (Jones & Laughlin Steel Corporation and LTV Wilson Industries, Inc.), investments in which are carried at $646 million at December 31, 1972, including $483 million carried in the statement of financial position of the parent company. The assets and liabilities of such subsidiaries included in the consolidated statement of financial position constituted approximately 60% of the aggregate total of consolidated assets and liabilities, and their operating revenues and costs and expenses represent approximately 80% of the aggregate total of consolidated operating revenues and costs and expenses for the year ended December 31, 1972. The consolidated financial statements of these subsidiaries were examined by other independent accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon the reports of the other accountants.

In our opinion, based upon our examination and the aforementioned reports of other independent accountants, the financial statements as indicated above present fairly the respective financial positions of The LTV Corporation (Parent Company) and The LTV Corporation and subsidiaries at December 31, 1972, and the respective results of operations, other changes in shareholders' equity and source and use of working capital for the year then ended, all in conformity with generally accepted accounting principles which were applied on a basis consistent with that of the preceding year as restated—see "Financial Comments—Prior Period Adjustment."

OTHER MATTERS

Other matters discussed in SAS No. 1 relate to accounting changes but do not affect the consistency standard. The following sections from SAS No. 1 discuss those matters.

Changes in Classification and Reclassifications

Changes in classification and reclassification, such as the segregation of the results of discontinued operations, do not affect consistency.

420.14 Classifications in the current financial statements may be different from classifications in the prior year's financial statements. Although changes in classification are usually not of sufficient importance to necessitate disclosure, material changes in classification should be indicated and explained in the financial statements or notes. These changes and material reclassifications made in previously issued financial statements to enhance comparability with current financial statements ordinarily would not affect the independent auditor's opinion as to consistency and need not be referred to in his report.

Variations in Format and Presentation

Variations in format and presentation of the statement of changes in financial position ordinarily do not affect consistency.

420.15 In paragraph 8 of APB Opinion No. 19, the Accounting Principles Board concluded that ". . . the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position.

. . ." In paragraph 9 of that Opinion, however, the Board recognized ". . . the need for flexibility in form, content, and terminology . . ." of the statement of changes. Accordingly, variations between periods in the format of the statement of changes, such as changing to or from a balanced form, are deemed to be reclassifications. If such variations materially affect comparability, they should be disclosed in the financial statements and ordinarily will not be referred to in the independent auditor's report.

New Transactions or Events and Changes Expected to Have Material Effects

The following provisions of SAS No. 1 indicated that substantially different transactions or events and accounting changes expected to have a material future effect are not required to be recognized in the auditor's opinion on consistency.

420.17 Accounting principles are adopted when events or transactions first become material in their effect. Such adoption, as well as modification or adoption of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring, do not involve the consistency standard although disclosure in the notes to the financial statements may be required.

420.18 If an accounting change has no material effect on the financial statements in the current year, but the change is reasonably certain to have substantial effect in later years, the change should be disclosed in the notes to the financial statements whenever the statements of the period of change are presented, but the independent auditor need not recognize the change in his opinion as to consistency. (See Cameron Iron Works, Inc. example on page 86.)

420.19 While the matters discussed in paragraphs .12-.15 and .17-.18 do not require recognition of the independent auditor's report as to consistency, the auditor should qualify his report as to the disclosure matter if necessary disclosures are not made. (See section 430.04.)

Illustrations. The following examples of auditors' opinions and notes to the financial statements illustrate appropriate reporting on the adoption of a new accounting principle for a substantially different transaction or event.

DAN RIVER INC.
Notes to financial statement

(a) The sale of the factoring business of Iselin-Jefferson Financial Company, Inc. to a subsidiary company of Manufacturers Hanover Trust Company was effective March 1, 1972. The cash transaction involved the sale of substantially all the assets of the business, the assumption by the purchaser of certain liabilities and the issuance of guarantees to the purchaser in connection with certain client indebtedness, (none in effect at December 30, 1972). Also, factoring agreements relating to certain trade accounts receivable were entered into with the purchaser. The sale resulted in an extraordinary gain of $1,160,000 after provision for income taxes.

(b) Since it had been engaged in an unrelated business, the accounts of Iselin-Jefferson Financial Company, Inc. had not previously been included in the consolidated financial statements and the investment was carried on the equity method. As a result of the sale of the factoring business beginning in 1972, the accounts of this subsidiary are included in the consolidated financial statements. The consolidation of this subsidiary company has no effect on consolidated stockholders' equity and its assets and liabilities included in the 1972 consolidated balance sheet are not material. The 1972 earnings from the factoring business to date of sale, which are not significant, are included in other income in the consolidated statement of earnings.

Auditor's Opinion

The Board of Directors and Stockholders
Dan River Inc.:

We have examined the consolidated balance sheet of Dan River Inc. and subsidiary companies as of December 30, 1972 and the related statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Dan River Inc. and subsidiary companies at December 30, 1972 and the results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

GREYHOUND CORPORATION

Notes to financial statement

As described in Note B, Armour-Dial, Inc. ("Dial") became a wholly-owned subsidiary of Armour and Company ("Armour") in 1972, through the acquisition of the publicly held minority shares of Dial. In previous years the financial statements of Dial were not consolidated because of the publicly held minority interest. As a result of this acquisition, the accounts of Dial are included in the consolidated financial statements beginning in 1972. Comparative statements for 1971 are shown on this basis, which did not change net income or stockholders' equity from that previously reported.

Auditor's Opinion

To the Stockholders and Board of Directors of
The Greyhound Corporation

We have examined the statement of consolidated financial condition of The Greyhound Corporation and consolidated subsidiaries as of December 31, 1972, and the related statements of income, capital surplus, retained income and changes in financial position for the year then ended. We have also examined the accompanying statement of consolidated financial condition of Greyhound Leasing & Financial Corporation and consolidated subsidiaries as of December 31, 1972, and the related statements of income, retained income and changes in financial position for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Armour-Dial, Inc., a consolidated subsidiary, were examined by other certified public accountants in prior years.

In our opinion, the aforementioned consolidated financial statements present fairly the respective financial positions of The Greyhound Corporation and consolidated subsidiaries and of Greyhound Leasing & Financial Corporation and consolidated subsidiaries at December 31, 1972, and their respective results of operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after restatement, with which we concur, for the consolidation of Armour-Dial, Inc., as explained in Note A to the consolidated financial statements of Greyhound.

KOEHRING COMPANY

Notes to financial statement

On November 23, 1972, an agreement was entered into whereby the Company acquired all the outstanding preferred stock of Koehring Overseas Corporation, S.A., thereby increasing its voting control from 45% to 100%.

Accordingly, the November 30, 1972, consolidated balance sheet includes the accounts of Koehring Overseas Corporation, S.A. and its subsidiary on a fully consolidated basis for the first time (current assets $12,959,000, current liabilities $1,893,000, and noncurrent assets $1,589,000 including $99,000 of excess cost of acquired companies over related equity).

This investment was previously carried on the equity basis of accounting. Net earnings for the year, after provision for deferred income taxes is included in the consolidated statement of earnings on the equity basis as in prior years. If the acquisition had been made as of the beginning of the year, there would be an immaterial effect on reported revenues, expenses and net earnings. Results of operations will be consolidated in future years.

Auditor's Opinion

To the Stockholders and The Board of Directors of Koehring Company:

We have examined the consolidated balance sheet of Koehring Company (a Wisconsin corporation) and consolidated subsidiaries as of November 30, 1972, and the related consolidated statements of earnings, capital stock and additional paid-in capital, earnings retained in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Koehring Company and consolidated subsidiaries as of November 30, 1972, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change (with which we concur) in the method of accounting for income taxes on undistributed earnings of an international affiliate referred to in Note 1 to the financial statements.

VI

REPORTING ON FINANCIAL STATEMENTS WITH MULTIPLE ACCOUNTING CHANGES

This chapter contains the financial statements of two companies that reported several different types of accounting changes in the same financial statements. The financial statements illustrate in a comprehensive manner the complexities of reporting accounting changes in financial statements and of reporting on financial statements with multiple accounting changes.

The financial statements for the Ampex Corporation for the two years ended April 29, 1972 and for the year ended April 28, 1973 are presented. For reasons explained in the auditor's reports, the auditor reported on the two years ended April 29, 1972 as a single accounting period. The financial statements for the two-year period reflect several changes in accounting estimate and a change in accounting principle affecting the consistency standard. The financial statements for the year ended April 28, 1973 are also presented because they reflect not only the accounting change occurring in the previous year but also additional accounting changes in fiscal 1973 that required the financial statements of the prior period to be restated.

The financial statements of Swift & Company for the year ended October 28, 1972 are presented because they illustrate reporting several accounting changes in the same financial statements. The statements illustrate the reporting of not only accounting changes pursuant to the general reporting provisions of APBO No. 20 (paragraphs 19-22) but also special accounting changes that are required to be reported by restating prior period financial statements in accordance with paragraphs 27-28 of APBO No. 20.

AMPEX CORPORATION

Consolidated Statement of Retained Earnings (Deficit)

Years ended April 28, 1973, April 29, 1972 and May 1, 1971

	($ thousands)		
Retained earnings (deficit) beginning of year:	1973	1972	1971
As previously reported	(20,097)	69,563	81,568
Provision for deferred taxes (Note 5)	(1,770)	(5,780)	(4,549)
As restated	(21,867)	63,783	77,019
Net earnings (loss) for the year	3,654	(85,650)	(13,236)
Retained earnings (deficit) end of year	(18,213)	(21,867)	63,783

The financial statements for 1972 and 1971 have been restated as explained in note 1.
See summary of accounting policies and notes to consolidated financial statements.

Consolidated Balance Sheet

April 28, 1973 and April 29, 1972

	($ thousands) 1973	1972
Assets		
Current assets:		
Cash	10,951	13,375
Notes and accounts receivable, less allowances of $10,134,000 and $12,270,000	67,613	80,428
Inventories, at lower of average cost or net realizable market value (Note 3)	84,666	90,446
Prepaid royalties, less amortization	4,463	7,937
Other prepaid expenses	5,942	5,867
Net current assets of discontinued operations (Note 2)	—	12,747
Total current assets	173,635	210,800
Net noncurrent assets of discontinued operations (Note 2)	—	7,908
Noncurrent receivables, less allowances of $3,548,000 and $2,684,000	13,240	23,849
Rental equipment, at cost, less accumulated depreciation of $5,984,000 and $4,973,000	11,066	15,741
Investments and other assets	6,538	5,886
Property, plant and equipment—at cost (Note 6):		
Land	5,413	6,499
Buildings	35,791	35,089
Machinery and equipment	65,005	70,106
	106,209	111,694
Less accumulated depreciation	44,430	40,833
	61,779	70,861
	266,258	335,045
Liabilities and Shareowners' Equity		
Current liabilities:		
Accounts payable	13,734	14,206
Current portion of long-term debt	675	26,013
Accrued royalties	9,132	22,591
Accrued compensation and employee benefits	7,045	5,921
Other accrued liabilities	20,982	16,321
Accrued taxes on income (Note 5)	7,789	8,067
Total current liabilities	59,357	93,119
Long-term debt, less current portion (Note 6):		
1972 Credit and Security Agreement	99,563	131,660
5½% Convertible Subordinated Debentures	60,000	60,000
Other indebtedness	934	7,542
	160,497	199,202
Shareowners' equity:		
Preferred shares, no par value:		
Authorized: 1,000.000 shares—none outstanding		
Common shares, $1 par value (Note 7):		
Authorized: 20,000,000 shares		
Reserved: 1,981,298 shares		
Issued and outstanding: 10,878,144 and 10,874,614 shares	10,878	10,875
Capital surplus	53,739	53,716
Deficit (Note 6)	(18,213)	(21,867)
	46,404	42,724
Commitments and Contingencies (Notes 4, 5 and 9)		
	266,258	335,045

The financial statements for 1972 have been restated as explained in note 1.
See summary of accounting policies and notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Years ended April 28, 1973, April 29, 1972, and May 1, 1971

	($ thousands)		
Source of funds:	1973	1972	1971
From continuing operations:		(Note 10)	(Note 10)
Earnings (loss)	1,133	(79,190)	(7,509)
Add: depreciation and amortization	15,000	13,874	8,649
Other, net	559	1,669	662
Working capital provided from (used in) continuing operations, exclusive of extraordinary items	16,692	(63,647)	1,802
From discontinued operations:			
Loss	(260)	(6,460)	(5,727)
Add depreciation and amortization	3,047	4,084	4,412
Proceeds from sale of subsidiary, excluding working capital sold of $12,041,000	12,067	—	—
	31,546	(66,023)	487
Increase in long-term debt	—	12,044	50,000
Decrease (increase) in noncurrent receivables	10,609	13,930	(13,671)
Sale of rental equipment	10,250	—	—
Disposal of property, plant and equipment	3,386	2,033	697
Other	1,572	683	601
	57,363	(37,333)	38,114
Application of funds:			
Increase in net noncurrent assets of discontinued operations	4,425	4,537	4,467
Decrease in long-term debt	38,705	1,834	11,704
Purchases of property, plant and equipment	4,501	11,671	21,729
Additions to rental equipment	10,378	13,809	5,121
Other	2,757	1,876	2,262
	60,766	33,727	45,283
Decrease in working capital	(3,403)	(71,060)	(7,169)
Summary of increase (decrease) in working capital:			
Cash	(2,424)	(9,648)	11,890
Income tax refund claim	—	(10,853)	5,010
Notes and accounts receivable	(12,815)	(22,389)	(18,940)
Inventories	(5,780)	(24,742)	1,037
Prepaid royalties	(3,474)	(3,888)	7,472
Other prepaid expenses	75	(1,828)	1,199
Net current assets of discontinued operations	(12,747)	1,790	(1,639)
Notes payable	—	25,833	(4,870)
Accounts payable	472	283	(2,429)
Current portion of long-term debt	25,338	(20,889)	(2,533)
Accrued royalties	13,459	(11,401)	(7,054)
Accrued compensation and employee benefits	(1,124)	(534)	1,564
Other accrued liabilities	(4,661)	2,404	(6,035)
Accrued taxes on income	278	4,802	8,159
	(3,403)	(71,060)	(7,169)

The financial statements for 1972 and 1971 have been restated as explained in note 1.
See summary of accounting policies and notes to consolidated financial statements.

Consolidated Statement of Operations

Years ended April 28, 1973, April 29, 1972, and May 1, 1971

		($ thousands)	
	1973	1972 (Note 10)	1971 (Note 10)
Net sales and operating revenues from continuing operations	256,604	229,160	237,558
Costs and expenses from continuing operations:			
Cost of sales and operating expenses	187,103	205,408	182,781
Selling and administrative expenses	46,023	50,439	48,103
Provision for royalty guarantees in excess of unit royalties	1,070	31,989	5,883
Provision for uncollectible accounts	3,477	9,863	4,001
Interest expense	15,472	14,244	12,873
	253,145	311,943	253,641
Earnings (loss) from continuing operations before taxes on income	3,459	(82,783)	(16,083)
Taxes on income (credit) (Note 5)	2,326	(3,593)	(8,574)
Earnings (loss) from continuing operations	1,133	(79,190)	(7,509)
Loss from discontinued operations (net) (Note 2)	(260)	(6,460)	(5,727)
Earnings (loss) before extraordinary items	873	(85,650)	(13,236)
Extraordinary item—Gain on sale of subsidiary (Note 2)	2,781	—	—
Net earnings (loss) (Note 5)	3,654	(85,650)	(13,236)
Per common share:			
Earnings (loss) from continuing operations	$ .10	$ (7.29)	$ (.69)
Loss from discontinued operations	(.02)	(.59)	(.53)
Extraordinary item	.26	—	—
Net earnings (loss) (Note 5)	$ .34	$ (7.88)	$ (1.22)

Notes to Consolidated Financial Statements

Note 1—Subsidiaries

Net assets of foreign consolidated subsidiaries and the Company's investment in a foreign joint venture amounted to approximately $59,000,000 and $52,000,000 (excluding Mandrel Industries, Inc.) at the end of 1973 and 1972 and were located in countries with freely convertible currencies. The consolidated statement of operations includes net gains from currency revaluations before taxes in the amounts of $674,000, $1,145,000 and $176,000 for 1973, 1972 and 1971.

Ampex World Operations, S.A., previously a noncontrolled foreign unconsolidated company, was 100%-owned as of April 28, 1973 and was, therefore, consolidated. Ampex Credit Corporation (ACC), previously an unconsolidated finance company, was also consolidated in 1973 since its portfolio has been disposed of to Ampex and to an unrelated company, and ACC is currently inactive. Financial statements for prior periods have been restated to reflect these two subsidiaries as consolidated. These restatements had no effect on net earnings or shareowners' equity. In addition, the financial statements for 1972 and 1971 have been restated as explained in Notes 2 and 5.

Note 2—Discontinued Operations and Extraordinary Gain

The Company's former subsidiary, Mandrel Industries, Inc. was sold as of January, 1, 1973, for cash of approximately $22,000,000 (which was applied to reduce long-term debt) and common stock of the purchaser having an estimated current value of $2,500,000. The extraordinary gain is summarized as follows:

	($ thousands)
Gain on sale before taxes	2,906
Income and franchise taxes resulting from the sale	(1,270)
Tax benefits realized through utilization of net operating loss carryforward	1,145
	2,781

Earnings of discontinued operations as shown on the accompanying consolidated statement of operations represent the earnings (loss) of Mandrel Industries, Inc., to the date of sale and Consumer Equipment Division, Ampex Record Company and television transmitter systems manufacturing which were discontinued in 1972.

	($ thousands)		
	1973	1972	1971
Net sales and operating revenues	37,404	66,277	61,385
Costs and expenses	36,140	68,763	68,047
Provision for cost of discontinuances	903	2,738	4,550
Earnings (loss) before taxes	361	(5,224)	(11,212)
Taxes on income (credit)	621	1,236	(5,485)
Net Loss	(260)	(6,460)	(5,727)

The April 29, 1972 Balance Sheet has been restated to show Mandrel's net assets as two separate items as follows:

	($ thousands)
Current assets	24,606
Current liabilities	11,859
Net current assets	12,747
Property, plant and equipment—net	10,597
Noncurrent receivables and other assets	2,394
	12,991
Long-term debt	5,083
Net noncurrent assets	7,908

The assets and liabilities of other discontinued operations were not material at April 29, 1972.

Note 5—Income Taxes

The income tax expense (credit) consists of:

	($ thousands) year ended		
	4/28/73	4/29/72	5/1/71
Provision for federal, foreign, and state taxes on income	4,217	3,778	4,378
Taxes deferred in prior periods and eliminated because of net operating losses	—	(6,135)	(7,584)
Refundable federal taxes arising from carryback of net operating loss to prior years	—	—	(10,853)
Tax benefits realized through utilization of net operating loss carryforward	(1,145)	—	—
	3,072	(2,357)	(14,059)
Less amounts attributable to discontinued operations and extraordinary gain (Note 2)	746	1,236	(5,485)
Applicable to continuing operations (principally foreign taxes in 1973)	2,326	(3,593)	(8,574)

Opinions No. 23 and 24 of the Accounting Principles Board of the American Institute of Certified Public Accountants, to the extent that they relate to the accrual of taxes with respect to the undistributed earnings of subsidiary and associated companies, first have application to the financial statements of the Company for the year ended April 28, 1973. Under the principles established in the Opinions, it has not been considered appropriate for the Company to provide for United States taxes on undistributed earnings of foreign subsidiaries aggregating about $60,300,000. It is planned that repatriation of approximately $32,000,000 of such earnings will be made during the period in which net operating loss carryforwards are available as an offset; the remainder of such earnings is considered to be indefinitely reinvested. The planned repatriation will consume approximately $36,000,000 of the $60,000,000 net operating loss carryforward which is available at April 28, 1973, and under present laws will be subject to foreign withholding taxes of about $1,860,000. The repatriation will generate foreign tax credits of $4,000,000 in addition to the credits of $1,860,000 resulting from the foreign tax withholding. Provision has been made during 1973 for taxes related to the foregoing. These taxes are detailed as follows:

	($ thousands)			
	1973	1972	1971	1970 and Prior
U.S. income taxes			910	3,477
Foreign withholding taxes	90	377	321	1,072
	90	377	1,231	4,549
Reversal of foregoing U.S. income taxes occasioned by 1972 operating loss		(4,387)		
Net effect	90	(4,010)	1,231	4,549
Amount per share (credit)	$.01	$(.36)	$.12	

The financial statements for 1972 and 1971 have been restated to give effect to the foregoing.

The Company has filed a suit in the Court of Claims for refund of a portion of the federal income taxes paid for 1965. The point at issue, which is also present in subsequent years, relates to the taxability by the United States of certain income of a then noncontrolled foreign company (which became wholly-owned in 1973). In the opinion of special tax counsel, there is a reasonable possibility that the suit will be settled on a basis favorable to the Company.

Examination by Internal Revenue Service of federal income tax returns of the Company for 1966 through 1971 has reached the point where definitive issues have been developed. Of primary significance are issues relating to the pricing of sales to related companies and the taxability by the United States of income of two foreign subsidiary companies, including the one referred to in the preceding paragraph.

Taking into account the availability of net operating loss carrybacks to 1968, the Company has, primarily in prior years, provided $3,100,000, which management believes to be a reasonable provision for possible additional federal income taxes and interest for 1966 through 1973. If the litigation and examination issues described above were to be resolved adversely, the taxes and interest in excess of the amount already accrued could amount to as much as $2,100,000. Resolution of these issues may consume a substantial portion of the net operating loss carryforward which remains after providing for the planned distributions noted above, increase the foreign tax credit carryforward of $3,700,000 available at April 28, 1973, reduce the existing investment tax credit carryforward of $1,200,000 and add a significant amount to the timing differences described below.

Operations reported to date have reflected net charges of $30,100,000 which, because of timing differences between financial statement and tax reporting, are available to reduce the taxable income of future years.

As of April 28, 1973, foreign net operating losses aggregating approximately $3,400,000 are available to offset future taxable income of certain foreign subsidiaries of the Company in the respective countries in which they operate.

Note 10—Prior Years' Operating Results

Adverse changes in the business of the Company resulted in a reappraisal of its operations during the year ended April 29, 1972. As a result, major revisions were made in the mode of operations and accounting estimates, including some modifications (which were approved by our independent accountants) in the application of accounting principles, which resulted in unusually large charges against 1972 operations, principally in the following areas:

Guarantees and settlements under royalty contracts
Discontinued divisions and product lines
Provisions for uncollectible accounts
Merchandise returns and marketing allowances
Inventory valuations

The impact upon the reported results of operations is set forth in the statement of operations for 1972 which affects the comparability of the 1972 financial statements with those of prior years. The effect of these revisions has been included in the statement of operations for 1972 in accordance with the provisions of Opinion No. 20 of the Accounting Principles Board because the amount of the 1972 loss which might now be considered attributable to events which had their genesis in 1971 could not be fairly determined under the changed circumstances existing at the end of 1972. However, management has some doubts that the loss which became recognizable in 1972 was all actually incurred during that year.

The Company's growth trend in stereo tape sales was reversed during 1972 necessitating a reassessment of the Company's position under all royalty contracts. A settlement was negotiated for two principal contracts with one supplier and provisions were established for estimated losses to be incurred on other royalty contracts where guaranteed minimum royalties could be expected to exceed unit royalties based on net tape sales.

Marketing problems and the difficulties encountered in the stereo tape operation relating to unauthorized transactions (the granting of extensive return privileges and other uneconomic commitments which resulted in both overproduction and unusually high merchandise returns) generated severe problems in the collection and control of accounts receivable and substantial amounts of unmatched customer credits and charge-backs. The exposure in this area is included in the allowances for receivables.

In connection with the overall evaluation of inventories in the years prior to 1972 the Company excluded from inventory costs certain elements of fixed factory overhead, which had the effect of imputing an additional reserve against inventories. In 1972, the Company made major additional write-offs of inventory and specific provisions for obsolescence, reflecting market conditions and current evaluations of technological obsolescence. As a part of this overall evaluation, the Company elected to include all elements of factory overhead in inventory. The inclusion of the additional elements of factory overhead had the effect of reducing the specific write-offs and provisions made in the overall evaluation of inventories at April 29, 1972 by approximately $3,700,000. Inventories of stereo tapes more than six months old and more than a year old at April 29, 1972, were written down 50% and 100%, respectively, ($2,400,000 in the aggregate) to reflect estimated market value. No significant write-downs of this nature were made in 1971.

Tentative plans to sell or discontinue the businesses of the Consumer Equipment Division and Ampex Record Company were adopted in 1971, and provisions were made for the estimated cost of discontinuing these businesses and disposing of the related properties even though a specific time frame or method for disposal had not been finally determined. In 1972, plans were made to discontinue manufacturing television transmitter systems and this operation was sold. In addition, because discontinuance of the businesses of the Consumer Equipment Division and Ampex Record Company took longer than initially anticipated, provision for additional costs of termination were required in 1972 (Note 2).

Prior to 1972 the Company accounted for leases of computer peripheral equipment as sales in those instances where the present value of the lease rentals exceeded cost of the equipment. The adoption of the accounting methods described in the Summary of Accounting Policies resulted in an increase of $2,800,000 in the 1972 loss.

Auditor's Opinion

The Shareowners and Board of Directors
Ampex Corporation

We have examined the consolidated balance sheet of Ampex Corporation and subsidiaries as of April 28, 1973 and April 29, 1972 and the related statements of operations, retained earnings (deficit) and changes in financial position for the year ended April 28, 1973 and for the two years ended April 29, 1972 viewed as a single two-year period (Note 10). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the favorable resolution of the litigation (Note 4), the aforementioned financial statements present fairly:

1. the consolidated financial position of Ampex Corporation and subsidiaries at April 28, 1973 and April 29, 1972, and
2. the results of their operations and changes in their financial position for the year ended April 28, 1973 and for the two years ended April 29, 1972 viewed as a single two-year period (but not for the individual years for the reasons stated in Note 10)

in conformity with generally accepted accounting principles, applied on a consistent basis except for the change in accounting for leases (Note 10) and after restatement for the changes in accounting for income taxes (Note 5) and consolidation policies (Note 1), with all of which we concur.

Five Year Financial Summary

(In thousands)

	1973	1972(b)	1971(b)	1970	1969
Net sales and operating revenues (a)	$256,604	229,160	237,558	247,781	231,635
Research and development (a):					
Company sponsored	$ 15,973	15,252	16,980	17,311	15,898
Contract	$ 3,840	10,747	8,515	6,043	5,815
Total	$ 19,813	25,999	25,495	23,354	21,713
Taxes on income (credit) (a)	$ 2,326	(3,593)	(8,574)	12,261	13,486
Earnings (loss) from continuing operations before extraordinary items	$ 1,133	(79,190)	(7,509)	12,610	14,242
Net earnings (loss)	$ 3,654	(85,650)	(13,236)	9,450	11,745
Per common share (c):					
Earnings (loss) from continuing operations before extraordinary items	$ .10	(7.29)	(.69)	1.16	1.40
Net earnings (loss)	$ .34	(7.88)	(1.22)	.87	1.15(d)
Working capital	$114,278	117,681	188,741	195,910	141,123
Current ratio	2.9 to 1	2.3 to 1	3.0 to 1	3.4 to 1	2.8 to 1
Long-term debt (a)	$160,497	199,202	188,992	150,696	81,218
Shareowners' equity	$ 46,404	42,724	128,372	141,598	130,478

(a) Excluding discontinued operations
(b) See note 10 to consolidated financial statements
(c) Based on average shares outstanding
(d) Fully diluted net earnings were $1.10

The financial summary for 1972 and prior years has been restated as explained in note 1 to the Consolidated Financial Statements.

Consolidated Statement of Retained Earnings (Deficit)

Years Ended April 29, 1972 and May 1, 1971	($ thousands)	
	1972	1971
Retained earnings, beginning of year	69,563	81,568
Net loss for the year	89,660	12,005
Retained earnings (deficit), end of year	(20,097)	69,563

Certain reclassifications have been made in the 1971 statement to conform to the classifications used in 1972. See notes to consolidated financial statements..

Consolidated Statement of Changes in Financial Position

Years Ended April 29, 1972 and May 1, 1971	($ thousands)	
Application of funds:	1972	1971
To operations:		
Net loss	89,660	12,005
Deduct depreciation and amortization (straight-line and declining balance methods)	18,336	13,404
Add equity in earnings of unconsolidated companies	6,923	5,905
Funds applied to operations	78,247	4,506
Additions to property, plant and equipment	14,746	24,714
Additions to leased equipment	13,876	5,138
Other	—	905
	106,869	35,263
Source of funds:		
Increase in long-term debt	18,149	44,421
Decrease (increase) in investments	1,680	(6,760)
Decrease in noncurrent receivables	9,060	451
Other	206	10
Decrease (increase) in working capital	77,774	(2,859)
Summary of decrease (increase) in working capital:		
Cash	(4,435)	(449)
Claims for refund of Federal income taxes	10,853	(5,010)
Notes and accounts receivable	24,150	12,880
Inventories	25,010	(960)
Prepaid royalties	3,838	(7,742)
Other prepaid expenses	1,460	(1,219)
Notes payable to banks and commercial paper	(12,280)	(8,751)
Trade accounts payable	660	2,800
Accrued royalties	11,467	6,947
Other accrued liabilities	(531)	4,536
Deferred income	6,526	989
Accrued taxes on income	(2,340)	(9,611)
Accounts payable to Ampex World Operations, S.A.	1,665	(1,608)
Current portion of long-term debt	11,681	4,339
	77,774	(2,859)

See notes to consolidated financial statements.

Consolidated Statement of Operations

Years Ended April 29, 1972 and May 1, 1971	($ thousands) 1972	1971
Net sales and operating revenues (Note 3)	283,924	290,862
Equity in earnings of unconsolidated companies (Note 5)	6,923	5,905
	290,847	296,767
Costs and expenses (Note 1):		
Cost of sales and operating expenses (Note 3)	264,508	243,181
Selling and administrative expenses (Note 3)	55,881	53,427
Provision for royalty guarantees in excess of unit royalties payable, including in 1972 the settlement of two principal royalty contracts and $6,650,000 for estimated future losses (Note 2)	31,989	5,883
Provision for uncollectible accounts (Note 4)	11,867	4,295
Provision for cost of discontinuance and disposal of divisions and product lines (Note 3)	2,738	4,550
Interest expense	12,215	13,409
	379,198	324,745
Loss before income taxes	88,351	27,978
Income tax expense (credit) (Note 14)	1,309	(15,973)
Net loss (Note 1)	89,660	12,005
Net loss per share of common stock—based on average shares outstanding	8.24	1.10

Consolidated Balance Sheet

April 29, 1972 and May 1, 1971

Assets	($ thousands) 1972	1971
Current assets:		
Cash	9,335	4,900
Claims for refund of Federal income taxes (Note 14)	—	10,853
Notes and accounts receivable, less allowances (Note 4)	82,856	107,006
Inventories—at lower of average cost or net realizable market value (Note 6)	91,666	116,676
Prepaid royalties, net of amortization (Note 2)	7,937	11,825
Other prepaid expenses	10,205	11,665
Total current assets	201,999	262,925
Investments (Notes 5 and 16)	44,432	39,189
Leased equipment—at cost, less accumulated depreciation of $5,734 and $2,445 (Note 7)	15,952	5,870
Other assets:		
Noncurrent receivables	15,635	24,695
Other assets and deferred charges	4,583	5,138
	20,218	29,833
Property, plant and equipment, at cost; less accumulated depreciation (Note 16):		
Land	6,499	6,622
Buildings	35,082	28,770
Machinery and equipment	103,508	101,250
	145,089	136,642
Less accumulated depreciation	63,651	55,759
	81,438	80,883
	364,039	418,700

Liabilities and Shareowners' Equity

Current liabilities:		
Notes payable to banks and commercial paper	553	12,833
Trade accounts payable	16,340	15,680
Accrued royalties	22,753	11,286
Other accrued liabilities	25,537	26,068
Deferred income (Note 7)	7,803	1,277
Accrued taxes on income (Note 14)	6,232	8,572
Accounts payable to Ampex World Operations, S.A. (Note 5)	8,214	6,549
Current portion of long-term debt	18,847	7,166
Total current liabilities	106,279	89,431
Long-term debt, less current portion:		
1972 Credit and Security Agreement (Note 16)	131,660	—
5½% Convertible Subordinated Debentures (Note 8)	60,000	60,000
Notes payable to Ampex World Operations, S.A. (Note 5)	13,500	—
Other indebtedness (including in 1971, $126,500,000 refinanced in 1972) (Notes 12 and 16)	8,106	135,117
	213,266	195,117
Shareowners' equity:		
Preferred stock, no par value:		
Authorized 1,000,000 shares—none outstanding		
Common stock, $1 par value (Note 9):		
Authorized: 20,000,000 shares		
Reserved: 1,918,504 shares		
Issued and outstanding: 10,874,614 and 10,873,122 shares	10,875	10,873
Capital surplus	53,716	53,716
Retained earnings (deficit) (Note 5)	(20,097)	69,563
	44,494	134,152
Commitments and contingencies (Notes 2, 11, 13, 14 and 15)		
	364,039	418,700

Certain reclassifications have been made in the 1971 statement to conform to the classifications used in 1972.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Two Years Ended April 29, 1972

Note 1—Operating Results

Adverse changes in the business of the Company resulted in a reappraisal of its operations during the year ended April 29, 1972. As a result, major revisions were made in the mode of operations and accounting estimates, including some modifications in the application of accounting principles, which resulted in unusually large charges against 1972 operations, principally in the following areas:

Guarantees and settlements under royalty contracts (Note 2)
Discontinued divisions and product lines (Note 3)
Provisions for uncollectible accounts (Note 4)
Merchandise returns and marketing allowances (Note 4)
Inventory valuations (Note 6)

The impact upon the reported results of operations is set forth in the statement of operations for 1972 (and in following notes to the financial statements) which affects the comparability of the 1972 financial statements with those of prior years. The effect of these revisions have all been included in the statement of operations for 1972 in accordance with the provisions of Opinion No. 20 of the Accounting Principles Board because the amount of the fiscal 1972 loss which might now be considered attributable to events which had their genesis in fiscal 1971 could not be fairly determined under the changed circumstances existing at the end of fiscal 1972. However, management now has some doubts that the loss which became recognizable in fiscal 1972 was all actually incurred during that year.

Note 2—Stereo Tape Royalty Contracts

The Company has a number of contracts with record companies providing for sales by the Company of stereo tape versions of records. The greater part of these contracts measured by dollar amount were entered into during the 1971 fiscal year and in the early part of the 1972 fiscal year. The contracts typically require payment by the Company to the record companies of royalties based upon net tape sales, with minimum royalties which are either prepaid or payable over the duration of the contracts. Most contracts are for durations of three years or more.

Stereo tape sales continued to increase during the 1971 fiscal year but experience to May 1, 1971, indicated that, in some instances, royalty guarantees might not be met by unit royalties based on net tape sales. Although confident that future sales under most contracts would be sufficient to cover commitments, management established a reserve at May 1, 1971, of approximately $6,000,000 which was believed to be reasonably adequate to cover any deficiency that might not be eliminated by future sales during the various contract terms.

During the 1972 fiscal year, the upward trend in stereo tape sales was reversed. Recognition of this reversal was delayed by unauthorized transactions, the granting of extensive return privileges and other uneconomic commitments. These practices resulted in both overproduction of inventory and unusually high merchandise returns.

During the third quarter of the 1972 fiscal year, new management made a reassessment of the Company's position under all royalty contracts, which resulted in a negotiated settlement under two principal contracts with one supplier and provisions for estimated losses to be incurred on other royalty contracts where guaranteed minimum royalties could be expected to exceed unit royalties based on net tape sales. Provisions aggregating approximately $32,000,000 were made during the 1972 fiscal year to cover the contract settlements, excessive royalty guarantees and estimated future losses on certain royalty contracts.

As a result of the contract settlements discussed above, approximately one-half of the Company's production of recorded tapes is now on a custom duplicating basis under which the risks and benefits relating to the marketing and distribution functions are assumed by the purchaser of the custom duplicated tapes.

Aggregate commitments for future minimum royalty payments at April 29, 1972, were approximately $23,000,000.

Note 3—Loss From Discontinued Divisions and Product Lines

Tentative plans to sell or discontinue the businesses of the Consumer Equipment Division and Ampex Record Company were adopted in the 1971 fiscal year, and provisions were made for the estimated cost of discontinuing these businesses and disposing of the related properties even though a specific time frame or method for disposal had not been finally determined. In 1972, plans were made to discontinue manufacturing television transmitter systems and this operation was sold. In addition, because discontinuance of the businesses of the Consumer Equipment Division and Ampex Record Company is taking longer than initially anticipated, provision for additional costs of termination has been required in 1972. The accompanying statements of operations include the following identified amounts attributable to discontinued divisions and product lines:

	($ Thousands) Year Ended	
	4/29/72	5/1/71
Sales	16,662	19,423
Costs and expenses:		
Cost of sales and operating expenses (1972 reduced by the $4,550,000 provision established in 1971)	14,284	19,434
Selling and administrative expenses	6,371	5,665
Provision for uncollectible accounts	252	294
Interest	144	145
Provision for cost of discontinuance and disposal	2,738	4,550
	23,789	30,088
Loss before income tax credit	7,127	10,665
Income tax credit	118	5,207
Net loss from discontinued divisions and product lines	7,009	5,458

Management believes that there are other unallocated corporate expenses which have been, or will be, eliminated as a result of the above discontinuances and reorganization of continuing operations.

Note 4—Notes and Accounts Receivable Allowances

Notes and accounts receivable are reduced by valuation allowances for estimates of:

	($ Thousands)	
	4/29/72	5/1/71
Losses on doubtful accounts	9,017	5,968
Merchandising returns and marketing allowances	6,153	2,181
	15,170	8,149

The changes in the allowance for doubtful accounts consist of:

	($ Thousands) Year Ended	
	4/29/72	5/1/71
Balance at beginning of year	5,968	4,473
Provision for estimated losses	11,867	4,295
Recoveries on accounts previously written off	274	123
Uncollectible accounts written off	(9,092)	(2,923)
Balance at end of year	9,017	5,968

Marketing problems, including the difficulties encountered in the stereo tape operation discussed in Note 2, generated severe problems in the collection and control of accounts receivable and substantial amounts of unmatched credits and customer charge-backs. While extensive efforts have been made to quantify the exposure in this area in establishing the allowance for estimated losses on doubtful accounts, marketing allowances, and merchandise returns, the adequacy of these allowances is largely dependent upon the success of future follow-up and collection efforts. Based upon available information, management, in its judgment, believes such allowances are reasonable.

Note 6—Inventories

Inventories are summarized as follows:

	($ Thousands)	
	4/29/72	5/1/71
Finished goods	34,943	45,967
Work in process	43,994	45,414
Raw materials	27,765	31,628
	106,702	123,009
Less valuation allowances	15,036	6,333
	91,666	116,676

In prior years, the Company had made annual reviews and provisions for estimated excess and obsolete inventories primarily on the basis of formulas related to sales projections. Because of the risk inherent in the Company's inventories arising from potential technological obsolescence, the Company, in connection with the overall evaluation of inventories in prior years, excluded from inventory costs certain elements of fixed factory overhead, which had the effect of imputing an additional reserve against inventories. In 1972, the Company made major additional write offs of inventory and specific provisions for obsolescence reflecting market conditions and current evaluations of technological obsolescence. As a part of this overall evaluation, the Company has elected to include all elements of factory overhead in inventory. The inclusion of the additional elements of factory overhead has the effect of reducing the specific write offs and provisions made in the overall evaluation of inventories at April 29, 1972 by approximately $3,700,000.

Inventories of stereo tapes more than six months old and more than a year old at April 29, 1972, were written down 50% and 100%, respectively ($2,400,000 in the aggregate), in anticipation that they had little value. No significant write downs of this nature were made in the prior year.

Note 7—Lease Accounting

In prior years (principally 1971) the Company accounted for leases of computer peripheral equipment as sales in those instances where the present value of the lease rentals exceeded cost of the equipment. An accounting interpretation issued by the American Institute of Certified Public Accountants in November of 1971 requires that such transactions be accounted for prospectively as operating leases under which revenue is recognized ratably over the lease period. Accordingly, the Company adopted the operating method for computer peripheral equipment leases in which the present value of lease rentals did not equal normal selling price effective as of the beginning of the 1972 fiscal year and at the same time adopted the practice of deferring and amortizing lease marketing costs over the average lease period. The adoption of the accounting methods described above resulted in an increase of $2,800,000 in the 1972 fiscal year's loss. Cost of computer peripheral equipment on operating leases is fully depreciated over three and four year lives by the straight-line method. No significant amount of such equipment was off lease at April 29, 1972.

Until January 31, 1972 the Company followed the practice of discounting the majority of its equipment leases with Ampex Credit Corporation. ACC would advance Ampex the present value of the total rentals to be received over the term of the lease even though in many cases they were subject to termination under certain conditions. The advances received from ACC are treated as deferred income and amortized to income on a straight-line basis over the term of the leases or refunded to ACC in the event of termination.

Auditor's Opinion

The Shareowners and Board of Directors,
Ampex Corporation

We have examined the accompanying consolidated balance sheets of Ampex Corporation and subsidiaries as of April 29, 1972, and May 1, 1971, and the related statements of operations, retained earnings (deficit), and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Adverse changes in the business of the Company resulted in a reappraisal of its operations and changes in its mode of operations during the year ended April 29, 1972. As a result, major revisions (Note 1), were made in accounting estimates, including some modifications (which we approve) in the application of accounting principles, used by the Company in providing for royalty guarantees, uncollectible accounts and allowances, inventory valuations, and losses on discontinued divisions and product lines. The impact upon the reported results of operations is set forth in the statement of operations for 1972 and in the notes to the financial statements. These revisions in estimates have all been included in the statement of operations for 1972 in accordance with the provisions of Opinion No. 20 of the Accounting Principles Board. However, we now have doubts that all of the loss reported for 1972 was actually incurred during that year, but the amounts which may be attributable to 1971 can not be determined because of the effect on such estimates of changed circumstances during 1972. Therefore, we no longer express the opinion given in our report dated June 21, 1971, that the financial statements at and for the year ended May 1, 1971, present fairly the Company's financial position, results of operations and changes in financial position at that date and for that year. Further, we do not express an opinion on the consolidated statements of operations, retained earnings (deficit), and changes in financial position for the year ended April 29, 1972.

In our opinion, subject to the ability of the Company to maintain adequate financing (Note 16), its ability to operate profitably, the adequacy of valuation allowances on notes and accounts receivable (Note 4) and the favorable resolution of the litigation (Notes 13 and 14), the consolidated balance sheet at April 29, 1972, presents fairly the financial position of Ampex Corporation and subsidiaries at that date and the consolidated statements of operations, retained earnings (deficit), and changes in financial position taken together and viewed as covering a single two-year period ended April 29, 1972, present fairly the results of operations and changes in financial position for the two-year period then ended, in conformity with generally accepted accounting principles applicable to a going concern, applied on a consistent basis except for the change (which we approve) in accounting for leases as described in Note 7.

Ampex Corporation and Subsidiaries
Ten Year Financial Summary
(in thousands)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Net sales and operating revenues	$118,666	140,049	152,736	169,544	215,529	233,433	296,319	313,582	290,862	283,924
Research and development										
Contract	$ 2,590	3,756	4,201	5,014	5,135	5,876	5,815	6,043	8,515	10,747
Company sponsored	$ 9,450	10,100	9,398	10,410	11,868	13,842	17,945	19,416	18,827	16,815
Total	$ 12,040	13,856	13,599	15,424	17,003	19,718	23,760	25,459	27,342	27,562
Earnings (loss) before extraordinary charge	$ 5,968	6,951	7,671	7,970	10,271	7,719	12,576	13,565	(12,005)	(89,660)
Net earnings (loss)	$ 5,968	6,951	7,671	7,334	10,271	7,719	12,576	11,265	(12,005)	(89,660)
Per share of common stock:*										
Earnings (loss) before extraordinary charge	$ .65	.76	.83	.85	1.08	.80	1.24	1.25	(1.10)	(8.24)
Net earnings (loss)	$ .65	.76	.83	.78	1.08	.80	1.24	1.04	(1.10)	(8.24)
Working capital	$ 46,432	49,208	51,435	62,028	85,102	90,357	122,365	170,635	173,494	95,720
Current ratio	2.8 to 1	2.8 to 1	2.2 to 1	2.2 to 1	2.2 to 1	2.2 to 1	2.4 to 1	2.9 to 1	2.9 to 1	1.9 to 1
Long-term debt	$ 29,601	30,015	33,132	46,592	75,301	73,551	81,454	150,696	195,117	213,266
Shareowners' equity	$ 46,191	53,069	60,711	69,909	81,177	90,421	133,212	146,147	134,152	44,494

*Based on average shares outstanding.

SWIFT & COMPANY

Consolidated Statement of Current and Accumulated Earnings

(Dollars in thousands, except per share data)

	Year ended Oct. 28, 1972	Year ended Oct. 30, 1971 *(As restated)*
Revenues:		
Net sales	$3,240,931	$2,996,210
Other—net	4,872	4,096
Total revenues	3,245,803	3,000,306
Costs and expenses:		
Cost of goods sold	2,971,517	2,741,765
Selling, advertising and administrative	197,833	196,084
Interest charges	12,495	12,725
Total costs and expenses	3,181,845	2,950,574
Earnings before income taxes and other items shown below	63,958	49,732
Income taxes	26,383	23,814
Earnings before items shown below	37,575	25,918
Equity in earnings of nonconsolidated subsidiaries and affiliated companies	2,315	519
Minority interests in subsidiaries' earnings	(2,887)	(327)
Net earnings	37,003	26,110
Preferred stock dividends	(1,733)	(1,733)
Common stock dividends	(8,488)	(8,460)
Increase in accumulated earnings	26,782	15,917
Accumulated earnings at beginning of year	247,719	231,802
Accumulated earnings at end of year	$ 274,501	$ 247,719
Net earnings per common share:		
Primary	$ 2.90	$ 2.00
Fully diluted	2.77	1.96

The financial comments beginning on page 29 and the statement of accounting policies beginning on page 40 are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

(Dollars in thousands)

	Oct. 28, 1972	Oct. 30, 1971 *(As restated)*
Current assets:		
Cash	$ 1,180	$ 618
Temporary investments	27,630	32,064
Receivables	202,692	189,781
Inventories	254,582	232,209
Prepayments and other current assets	8,729	7,948
Total current assets	494,813	462,620
Less current liabilities:		
Notes payable	16,272	9,079
Accounts payable and accrued liabilities	139,416	126,996
Income taxes	14,145	358
Current maturities of long-term debt	9,760	21,029
Total current liabilities	179,593	157,462
Net working capital	315,220	305,158
Investments and other assets	41,955	36,531
Property and operating facilities	376,625	382,130
Excess of cost over net assets of purchased businesses	22,455	22,636
Total assets less current liabilities	756,255	746,455

Less:		
Direct costs of facility realignment program		13,639
Pensions and other noncurrent amounts	31,672	34,607
Deferred income taxes	42,064	37,247
Long-term debt	176,127	184,736
Minority interests in subsidiaries	52,346	49,473
Total	302,209	319,702
Net assets applicable to stockholders' equity	$ 454,046	$ 426,753
Stockholders' equity:		
Preferred stock	$ 36,485	$ 36,485
Common stock	12,601	12,592
Other paid-in capital	142,750	142,703
Accumulated earnings	274,501	247,719
Common stock in treasury, at cost	(12,291)	(12,746)
Total stockholders' equity	$ 454,046	$ 426,753
Total assets	$ 935,848	$ 903,917

The financial comments beginning on page 29 and the statement of accounting policies beginning on page 40 are an integral part of the consolidated financial statements.

Statement of Accounting Policies

Inventories.

Substantially all inventories are valued at the lower of current cost (determined on the first-in, first-out or average methods) or market. A substantial portion of the product inventories (43% at October 30, 1971) was previousuly valued at cost under the last-in, first-out (LIFO) method. The change in method of valuing these inventories has been applied retroactively pursuant to provisions of Accounting Principles Board Opinion No. 20. The effects of this change on the consolidated financial statements are summarized in the Financial Comments under "Changes in Accounting".

The change in valuation method was made to more fairly present the company's financial position and operating results. The change applies primarily to the material components of agricultural product inventories, of which available supplies and purchase costs are subject to substantial cyclical fluctuations. Use of the LIFO cost method for these inventories has magnified the effect of these cycles on the earnings of the company's businesses engaged in processing and selling these products and has reduced comparability of the company's earnings to those of most other corporations, the majority of which do not use the LIFO method of inventory valuation. Further, use of the LIFO method has resulted in the reporting of inventories at amounts substantially less than the current costs of such inventories, thereby affecting significant financial statement amounts and ratios and understating the stockholders' investment in the business. These unfavorable effects on the company's financial statements are eliminated by the accounting change.

Investments.

Investments in nonconsolidated subsidiaries are carried at cost plus equity in accumulated earnings. The nonconsolidated life insurance companies prepare their financial statements in accordance with practices prescribed or permitted by the state regulatory agencies to which they are subject, which practices differ in certain respects from generally accepted accounting principles. For purposes of determining Swift's equity in the net assets and net earnings of these companies, adjustments are made to conform certain statutory practices with generally accepted accounting principles. These adjustments include restating common stock investments from market value to cost, restoring "nonadmitted assets" to net assets, classifying the mandatory securities valuation reserve as an equity reserve, deferring commission expense on policies other than ordinary life policies, including realized gains and losses on investment dispositions in net earnings, and providing deferred income taxes on timing differences other than differences relating to amounts designated for federal income tax purposes as "policyholders' surplus".

Investments in affiliated (20% to 50% owned) companies are accounted for by the equity method. The company's equity in affiliates' net earnings is adjusted for income taxes which would be payable if the earnings were distributed. Other investments are carried at cost or less.

The investments in the affiliated companies were previously carried at cost less allowances for possible losses. The change in method of accounting was made to conform with provisions of Accounting Principles Board Opinions Nos. 18 and 24 and has been applied retroactively pursuant to these opinions. The effects of this change on the consolidated financial statements are summarized in the Financial Comments under "Changes in Accounting".

Property and operating facilities.

The company's subsidiaries, principally TransOcean Oil, Inc., engaged in oil and gas exploration and development activities use the field cost method of accounting.

Under this method, costs of exploratory dry holes are charged to expense as incurred. Other costs of acquisition, exploration and development, including lease costs, delay rentals and developmental dry holes identifiable with specific fields, are capitalized as oil and gas properties. Costs associated with a producing field are depleted on the unit-of-production method over the remaining proven developed reserves of the field as estimated by the company. Capitalized costs in excess of the estimated economic value of a field's estimated reserves are charged against operations by additional provisions for depreciation and depletion. Capitalized costs applicable to fields which prove to be nonproductive are written off when such determinations are made. Costs of lease and well equipment are depreciated on the straight line method.

Prior to 1972, the company used the total cost method of accounting. Under this method, all acquisition, exploration and development costs, including costs relating to surrendered or abandoned fields, exploratory dry holes and a portion of general and administrative expenses, were capitalized as oil and gas properties. These costs were identified with one of the broad geographic areas in which each of the company's subsidiaries operate and, together with costs of lease and well equipment, were depleted and depreciated on the unit-of-production method. Costs were written off when the properties in a broad geographic area were determined to be valueless or when such costs were determined to be in excess of net revenues expected to be realized from production in the area.

The change in method of accounting for these costs has been applied retroactively pursuant to provisions of Accounting Principles Board Opinion No. 20. The effects of this change on the consolidated financial statements are summarized in the Financial Comments under "Changes in Accounting". The change, which conforms the company's practices to those adopted by TransOcean Oil, Inc. at its March 31, 1972 fiscal year end, was made to place the company on a more conservative accounting basis and one which more closely approximates methods most commonly used in the petroleum industry.

Depletion provisions on agricultural chemical mining properties are determined on the unit-of-production method.

Depreciation provisions on all other property and operating facilities are determined primarily on the straight line method.

Provision was made in prior years for significant direct costs and losses to be incurred under the facility realignment program adopted in 1966. substantially expanded in 1968, and essentially concluded in 1972. During the period of the program, the allowances so established were charged as the costs and losses were incurred and credited as gains were realized. Gains and losses on unusual facility dispositions and closings, other than dispositions and closings under the facility realignment program, are reflected in the year of disposition for gains and in the year in which the decision is made to close for losses. Gains and losses on normal dispositions of facilities and equipment are included in accumulated depreciation except as to certain foreign subsidiaries which include such amounts in earnings.

Pensions.

Pension expenses are accrued in amounts equal to the normal costs of the plans (including interest on the unfunded actuarial liabilities) and amortization of prior service costs under certain of the plans over periods of not more than forty years.

Contributions to the pension trusts are made periodically in amounts authorized by the Board of Directors and, in addition, certain pension costs are paid directly by the company.

The unit credit actuarial cost method is used for the major plans. Revisions in pension cost determinations made in 1972 included (1) an updating of most of the actuarial assumptions used, including a revision in the earnings assumption as to the major plans from 6% to an average rate of approximately 6.75%, (2) a change from an adjusted cost basis of valuing pension fund assets to a market value basis (under which a portion of annual market appreciation is included in the value of fund assets over a ten-year period), and (3) a change from a cash method of accounting for the cost of pensioners' medical insurance to a method by which this cost is included in the actuarial computation of pension expense. The net effect on 1972 pension expense of these revisions, which have been applied prospectively pursuant to provisions of Accounting Principles Board Opinion No. 8, is discussed in the Financial Comments under "Changes in Accounting".

The change in accounting for the pension fund assets was made to more appropriately reflect changes in the market value of the pension funds' investments in the determination of the funds' financial status and earnings. Under the previously used method, changes in fund asset values and earnings were more responsive to the gain and loss effects of investment sales than to changes in the actual market value of the funds' investments.

The change in accounting for pensioners' medical insurance was made to reflect the cost of this element of the company's pension program, which has increased substantially over the past several years, on the accrual basis.

Financial Comments

Accounting Changes.

During 1972, several changes were made in accounting method as discussed under the caption "Changes in Accounting". Certain of these changes required restatement of the financial statements for 1971 and prior years from the amounts previously reported. The effects of the significant changes were to increase 1972 net earnings from $27.7 million to $37.0 million (from $2.14 to $2.90 per common share) and to decrease 1971 net earnings from $34.1 million to $26.1 million (from $2.66 to $2.00 per common share). Comments on the significant changes follow.

Inventory Valuation.

To more fairly present the company's total financial position and operating results, the last-in, first-out (LIFO) cost method of inventory valuation, which had been utilized by the company since the early 1940's, was discontinued. The more commonly used lower of current cost or market method was adopted. The change applies primarily to agricultural products which are subject to substantial cyclical fluctuations in costs.

Petroleum Exploration and Development Costs.

The company adopted the field cost method of accounting for petroleum exploration and development costs. The total cost method was used previously. This change, which conforms the company's practices to those adopted earlier in 1972 by TransOcean Oil, Inc. (51% owned subsidiary), places the company on a more conservative accounting basis and one which more closely approximates methods most commonly used in the petroleum industry.

Investments in Affiliated Companies.

To conform to opinions of the Accounting Principles Board which become mandatory for the company in its 1973 fiscal year, the company adopted the equity method of accounting for investments in affiliated (20% to 50% owned) companies. Prior to 1972, the company used the cost method of accounting for these investments.

Pension Costs.

Completion of the facility realignment program placed the company in a position of having a stable level of employment for the first time in a number of years. Considering this, a study was made of the company's total pension program, including actuarial assumptions, cost computation practices, and benefit programs. This study resulted in increases in certain plan benefits and revisions in the actuarial assumptions and the method of computing expense, the latter changes primarily to reflect on a more current basis the market values of the pension fund assets and the earnings from such assets.

Changes in Accounting.

Significant revisions were made in 1972 in the accounting methods used by the company. Three of the newly adopted methods have been applied retroactively as required by generally accepted accounting principles. These are (1) the adoption of the lower of current cost or market method for valuing substantially all inventories previously valued under the last-in, first-out (LIFO) cost method, (2) the adoption of the field cost method of accounting for oil and gas exploration and development activities for which the total cost method was used previously, and (3) the adoption of the equity method of accounting for investments in affiliated (20% to 50% owned) companies which were previously accounted for under the cost method. The 1971 consolidated financial statements have been restated to reflect the application of these revised accounting methods.

The company also revised its method of computing pension expense. This revision, which includes an updating of actuarial assumptions and changes in accounting methods, is being applied prospectively as required by generally accepted accounting principles and, therefore, had no effect on the 1971 consolidated financial statements.

Each revision is discussed more fully in the Statement of Accounting Policies. The effects of the revisions on the consolidated financial statements are summarized below.

Effects on results of operations.

The retroactively applied revisions in accounting methods decreased 1971 net earnings from the previously reported amount by $8.0 million or $.66 per common share. If these changes had not been made, it is estimated that net earnings for 1972 would have been $6.7 million or $.55 per common share less than the amounts reported.

The revision in the assumptions used in the actuarial computation of pension expense reduced such expense for 1972 by approximately $1.5 million and the changes in accounting method reduced 1972 pension expense by approximately $3.5 million. As previously mentioned, these reductions in pension expense were partly offset by the cost of increased benefits.

The effects of each of the above changes on net earnings, in millions of dollars, and on net earnings per common share, are as follows:

	1972		1971	
	Net earnings	Per share	Net earnings	Per share
Increase (decrease) due to changes for:				
Inventories	$6.2	$.51	$ (.9)	$(.07)
Oil and gas	(.2)	(.02)	(5.2)	(.43)
Affiliated companies	.7	.06	(1.9)	(.16)
Pensions	2.6	.21		
Increase (decrease)	$9.3	$.76	$(8.0)	$(.66)

Other accounting changes were made in 1972 and 1971, none of which had a material effect on net earnings for those years or is expected to have a material effect on future earnings. The one-time effect of these changes was to increase net earnings by approximately $.4 million ($.03 per common share) in 1972 and $.6 million ($.05 per common share) in 1971.

Effects on financial position.

The retroactively applied revisions in accounting methods resulted in significant changes in several amounts in the consolidated statement of financial position at October 30, 1971, from the amounts previously reported. Increases were reflected in inventories ($49.8 million) and deferred income taxes ($28.0 million). Decreases were reflected in investments and other assets ($2.5 million), property and operating facilities ($12.7 million), current liabilities ($6.5 million), and minority interests ($6.6

million). Accumulated earnings were increased by $19.7 million at October 30, 1971 and $27.7 million at October 31, 1970. Working capital was increased $56.3 million at October 30, 1971 and $58.9 million at October 31, 1970.

Auditor's Opinion

The Board of Directors and Stockholders—Swift & Company

We have examined the accompanying consolidated statement of financial position of Swift & Company at October 28, 1972 and October 30, 1971 and the related consolidated statements of current and accumulated earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Swift & Company at October 28, 1972 and October 30, 1971, and the consolidated results of operations and consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period, except for the 1972 change in the method of determining pension expense, and after restatement for the changes in methods of accounting for (1) inventories, (2) exploration and development costs incurred in the oil and gas operations, and (3) investments in affiliated companies, all as described in the Financial Comments under the caption "Changes in Accounting". We concur with the above mentioned changes in accounting.

Summary of Significant Consolidated Financial Data

(Dollars in millions, except per share data)

	Revenues				Net earnings (b)			
	1972		1971 (a)		1972		1971 (a)	
Lines of Business	$	%	$	%	$	%	$	%
Foods	2,601.7	80.1	2,295.7	76.5	27.7	74.8	25.3	97.1
Chemicals and industrial products	492.1	15.2	572.9	19.1	6.3	17.0	1.1	4.2
Petroleum (c)	145.2	4.5	125.9	4.2	1.5	4.1	(2.6)	(10.2)
Insurance (d)	6.8	.2	5.8	.2	1.5	4.1	2.3	8.9
Consolidated	3,245.3	100.0	3,000.3	100.0	37.0	100.0	26.1	100.0

Notes:

(a) 1971 has been restated to give retroactive effect to the changes in methods of accounting described in the Financial Comments under the caption "Changes in Accounting".

(b) Interest and other indirect corporate expenses have been allocated generally on the basis of assets employed. Income taxes have been allocated generally on the basis of taxable income.

(c) Net earnings are after minority interests of $2.9 million in 1972 and $.3 million in 1971.

(d) Excludes revenues, principally premiums, of nonconsolidated life insurance companies of $41.4 million in 1972 and $28.8 million in 1971.

Results of Operations	1972	1971
Primary earnings per common share	$ 2.90	$ 2.00
Fully diluted earnings per common share	2.77	1.96
Cash dividends per common share	.70	.70
Per cent of earnings distributed as dividends	27.6%	39.0%
Return on total assets at year end	4.0%	2.9%
Return on stockholders' equity at year end	8.1%	6.1%
Financial Positions		
Working capital	$315.2	$305.2
Property and operating facilities—net	376.6	382.1
Total assets	935.8	903.9

Invested capital:		
Long-term debt	176.1	184.7
Stockholders' equity	454.0	426.8
Total invested capital	$630.1	$611.5
Ratio of current assets to current liabilities	2.76	2.94
Ratio of invested capital to total assets	.67	.68
Ratio of stockholders' equity to total assets	.49	.47
Ratio of long-term debt to invested capital	.28	.30
Net assets per common share outstanding at year end	$ 34.42	$ 32.24
Changes in Financial Position		
Working capital increase	$ 10.1	$ 6.6
Principal sources of working capital:		
Operations	75.2	80.6
Long-term borrowings	3.6	50.0
Principal uses of working capital:		
Property and operating facility additions	52.0	83.8
Long-term debt reductions	12.2	36.3
Dividend payments	10.2	10.2

5 Year Financial Summary

(Dollars in millions, except per share and per employe data)

Fiscal Years*		1972	1971	1970	1969	1968
Revenues and Earnings						
Net sales and other revenues	$	3,245.8	3,000.3	3,082.8	3,111.3	2,936.8
Earnings before extraordinary charge	$	37.0	26.1	28.0	25.6	15.1
Per common share**	$	2.90	2.00	2.16	1.92	1.07
Per cent of common stockholders' equity at year end**	%	8.4	6.2	7.0	6.7	3.8
Extraordinary charge	$					57.0
Per common share	$					4.54
Net earnings (loss)	$	37.0	26.1	28.0	25.6	(41.9)
Per common share**	$	2.90	2.00	2.16	1.92	(3.47)
Common dividends	$	8.5	8.5	7.3	7.3	11.0
Per common share	$	.70	.70	.60	.60	.90
Financial Position						
Working capital	$	315.2	305.2	298.6	308.8	299.6
Current ratio		2.76	2.94	2.86	3.03	2.99
Total assets	$	935.8	903.9	870.2	790.0	779.5
Property and operating facilities—net	$	376.6	382.1	356.1	290.8	290.5
Long-term debt	$	176.1	184.7	171.1	173.0	182.1
Common stockholders' equity	$	417.6	390.3	373.3	356.7	351.0
Per common share	$	34.42	32.24	30.94	29.39	27.98
Average number of stockholders		44,500	47,700	50,200	53,000	54,700
Average number of employes		33,600	34,900	38,900	42,700	46,600
Total employment costs	$	332.5	332.2	349.7	377.3	381.2
Average per employe	$	9,896	9,518	8,989	8,835	8,180

* Fiscal years 1971, 1970, 1969 and 1968 have been restated for accounting changes.

** After recognizing annual preferred stock dividend requirement.

APPENDIX A

JULY 1971

Opinions of the Accounting Principles Board 20

INTRODUCTION

1. A change in accounting by a reporting entity may significantly affect the presentation of both financial position and results of operations for an accounting period and the trends shown in comparative financial statements and historical summaries. The change should therefore be reported in a manner which will facilitate analysis and understanding of the financial statements.

SCOPE OF OPINION

2. This Opinion defines various types of accounting changes and establishes guides for determining the manner of reporting each type. It also covers reporting a correction of an error in previously issued financial statements.

3. The Opinion applies to financial statements which purport to present financial position, changes in financial position, and results of operations in conformity with generally accepted accounting principles. The guides in this Opinion also may be appropriate in presenting financial information in other forms or for special purposes. Companies in regulated industries may apply generally accepted accounting principles differently from nonregulated companies because of the effect of the rate-making process. This Opinion should therefore be applied to regulated companies in accordance with the provisions of the Addendum to APB Opinion No. 2.

4. This Opinion does not change the policy of the Board that its Opinions, unless otherwise stated, are not intended to be retroactive. Each published Opinion specifies its effective date and the manner of reporting a change to conform with the conclusions of the Opinion. An industry audit guide prepared by a committee of the American Institute of Certified Public Accountants may also prescribe the manner of reporting a change in accounting principle. Accordingly, the provisions of this Opinion do not apply to changes made in conformity with such pronouncements issued in the past or in the future.

5. This Opinion reaffirms the provisions of previous Board Opinions that prescribe the manner of reporting a change in accounting principle, an accounting estimate, or reporting entity except for the following paragraphs of Accounting Research Bulletins (ARB) or Opinions of the Accounting Principles Board (APB)[1]:

   a. Paragraph 3 of Chapter 2, Section A, *Comparative Financial Statements,* of ARB No. 43 is amended to insert a cross reference to this Opinion. This Opinion identifies numerous accounting changes and specifies the manner of reporting each change.
   b. Paragraph 20 of APB Opinion No. 9, *Reporting the Results of Operations,* and paragraph 13 of APB Opinion No. 15, *Earnings per Share,* are amended. This Opinion specifies an additional element in the presentation of the income statement.
   c. Paragraph 25 of APB Opinion No. 9 is superseded. Although the conclusion of that paragraph is not modified, this Opinion deals more completely with accounting changes.

[1] This Opinion amends APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises,* to the extent that it relates to reporting accounting changes.

TYPES OF ACCOUNTING CHANGES

6. The term *accounting change* in this Opinion means a change in (a) an accounting principle, (b) an accounting estimate, or (c) the reporting entity (which is a special type of change in accounting principle classified separately for purposes of this Opinion). The correction of an error in previously issued financial statements is not deemed to be an accounting change.

CHANGE IN ACCOUNTING PRINCIPLE

7. A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes "not only accounting principles and practices but also the methods of applying them."[2]

8. A characteristic of a change in accounting principle is that it concerns a choice from among two or more generally accepted accounting principles. However, neither (a) initial adoption of an accounting principle in recognition of events or transactions occurring for the first time or that previously were immaterial in their effect nor (b) adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring is a change in accounting principle.

9. Changes in accounting principle are numerous and varied. They include, for example, a change in the method of inventory pricing, such as from the last in, first out (LIFO) method to the first in, first out (FIFO) method; a change in depreciation method for previously recorded assets, such as from the double declining balance method to the straight line method;[3] a change in the method of accounting for long-term construction-type contracts, such as from the completed contract method to the percentage of completion method; and a change in accounting for research and development expenditures, such as from recording as expense when incurred to deferring and amortizing the costs. (Paragraph 11 covers a change in accounting principle to effect a change in estimate.)

CHANGE IN ACCOUNTING ESTIMATE

10. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, warranty costs, periods benefited by a deferred cost, and recoverable mineral reserves. Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Thus accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained.

11. *Change in estimate effected by a change in accounting principle.* Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. For example, a company may change from deferring and amortizing a cost to recording it as an expense when incurred because future benefits of the cost have become doubtful. The new accounting method is adopted, therefore, in partial or

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[2] Statement on Auditing Procedure No. 33, *Auditing Standards and Procedures,* chapter 7, paragraph 2.

[3] A change to the straight line method at a specific point in the service life of an asset may be planned at the time the accelerated depreciation method is adopted to fully depreciate the cost over the estimated life of the asset. Consistent application of such a policy does not constitute a change in accounting principle for purposes of applying this Opinion. (Paragraph 5-d of APB Opinion No. 12 covers disclosure of methods of depreciation.)

complete recognition of the change in estimated future benefits. The effect of the change in accounting principle is inseparable from the effect of the change in accounting estimate. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates and are therefore considered as changes in estimates for purposes of applying this Opinion.

CHANGE IN THE REPORTING ENTITY

12. One special type of change in accounting principle results in financial statements which, in effect, are those of a different reporting entity. This type is limited mainly to (a) presenting consolidated or combined statements in place of statements of individual companies, (b) changing specific subsidiaries comprising the group of companies for which consolidated financial statements are presented, and (c) changing the companies included in combined financial statements. A different group of companies comprise the reporting entity after each change. A business combination accounted for by the pooling of interests method also results in a different reporting entity.

CORRECTION OF AN ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS

13. Reporting a correction of an error in previously issued financial statements concerns factors similar to those relating to reporting an accounting change and is therefore discussed in this Opinion.[4] Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. In contrast, a change in accounting estimate results from new information or subsequent developments and accordingly from better insight or improved judgment. Thus, an error is distinguishable from a change in estimate. A change from an accounting principle that is not generally accepted to one that is generally accepted is a correction of an error for purposes of applying this Opinion.

VIEWS ON REPORTING CHANGES IN ACCOUNTING PRINCIPLES

14. An essential question in reporting a change in accounting principle is whether to restate the financial statements currently presented for prior periods to show the new accounting principle applied retroactively. A summary of differing views bearing on that question is:

a. Accounting principles should be applied consistently for all periods presented in comparative financial statements. Using different accounting principles for similar items in financial statements presented for various periods may result in misinterpretations of earnings trends and other analytical data that are based on comparisons. The same accounting principle therefore should be used in presenting financial statements of current and past periods. Accordingly, financial statements presented for prior periods in current reports should be restated if a reporting entity changes an accounting principle.

b. Restating financial statements of prior periods may dilute public confidence in financial statements and may confuse those who use them. Financial statements previously prepared on the basis of accounting principles generally accepted at the time the statements were issued should therefore be considered final except for changes in the reporting entity or corrections of errors.

[4] Statement on Auditing Procedure No. 41, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report,* discusses other aspects of errors in previously issued financial statements.

c. Restating financial statements of prior periods for some types of changes requires considerable effort and is sometimes impossible. For example, adequate information may not be available to restate financial statements of prior periods if the method of recording revenue from long-term contracts is changed from the completed contract method to the percentage of completion method.

d. Restating financial statements of prior periods for some changes requires assumptions that may furnish results different from what they would have been had the newly adopted principle been used in prior periods. For example, if the method of pricing inventory is changed from the FIFO method to the LIFO method, it may be assumed that the ending inventory of the immediately preceding period is also the beginning inventory of the current period for the LIFO method. The retroactive effects under that assumption may be different from the effects of assuming that the LIFO method was adopted at an earlier date.

OPINION

JUSTIFICATION FOR A CHANGE IN ACCOUNTING PRINCIPLE

15. The Board concludes that in the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data.

16. The presumption that an entity should not change an accounting principle may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable. However, a method of accounting that was previously adopted for a type of transaction or event which is being terminated or which was a single, nonrecurring event in the past should not be changed. For example, the method of accounting should not be changed for a tax or tax credit which is being discontinued or for preoperating costs relating to a specific plant. The Board does not intend to imply, however, that a change in the estimated period to be benefited for a deferred cost (if justified by the facts) should not be recognized as a change in accounting estimate. The issuance of an Opinion of the Accounting Principles Board that creates a new accounting principle, that expresses a preference for an accounting principle, or that rejects a specific accounting principle is sufficient support for a change in accounting principle. The burden of justifying other changes rests with the entity proposing the change.[5]

GENERAL DISCLOSURE—A CHANGE IN ACCOUNTING PRINCIPLE

17. The nature of and justification for a change in accounting principle and its effect on income should be disclosed in the financial statements of the period in which the change is made. The justification for the change should explain clearly why the newly adopted accounting principle is preferable.

REPORTING A CHANGE IN ACCOUNTING PRINCIPLE

18. The Board believes that, although they conflict, both (a) the potential dilution of public confidence in financial statements resulting from restating financial statements of prior periods and (b) consistent application of accounting principles in comparative statements are important factors in reporting a change in accounting principles. The Board concludes that most changes in accounting should be recognized by including the

[5] The issuance of an industry audit guide by a committee of the American Institute of Certified Public Accountants also constitutes sufficient support for a change in accounting principle (paragraph 4).

cumulative effect, based on a retroactive computation, of changing to a new accounting principle in net income of the period of the change (paragraphs 19 to 26) but that a few specific changes in accounting principles should be reported by restating the financial statements of prior periods (paragraphs 27 to 30 and 34 to 35).

19. For all changes in accounting principle except those described in paragraphs 27 to 30 and 34 to 35, the Board therefore concludes that:

a. Financial statements for prior periods included for comparative purposes should be presented as previously reported.
b. The cumulative effect of changing to a new accounting principle on the amount of retained earnings at the beginning of the period in which the change is made should be included in net income of the period of the change (paragraph 20).
c. The effect of adopting the new accounting principle on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change should be disclosed.
d. Income before extraordinary items and net income computed on a pro forma basis[6] should be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected (paragraph 21).

Thus, income before extraordinary items and net income (exclusive of the cumulative adjustment) for the period of the change should be reported on the basis of the newly adopted accounting principle. The conclusions in this paragraph are modified for various special situations which are described in paragraphs 23 to 30.

20. *Cumulative effect of a change in accounting principle.* The amount shown in the income statement for the cumulative effect of changing to a new accounting principle is the difference between (a) the amount of retained earnings at the beginning of the period of a change and (b) the amount of retained earnings that would have been reported at that date if the new accounting principle had been applied retroactively for all prior periods which would have been affected and by recognizing only the direct effects of the change and related income tax effect.[7] The amount of the cumulative effect should be shown in the income statement between the captions "extraordinary items" and "net income." The cumulative effect is not an extraordinary item but should be reported in a manner similar to an extraordinary item. The per share information shown on the face of the income statement should include the per share amount of the cumulative effect of the accounting change.

21. *Pro forma effects of retroactive application.* Pro forma effects of retroactive application (paragraph 19-d including footnote 6) should be shown on the face of the income statement for income before extraordinary items and net income. The earnings per share amounts (primary and fully diluted, as appropriate under APB Opinion No. 15, *Earnings per Share*) for income before extraordinary items and net income computed on a pro forma basis should be shown on the face of the income statement. If space does not permit, such per share amounts may be disclosed prominently in a separate schedule

[6] The pro forma amounts include both (a) the direct effects of a change and (b) nondiscretionary adjustments in items based on income before taxes or net income, such as profit sharing expense and certain royalties, that would have been recognized if the newly adopted accounting principle had been followed in prior periods: related income tax effects should be recognized for both (a) and (b). Direct effects are limited to those adjustments that would have been recorded to restate the financial statements of prior periods to apply retroactively the change. The nondiscretionary adjustments described in (b) should not therefore be recognized in computing the adjustment for the cumulative effect of the change described in paragraph 20 unless nondiscretionary adjustments of the prior periods are actually recorded.

[7] See footnote 6.

or in tabular form in the notes to the financial statements with appropriate cross reference; when this is done the actual per share amounts should be repeated for comparative purposes. Pro forma amounts should be shown in both current and future reports for all periods presented which are prior to the change and which would have been affected. Appendix A illustrates the manner of reporting a change in accounting principle. If an income statement is presented for the current period only, the actual and the pro forma amounts (and related per share data) for the immediately preceding period should be disclosed.

22. The principal steps in computing and reporting the cumulative effect and the pro forma amounts of a change in accounting principle may be illustrated by a change in depreciation method for previously recorded assets as follows:

a. The class or classes of depreciable assets to which the change applies should be identified. (A "class of assets" relates to general physical characteristics.)

b. The amount of accumulated depreciation on recorded assets at the beginning of the period of the change should be recomputed on the basis of applying retroactively the new depreciation method. Accumulated depreciation should be adjusted for the difference between the recomputed amount and the recorded amount. Deferred taxes should be adjusted for the related income tax effects.

c. The cumulative effect on the amount of retained earnings at the beginning of the period of the change resulting from the adjustments referred to in (b) above should be shown in the income statement of the period of the change.

d. The pro forma amounts should give effect to the pro forma provisions for depreciation of each prior period presented and to the pro forma adjustments of nondiscretionary items,[8] computed on the assumption of retroactive application of the newly adopted method to all prior periods and adjusted for the related income tax effects.

23. *Change in method of amortization and related disclosure.* Accounting for the costs of long-lived assets requires adopting a systematic pattern of charging those costs to expense. These patterns are referred to as depreciation, depletion, or amortization methods (all of which are referred to in this Opinion as methods of amortization). Various patterns of charging costs to expenses are acceptable for depreciable assets; fewer patterns are acceptable for other long-lived assets.

24. Various factors are considered in selecting an amortization method for identifiable assets, and those factors may change, even for similar assets. For example, a company may adopt a new method of amortization for newly acquired, identifiable, long-lived assets and use that method for all additional new assets of the same class but continue to use the previous method for existing balances of previously recorded assets of that class. For that type of change in accounting principle, there is no adjustment of the type outlined in paragraphs 19-22, but a description of the nature of the change in method and its effect on income before extraordinary items and net income of the period of the change, together with the related per share amounts, should be disclosed. If the new method of amortization is however applied to previously recorded assets of that class, the change in acccounting principle requires an adjustment for the cumulative effect of the change and the provisions of paragraphs 15 to 22 should be applied.

25. *Pro forma amounts not determinable.* In rare situations the pro forma amounts described in paragraph 21 cannot be computed or reasonably estimated for individual

[8] See footnote 6.

prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined. The cumulative effect should then be reported in the income statement of the period of change in the manner described in paragraph 20. The reason for not showing the pro forma amounts by periods should be explained because disclosing those amounts is otherwise required and is expected by users of financial statements.

26. *Cumulative effect not determinable.* Computing the effect on retained earnings at the beginning of the period in which a change in accounting principle is made may sometimes be impossible. In those rare situations, disclosure will be limited to showing the effect of the change on the results of operations of the period of change (including per share data) and to explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years. The principal example of this type of accounting change is a change in inventory pricing method from FIFO to LIFO for which the difficulties in computing the effects of that change are described in paragraph 14-d.

27. *Special changes in accounting principle reported by applying retroactively the new method in restatements of prior periods.* Certain changes in accounting principle are such that the advantages of retroactive treatment in prior period reports outweigh the disadvantages. Accordingly, for those few changes, the Board concludes that the financial statements of all prior periods presented should be restated. The changes that should be accorded this treatment are: (a) a change from the LIFO method of inventory pricing to another method, (b) a change in the method of accounting for long-term construction-type contracts, and (c) a change to or from the "full cost" method of accounting which is used in the extractive industries.

28. The nature of and justification for a change in accounting principle described in paragraph 27 should be disclosed in the financial statements for the period the change was adopted. In addition, the effect of the change on income before extraordinary items, net income, and the related per share amounts should be disclosed for all periods presented. This disclosure may be on the face of the income statement or in the notes. Appendix B illustrates the manner of reporting a change in accounting principle retroactively by restating the statements of those prior periods affected. Financial statements of subsequent periods need not report the disclosures.

29. *Special exemption for an initial public distribution.* The Board concludes that in one specific situation the application of the foregoing provisions of this Opinion may result in financial statement presentations of results of operations that are not of maximum usefulness to intended users. For example, a company owned by a few individuals may decide to change from one acceptable accounting principle to another acceptable principle in connection with a forthcoming public offering of shares of its equity securities. The potential investors may be better served by statements of income for a period of years reflecting the use of the newly adopted accounting principles because they will be the same as those expected to be used in future periods. In recognition of this situation, the Board concludes that financial statements for all prior periods presented may be restated retroactively when a company first issues its financial statements for any one of the following purposes: (a) obtaining additional equity capital from investors, (b) effecting a business combination, or (c) registering securities. This exemption is available only once for changes made at the time a company's financial statements are first used for any of those purposes and is not available to companies whose securities currently are widely held.

30. The company should disclose in financial statements issued under the circumstances described in paragraph 29 the nature of the change in accounting principle and the justification for it (paragraph 17).

REPORTING A CHANGE IN ACCOUNTING ESTIMATE

31. The Board concludes that the effect of a change in accounting estimate should be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in an estimate should not be accounted for by restating amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.[9]

32. A change in accounting estimate that is recognized in whole or in part by a change in accounting principle should be reported as a change in an estimate because the cumulative effect attributable to the change in accounting principle cannot be separated from the current or future effects of the change in estimate (paragraph 11). Although that type of accounting change is somewhat similar to a change in method of amortization (paragraphs 23 and 24), the accounting effect of a change in a method of amortization can be separated from the effect of a change in the estimate of periods of benefit or service and residual values of assets. A change in method of amortization for previously recorded assets therefore should be treated as a change in accounting principle, whereas a change in the estimated period of benefit or residual value should be treated as a change in accounting estimate.

33. *Disclosure.* The effect on income before extraordinary items, net income and related per share amounts of the current period should be disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets or actuarial assumptions affecting pension costs. Disclosure of the effect on those income statement amounts is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, disclosure is recommended if the effect of a change in the estimate is material.

REPORTING A CHANGE IN THE ENTITY

34. The Board concludes that accounting changes which result in financial statements that are in effect the statements of a different reporting entity (paragraph 12) should be reported by restating the financial statements of all prior periods presented in order to show financial information for the new reporting entity for all periods.

35. *Disclosure.* The financial statements of the period of a change in the reporting entity should describe the nature of the change and the reason for it. In addition, the effect of the change on income before extraordinary items, net income, and related per share amounts should be disclosed for all periods presented. Financial statements of subsequent periods need not repeat the disclosures. (Paragraphs 56 to 65 and 93 to 96 of APB Opinion No. 16, *Business Combinations,* describe the manner of reporting and the disclosures required for a change in reporting entity that occurs because of a business combination.)

REPORTING A CORRECTION OF AN ERROR IN PREVIOUSLY ISSUED FINANCIAL STATEMENTS

36. The Board concludes that correction of an error in the financial statements of a prior period discovered subsequent to their issuance (paragraph 13) should be reported as a prior period adjustment. (Paragraph 18 of APB Opinion No. 9 covers the manner of reporting prior period adjustments.)

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[9] Financial statements of a prior period should not be restated for a change in estimate resulting from later resolution of an uncertainty which may have caused the auditor to qualify his opinion on previous financial statements unless the change meets all the conditions for a prior period adjustment (paragraph 23 of APB Opinion No. 9).

37. *Disclosure.* The nature of an error in previously issued financial statements and the effect of its correction on income before extraordinary items, net income, and the related per share amounts should be disclosed in the period in which the error was discovered and corrected. Financial statements of subsequent periods need not repeat the disclosures.

MATERIALITY

38. The Board concludes that a number of factors are relevant to the materiality of (a) accounting changes contemplated in this Opinion and (b) corrections of errors, in determining both the accounting treatment of these items and the necessity for disclosure. Materiality should be considered in relation to both the effects of each change separately and the combined effect of all changes. If a change or correction has a material effect on income before extraordinary items or on net income of the current period before the effect of the change, the treatments and disclosures described in this Opinion should be followed. Furthermore, if a change or correction has a material effect on the trend of earnings, the same treatments and disclosures are required. A change which does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods should be disclosed whenever the financial statements of the period of change are presented.

HISTORICAL SUMMARIES OF FINANCIAL INFORMATION

39. Summaries of financial information for a number of periods are commonly included in financial reports. The summaries often show condensed income statements, including related earnings per share amounts, for five years or more. In many annual reports to stockholders, the financial highlights present similar information in capsule form. The Board concludes that all such information should be prepared in the same manner (including the presentation of pro forma amounts) as that prescribed in this Opinion for primary financial statements (paragraphs 15 to 38) because the summaries include financial data based on the primary financial statements. In a summary of financial information that includes an accounting period in which a change in accounting principle was made, the amount of the cumulative effect of the change that was included in net income of the period of the change should be shown separately along with the net income and related per share amounts of that period and should not be disclosed only by a note or parenthetical notation.

EFFECTIVE DATE

40. The provisions of this Opinion are effective for fiscal years beginning after July 31, 1971. However, the Board encourages application of the provisions of this Opinion in reporting any accounting changes included in fiscal years beginning before August 1, 1971 but not yet reported in financial statements issued for the year of the change.

The Opinion entitled "Accounting Changes" was adopted by the assenting votes of twelve members of the Board, Messrs. Catlett, Halvorson, Harrington, Kessler, Luper, and Watt dissented.

Messrs. Catlett, Kessler and Luper dissent to this Opinion because they believe that when a change in accounting principles is made the financial statements for prior periods should be restated on the same basis as those for the current period. The Board has reached a similar conclusion in most previous Opinions, since such Opinions have encouraged or required retroactive treatment for recommended changes in accounting principles. They also believe that the cumulative adjustments applicable to prior periods arising from changes in accounting principles have no bearing upon the current results of operations and should not be included in the determination of net income for the current period. This Opinion recognizes that consistent use of accounting principles "enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data" and that changes in accounting principles should not be made unless the principle adopted is "preferable." Yet, when such changes are made, this Opinion places severe constraints on restatement and thus not only precludes "preferable" accounting for prior periods in many areas but also impairs the comparability of the financial statements.

Mr. Harrington and Messrs. Catlett, Kessler and Luper dissent to this Opinion because in their view the great divergence between the selective requirements for restatement in paragraphs 27, 29 and 34 and the general requirements for cumulative adjustments in paragraphs 19 and 24 is not based on any supportable rationale; and such general requirements will be confusing and will contribute far more to the dilution of public confidence in financial reporting than would the restatement of prior periods for all changes in accounting principles. Furthermore, Messrs. Catlett, Harrington and Luper are particularly concerned with the continuing tendency of the Board to attempt to eliminate alleged "abuses" by means of arbitrary rules and to use accounting requirements as a disciplinary tool rather than to establish standards for the most meaningful financial reports for investors and other users of financial statements. They believe that the cumbersome requirements of this Opinion will discourage improvements in accounting in numerous areas on which the Board will not issue Opinions for many years.

Mr. Halvorson dissents because he believes that all income and expense should be included in the income statement once and neither more nor less than once, and that this can really be achieved only if newly-adopted principles are applied prospectively. The cumulative adjustment required by the Opinion for most accounting changes ignores this cardinal tenet of reporting by effectively obscuring the result if the one-time inclusion is accommodated in the cumulative adjustment and completely negating the desired result when the cumulative adjustment requires duplication in the future of items already accounted for and reported in earlier periods. He believes that restatement ("actual" or pro forma) of information previously published in good faith will endanger the credibility of financial reporting and that availability of the cumulative-adjustment device will minimize the disciplinary effect that accounting has on the issuers of financial statements. It should be sufficient to report the dollar effect of a change (the "inconsistency") in the year of change, and in a multi-period statement including the year of change to disclose the principle applied in each of the several included periods. It is the further view of Mr. Halvorson that the required pro forma presentation for past years cannot properly report the operating results for such years as they would have been if the newly-adopted principle had then been used, because reported operating results themselves have a compelling influence on non-accounting operating decisions in such areas as pricing and methods of financing, and the effect of such decisions cannot be arithmetically reconstructed to reflect the effect of what might have been.

Mr. Watt dissents to this Opinion because its conclusions are not in accord with his view that the best presentation is one that does not require excessive interpretation by the financial statement user. He believes that, with respect to accounting changes, it is more important for statements presented in comparative form to be comparable in detail than for historical continuity to be retained there; such continuity is important and changes to amounts previously reported can be adequately reconciled in the notes to financial statements. Thus, the presumption should be that, with respect to accounting changes, retroactive restatement is most desirable wherever statements are presented in comparative form. The exception to this would be where the change relates to items whose carrying amount involves a substantial valuation judgment. Mr. Watt is in agreement with the conclusion in the Opinion that depreciation lives of assets are an element of the estimation process and changes therein should be applied prospectively. He believes, however, that depreciation method changes, although conceptually accounting changes, are inextricably tied to subjective judgment of the periods of exhaustion of the useful lives of assets and therefore the selection of a method is usually the result of a composite decision involving both methods and estimated useful lives. Thus, it is his view that all changes in depreciation methods should be reflected prospectively. Similarly, accounting changes relating to the amortization of depletable costs, goodwill, pre-operating and research and development cost, etc. should be reflected prospectively. This view as it relates to pension accruals is also consistent with that expressed in paragraph 47 of APB Opinion No. 8, *Accounting for the Cost of Pension Plans,* that a change in accounting method should be applied prospectively.

NOTES*

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board.

Board Opinions need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Rule 203 of the Institute's Rules of Conduct prohibits a member from expressing his opinion that financial statements are presented in conformity with generally accepted accounting principles if the statements depart in a material respect from such principles unless he can demonstrate that due to unusual circumstances application of the principles would result in misleading statements—in which case his report must describe the departure, its approximate effects, if practicable, and the reasons why compliance with the established principles would result in misleading statements.

Pursuant to resolution of Council, this Opinion of the APB establishes, until such time as they are expressly superseded by action of FASB, accounting principles which fall within the provisions of Rule 203 of the Rules of Conduct.

Accounting Principles Board (1971)

PHILIP L. DEFLIESE
Chairman
DONALD J. BEVIS
MILTON M. BROEKER
LEO E. BURGER
GEORGE R. CATLETT
JOSEPH P. CUMMINGS
ROBERT L. FERST
NEWMAN T. HALVORSON
ROBERT HAMPTON, III
EMMETT S. HARRINGTON
CHARLES B. HELLERSON
CHARLES T. HORNGREN
LOUIS M. KESSLER
ORAL L. LUPER
DAVID NORR
GEORGE C. WATT
GLENN A. WELSCH
FRANK T. WESTON

* Changed to conform to adoption as revised in APB Opinion No. 28, May 1973.

APPENDIX B

STATEMENT ON AUDITING STANDARDS NO. 1

420 Consistency of Application of Generally Accepted Accounting Principles

.01 The second standard of reporting (referred to herein as the consistency standard) is:

> The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

.02 The objective of the consistency standard is (a) to give assurance that the comparability of financial statements between periods has not been materially affected by changes in accounting principles, which include not only accounting principles and practices but also the methods of applying them, or (b) if comparability has been materially affected by such changes, to require appropriate reporting by the independent auditor regarding such changes. It is implicit in the objective that such principles have been consistently observed within each period.

.03 Proper application of the consistency standard by the independent auditor requires an understanding of the relationship of consistency to comparability. Although lack of consistency may cause lack of comparability, other factors unrelated to consistency may also cause lack of comparability.[1]

.04 A comparison of the financial statements of an entity between years may be affected by (a) accounting changes, (b) an error in previously issued financial statements, (c) changes in classification, and (d) events or transactions substantially different from those accounted for in previously issued statements. Accounting change, as defined in APB Opinion No. 20, means a change in (1) an accounting principle, (2) an accounting estimate, or (3) the reporting entity (which is a special type of change in accounting principle).

.05 Changes in accounting principle having a material effect on the financial statements require recognition in the independent auditor's opinion as to consistency. Other factors affecting comparability in financial statements may require disclosure, but they would not ordinarily be commented upon in the independent auditor's report.

Accounting Changes Affecting Consistency

Change in Accounting Principle

.06 "A change in accounting principle results from adoption of a generally accepted accounting principle different from the one used previously for reporting purposes. The term *accounting principle* includes not only accounting principles and practices but also the methods of applying them."[2] A change in accounting principle includes, for example, a change from the straight-line method to the declining balance method of depreciation

[1] For a discussion of comparability of financial statements of a single enterprise, see paragraphs 95 through 97 of Accounting Principles Board Statement No. 4, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises."

[2] Accounting Principles Board Opinion No. 20, paragraph 7.

for all assets in a class or for all newly acquired assets in a class, and a change from expensing research and development costs to amortizing such cost over the estimated period benefited. The consistency standard is applicable to this type of change and requires recognition in the auditor's opinion as to consistency.

Change in the Reporting Entity

.07 Since a change in the reporting entity is a special type of change in accounting principle, the consistency standard is applicable. Changes in reporting entity that require recognition in the auditor's opinion include:

a. Presenting consolidated or combined statements in place of statements of individual companies.
b. Changing specific subsidiaries comprising the group of companies for which consolidated statements are presented.
c. Changing the companies included in combined financial statements.
d. Changing among the cost, equity, and consolidation methods of accounting for subsidiaries or other investments in common stock.

.08 A business combination accounted for by the pooling-of-interests method also results in a change in reporting entity. The application of the consistency standard to this type of change is discussed in section 546.12-.13.

.09 For purposes of application of the consistency standard, a change in reporting entity does not result from the creation, cessation, purchase, or disposition of a subsidiary or other business unit.

Correction of an Error in Principle

.10 A change from an accounting principle that is not generally accepted to one that is generally accepted, including correction of a mistake in the application of a principle, is a correction of an error. Although this type of change in accounting principle should be accounted for as the correction of an error,[1] the change requires recognition in the auditor's opinion as to consistency.[2]

Change in Principle Inseparable From Change in Estimate

.11 The effect of a change in accounting principle may be inseparable from the effect of a change in estimate.[3] Although the accounting for such a change is the same as that accorded a change only in estimate, a change in principle is involved. Accordingly, this type of change requires recognition in the independent auditor's opinion as to consistency.

Changes Not Affecting Consistency

Change in Accounting Estimate

.12 Accounting estimates (such as service lives and salvage values of depreciable assets and provisions for warranty costs, uncollectible receivables, and inventory obsolescence) are necessary in the preparation of financial statements. Accounting estimates change as new events occur and as additional experience and information are acquired.

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1 See paragraphs 13, 36 and 37 of Accounting Principles Board Opinion No. 20.

2 The appropriate form of reporting on consistency in such circumstances is similar to that illustrated in section 546.02.

3 See paragraph 11 of Accounting Principles Board Opinion No. 20.

This type of accounting change is required by altered conditions that affect comparability but do not involve the consistency standard. The independent auditor, in addition to satisfying himself with respect to the conditions giving rise to the change in accounting estimate, should satisfy himself that the change does not include the effect of a change in accounting principle. Provided he is so satisfied, he need not comment on the change in his report because it does not affect his opinion as to consistency.[1] However, an accounting change of this type having a material effect on the financial statements may require disclosure in a note to the financial statements.[2]

Error Correction Not Involving Principle

.13 Correction of an error in previously issued financial statements resulting from mathematical mistakes, oversight, or misuse of facts that existed at the time the financial statements were originally prepared does not involve the consistency standard if no element of accounting principles or their application is included. Accordingly, the independent auditor need not recognize the correction in his opinion as to consistency.[3]

Changes in Classification and Reclassifications

.14 Classifications in the current financial statements may be different from classifications in the prior year's financial statements. Although changes in classification are usually not of sufficient importance to necessitate disclosure, material changes in classification should be indicated and explained in the financial statements or notes. These changes and material reclassifications made in previously issued financial statements to enhance comparability with current financial statements ordinarily would not affect the independent auditor's opinion as to consistency and need not be referred to in his report.

Variations in Format and Presentation of Statement of Changes in Financial Position

.15 In paragraph 8 of APB Opinion No. 19, the Accounting Principles Board concluded that ". . . the statement summarizing changes in financial position should be based on a broad concept embracing all changes in financial position. . . ." In paragraph 9 of that Opinion, however, the Board recognized ". . . the need for flexibility in form, content, and terminology . . ." of the statement of changes. Accordingly, variations between periods in the format of the statement of changes, such as changing to or from a balanced form, are deemed to be reclassifications. If such variations materially affect comparability, they should be disclosed in the financial statements and ordinarily will not be referred to in the independent auditor's report.

.16 However, variations between periods in the terms used to express changes in financial position, such as changing from cash to working capital, constitute a change in the application of accounting principles and involve the consistency standard. When such

[1] With respect to financial statements filed with the Securities and Exchange Commission, Regulation S-X requires the independent auditor to express an opinion as to any change in accounting principle or practice that materially affects *comparability*. These requirements may be met by the use of a middle paragraph in the auditor's report in which he describes the change and expresses his view thereon; when this is done, there should not be a reference to the change in the opinion paragraph if the consistency standard is not involved.

[2] See paragraph 33 of Accounting Principles Board Opinion No 20.

[3] If the independent auditor had previously reported on the financial statements containing the error, he should refer to section 561, "Subsequent Discovery of Facts Existing at the Date of the Auditor's Report."

a change occurs and the independent auditor deems it to be material, he should express in his opinion an exception as to consistency. An entity making such a change in the current period may present comparative financial statements for a prior period that have been restated to conform with those of the current period. Such a restatement places both periods on the same basis with respect to the use and application of accounting principles. The restatement should be disclosed and the auditor should refer to it in his report.

Substantially Different Transactions or Events

.17 Accounting principles are adopted when events or transactions first become material in their effect. Such adoption, as well as modification or adoption of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring, do not involve the consistency standard although disclosure in the notes to the financial statements may be required.

Changes Expected to Have a Material Future Effect

.18 If an accounting change has no material effect on the financial statements in the current year, but the change is reasonably certain to have substantial effect in later years, the change should be disclosed in the notes to the financial statements whenever the statements of the period of change are presented, but the independent auditor need not recognize the change in his opinion as to consistency.

Disclosure of Changes Not Affecting Consistency

.19 While the matters discussed in paragraphs .12-.15 and .17-.18 do not require recognition in the independent auditor's report as to consistency, the auditor should qualify his report as to the disclosure matter if necessary disclosures are not made. (See section 430.04.)

Periods to Which the Consistency Standard Relates

.20 When the independent auditor reports only on the current period, he should report on the consistency of the application of accounting principles in relation to the preceding period, regardless of whether financial statements for the preceding period are presented. (The term "current period" means the most recent year, or period of less than one year, upon which the independent auditor is reporting.) When the independent auditor reports on two or more years, he should report on the consistency of the application of accounting principles between such years and also on the consistency of such years with the year prior thereto if such prior year is presented with the financial statements being reported upon.

Consistency Expression

.21 When the independent auditor is expressing an opinion on the financial statements of a single year, the phrase "on a basis consistent with that of the preceding year" is appropriate; however, if the financial statements are for the initial accounting period of a company, he should not refer to consistency because no previous period exists with which to make a comparison. If the auditor's report covers two or more years, language similar to "applied on a consistent basis" should be used. In such cases, if the year preceding the earliest year being reported upon is also presented, language similar to "consistently applied during the period and on a basis consistent with that of the preceding year" should be used.

546 Reporting on Inconsistency

Change in Accounting Principle

.01 When there is a change in accounting principle, the independent auditor should modify his opinion as to consistency, indicating the nature of the change. The auditor's concurrence with a change is implicit unless he takes exception to the change in expressing his opinion as to fair presentation of the financial statements in conformity with generally accepted accounting principles. Nevertheless, in order to be more informative the auditor should make his concurrence explicit (unless the change is the correction of an error) using the expression "with which we concur." The form of modification of the opinion depends on the method of accounting for the effect of the change, as explained in paragraphs .02 and .03.[1]

.02 If there has been a change in accounting principle which should be reported by restating the financial statements of prior years,[2] the appropriate reference to consistency is that the statements are consistent after giving retroactive effect to the change. Illustrations of appropriate reporting follow:

(Opinion paragraph covering one year)

> ... applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.

(Opinion paragraph covering two years)

> ... applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for long-term construction contracts as described in Note X to the financial statements.

The auditor's report need not refer to a change in accounting principle and restatement made in conformity with generally accepted accounting principles if the statements for the year of change are reported upon together with the financial statements for a year subsequent to the year of change.

.03 If there has been a change in accounting principle which should be reported by means other than by restating the financial statements of prior years and the independent auditor is reporting only on the year during which the change was made, his report should state that accounting principles have been consistently applied except for the change. An example of such reporting follows:

(Opinion paragraph)

> ... in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of computing depreciation as described in Note X to the financial statements, have been applied on a basis consistent with that of the preceding year.

If the independent auditor is reporting on two or more years when reporting on a subsequent year's financial statements, he should make appropriate reference to the change as

[1] With respect to the method of accounting for the effect of a change in accounting principle, see Accounting Principles Board Opinion No. 20, including paragraph 4, which states that methods of accounting for changes in principles have been and will be specified in pronouncements other than Opinion No. 20.

[2] With respect to reporting on financial statements after a pooling of interests, see paragraphs .12 and .13 and section 543.16-.17.

long as the year of change is included in the years being reported upon. If the year of change was other than the earliest year being reported upon, the following example would be an appropriate form of reporting:

(Opinion paragraph)

> . . . in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of computing depreciation as described in Note X to the financial statements.

If the year of change is the earliest year being reported upon, there is no inconsistency in the application of accounting principles during the period subsequent to the change, but the auditor should make reference to the change having been made in such year. Following is an example of appropriate reporting:

(Opinion paragraph)

> . . . in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 19. . ., in the method of computing depreciation as described in Note X to the financial statements.

A change in accounting principle made at the beginning of the year preceding the earliest year being reported upon by the auditor does not result in an inconsistency between such preceding year and later years. In reporting on consistency of a later year with such preceding year, reference to a change is not necessary.

Reporting on Changes in Accounting Principle That Are Not in Conformity With Generally Accepted Accounting Principles

.04 The auditor should evaluate a change in accounting principle to satisfy himself that (a) the newly adopted accounting principle is a generally accepted accounting principle, (b) the method of accounting for the effect of the change is in conformity with generally accepted accounting principles, and (c) management's justification[1] for the change is reasonable. If a change in accounting principle does not meet these conditions, the auditor's report should so indicate and his opinion should be appropriately qualified as discussed in paragraphs .05 through .11.

Reporting in the Year of Change

.05 If a newly adopted accounting principle is not a generally accepted accounting principle or the method of accounting for the effect of the change is not in conformity with generally accepted accounting principles, the auditor should express a qualified opinion or, if the effect of the change is sufficiently material, the auditor should express an adverse opinion on the financial statements taken as a whole due to a lack of conformity with generally accepted accounting principles. If a qualified opinion is expressed, the qualification would relate both to conformity with generally accepted accounting principles and to the consistency of application. When expressing an adverse opinion in such circumstances, no reference to consistency need be made because the financial statements are not presented

[1] Accounting Principles Board Opinion No. 20, paragraph 16, states: "The presumption that an entity should not change an accounting principle may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable." The requirement for justification is applicable to years beginning after July 31, 1971.

in conformity with generally accepted accounting principles.[1] Following is an illustration of reporting where the newly adopted accounting principle is not a generally accepted accounting principle:

(Middle paragraph)

The company previously recorded its land at cost but adjusted the amounts to appraised values during the year, with a corresponding increase in stockholders' equity in the amount of $ .... In our opinion, the new basis on which land is recorded is not in conformity with generally accepted accounting principles.

(Opinion paragraph)

In our opinion, except for the change to recording appraised values as described above, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19..., and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

.06 If management has not provided reasonable justification for a change in accounting principles, the independent auditor should express an exception to the change having been made without reasonable justification. Such qualification would relate both to conformity with generally accepted accounting principles and to the consistency of application. An example follows:

(Middle paragraph)

As disclosed in Note X to the financial statements, the company has adopted (description of newly adopted method), whereas it previously used (description of previous method). Although use of the (description of newly adopted method) is in conformity with generally accepted accounting principles, in our opinion the company has not provided reasonable justification for making a change as required by Opinion No. 20 of the Accounting Principles Board.

(Opinion paragraph)

In our opinion, except for the change in accounting principles as stated above, the aforementioned financial statements present fairly the financial position of X Company at December 31, 19..., and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Reporting in Subsequent Years

.07 Whenever an accounting change results in an independent auditor expressing a qualified or adverse opinion on the conformity of financial statements with generally accepted accounting principles for the year of change, he should consider the possible effects of that change when reporting on the entity's financial statements for subsequent years, as discussed in paragraphs .08-.11.

[1] Footnote disclosure of an inconsistency in accounting principles unrelated to the reason for an adverse opinion is required even though the independent auditor does not refer to the inconsistency in his report. If such an inconsistency is not disclosed, the independent auditor should also qualify his report for this lack of disclosure. (See section 430.04.)

.08 If the financial statements for the year of such change are presented with a subsequent year's financial statements, the auditor's report should disclose his reservations with respect to the statements for the year of change.

.09 If an entity has adopted an accounting principle which is not a generally accepted accounting principle, its continued use may have a material effect on the statements of a subsequent year on which the auditor is reporting. In this situation, the independent auditor should express either a qualified or an adverse opinion, depending upon the materiality of the departure in relation to the statements of the subsequent year.

.10 If an entity accounts for the effect of a change prospectively when generally accepted accounting principles require restatement or the inclusion of the cumulative effect of the change in the year of change, a subsequent year's financial statements could improperly include a charge or credit which is material to those statements. This situation also requires that the auditor express a qualified or an adverse opinion.

.11 If management has not provided reasonable justification for a change in accounting principles, the auditor's opinion should express an exception to the change having been made without reasonable justification, as previously indicated. In addition, the auditor should continue to express his exception with respect to the financial statements for the year of change as long as they are presented. However, the auditor's exception relates to the accounting change and does not affect the status of a newly adopted principle as a generally accepted accounting principle. Accordingly, while expressing an exception for the year of change, the independent auditor's opinion regarding the subsequent years' statements need not express an exception to use of the newly adopted principle.

Reports Following a Pooling of Interests

.12 When companies have merged or combined in accordance with the accounting concept known as a "pooling of interests," appropriate effect of the pooling should be given in the presentation of financial position, results of operations, changes in financial position, and other historical financial data of the continuing business for the year in which the combination is consummated and, in comparative financial statements, for years prior to the year of pooling, as described in Accounting Principles Board Opinion No. 16, "Business Combinations." If prior year financial statements, presented in comparison with current year financial statements, are not restated to give appropriate recognition to a pooling of interests, the comparative financial statements are not presented on a consistent basis. In this case, the inconsistency arises not from a change in the application of an accounting principle in the current year, but from the lack of such application to prior years. Such inconsistency would require a qualification in the independent auditor's report. In addition, failure to give appropriate recognition to the pooling in comparative financial statements is a departure from an Opinion of the Accounting Principles Board. Therefore, the auditor must also give appropriate consideration to the provisions of [Rule 203 of the AICPA Code of Professional Ethics in reporting departures from generally accepted accounting principles. (Effective March 1, 1973)]

.13 When single-year statements only are presented for the year in which a combination is consummated, a note to the financial statements should adequately disclose the pooling transaction and state the revenues, extraordinary items, and net income of the constituent companies for the preceding year on a combined basis. In such instances, the disclosure and consistency standards are met. Omission of disclosure of the pooling transaction and its effect on the preceding year would require qualifications as to the lack of disclosure and consistency in the independent auditor's report.

First Examinations

.14 When the independent auditor has not examined the financial statements of a company for the preceding year, he should adopt procedures that are practicable and reasonable in the circumstances to assure himself that the accounting principles employed are consistent between the current and the preceding year. Where adequate records have been maintained by the client, it is usually practicable and reasonable to extend auditing procedures sufficiently to give an opinion as to consistency.

.15 Inadequate financial records or limitations imposed by the client may preclude the independent auditor from forming an opinion as to the consistent application of accounting principles between the current and the prior year, as well as to the amounts of assets or liabilities at the beginning of the current year. Where such amounts could materially affect current operating results, the independent auditor would also be unable to express an opinion on the current year's results of operations and changes in financial position. Following is an example of reporting where the records are inadequate:

(Scope paragraph)

. . . and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraph.

(Middle paragraph)

Because of major inadequacies in the Company's accounting records for the previous year, it was not practicable to extend our auditing procedures to enable us to express an opinion on results of operations and changes in financial position for the year ended (current year) or on the consistency of application of accounting principles with the preceding year.

(Opinion paragraph)

In our opinion, the accompanying balance sheet presents fairly the financial position of X Company as of (current year end) in conformity with generally accepted accounting principles.

.16 If accounting records for prior years were kept on a basis which did not result in a fair presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles for those years, and it is impracticable to restate financial statements for those years,[1] the independent auditor should omit the customary reference to consistency and present his report similar to the following:

(Middle paragraph)

The Company has kept its records and has prepared its financial statements for previous years on the cash basis with no recognition having been accorded accounts receivable, accounts payable, or accrued expenses. At the beginning of the current year the Company adopted the accrual basis of accounting. Although appropriate adjustments have been made to retained earnings as of the beginning of the year, it was not practicable to determine what adjustments would be necessary in the financial statements of the preceding year to restate results of operations and changes in financial position in conformity with the accounting principles used in the current year.

[1] If restatement of prior years' statements is practicable, see section 420.10.

(Opinion paragraph)

In our opinion, the aforementioned financial statements present fairly the financial position of X Company as of October 31, 19. . ., and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

Pro Forma Effects of Accounting Changes

.17 In single-year financial statements, the pro forma effects of retroactive application of certain accounting changes should be disclosed.[1] In such situations, the reporting provisions of section 535 are applicable to the prior year data.

[1] See paragraph 21 of Accounting Principles Board Opinion No. 20.

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