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Claude Peter Lanfranconi

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CHANGE IN CORPORATE FINANCIAL DISCLOSURE
IN CANADA: AN EMPIRICAL STUDY OF THE
USE OF NOTES TO FINANCIAL STATEMENTS
AND SUPPLEMENTARY FINANCIAL DATA
SCHEDULES FOR DISCLOSURE IN CORPORATE
ANNUAL REPORTS IN CANADA

by

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School of Business Administration

Submitted in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy

Faculty of Graduate Studies
The University of Western Ontario
London, Ontario
July, 1976

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ABSTRACT

The purpose of this study was to document and analyze a change which is occurring in external financial reporting in Canada, that change being an expansion in both the kind and quantity of data being disclosed. It was proposed in this thesis that a substantial portion of this change is reflected in the Annual Reports of public companies by the increased usage of one or both of two formats of financial disclosure: Notes to Financial Statements and/or Supplementary Financial Data Schedules.

The problem was the absence of suitable empirical data concerning the usage of Notes and S.F.D.S.s. As a result, assumptions, criticisms and recommendations have been and would have continued to be made without the proper foundation.

Data needed to overcome the problem was collected in two parts. The first part consisted of a 20 year empirical study of actual usage of both formats of disclosure. This was accomplished by the application and analysis of two specifically designed Statement Analysis Forms, to the annual reports of sixty randomly selected public Canadian companies. The objectives being the testing of hypotheses and the answering of supplementary research questions designed to describe; 1. the historical trends in usage, both quantity and content, 2. the association of legal and quasi-legal disclosure requirements and the complexity of the reporting organizations to the extent of usage of notes, 3. general technical aspects of the usage of both formats of disclosure and 4. the expected trends in usage.

The second part utilized interviews and a mail questionnaire to solicit the perceptions of three major producer/user groups of notes.

The three groups were; 1. managers responsible for the preparation of their company's annual reports, 2. Chartered Accountants and 3. Financial Analysts. The focus was on the opinions of these three groups regarding the relative significance, effectiveness and efficiency of notes versus the tabular portion of the financial statements. The hypotheses tested and related research questions examined the validity of traditional accounting assumptions and actual recommendations of the Canadian Institute of Chartered Accountants regarding the usage of notes.

The data collection and analysis resulted in a comprehensive description of Notes and S.F.D.S.s which documented the nature of, and trends in their usage. The data confirmed that the increased usage is a reflection of a significant change in both the quantity and kind of financial disclosure. Evolution towards the increased usage was associated with increasing legal and quasi-legal reporting requirements and the increasing complexity of the reporting organizations. That they have borne relatively greater portion of the new disclosure was attributed to their relative flexibility versus the tabular portion of the financial statements.

On the other hand, S.F.D.S.s have not developed and are not increasing in usage. This it was suggested might be related to their lack of legal or other recognition.

The analysis also revealed that traditional assumptions towards notes, and their relationship to the body of the statements may no longer be appropriate because they do not reflect reality at least as perceived by its key producers and users.

The main conclusion of the research was the need to recognize the increased importance of notes as a financial disclosure format.

Notes can no longer be treated as a minor appendage, or format as a discretionary variable. There is a need to research the effects of alternate disclosure formats and the data transmission capabilities and objectives of financial statements. At the present time we must recognize the change in the format of financial reporting in the teaching of the preparation and use of financial statements in order to maximize their effectiveness and efficiency.

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Although the thesis writing process sometimes has the appearance of a lonely journey, completion would not be possible without the help of many people.

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Claude P. Lanfranconi

London, Ontario

July, 1976.

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CHAPTER ONE

INTRODUCTION

1.1 Purpose of Study

This thesis will examine the usage of Notes to Financial Statements and Supplementary Financial Data Schedules in Corporate Financial Reporting in Canada. Its purpose is to document and analyze a change which is occurring in external financial reporting in Canada. The basic change is an expansion in quantity and kind of disclosure. I propose that a substantial portion of this change is reflected in the Annual Reports of Public Companies by the increased and expanded usage of Notes to Financial Statements and/or Supplementary Financial Data Schedules.

Up to now our knowledge about the extent of use and content of these formats of disclosure is deficient. I therefore propose to remedy this deficiency and achieve the purpose of the thesis by:

- a) carrying out an empirical study of sixty Public Canadian Companies' Annual Reports over a twenty year period to document and analyze actual usage of Notes to Financial Statements and Supplementary Financial Data Schedules;
- b) and by conducting interviews and administering questionnaires to relevant producer and user groups in order to seek their perceptions of these media and their usage.

1.2 Financial Statements

Financial statements are one of the main sources of financial data available to persons external to corporate institutions. Up to relatively recently, it was assumed by some people to be obvious that these statements are used and by others that the data are too little, too late, and therefore not used. Fortunately the recent move towards increased empirical research in Accounting has focused on this question and provided evidence towards the resolution of these opposing views.

A number of studies and findings addressing this issue were reviewed well by Baruch Lev in a recent book (Lev 1974), especially Chapter 15. He reasons that even though we may not know specifically how financial statements' data are used, they must contain some relevant information, as indicated by user behavior. One of the most convincing studies demonstrating investor usage of published earning data, was carried out by William Beaver. (Beaver 1968) The Beaver study showed effects of investors acting on accounting data by observing significant price changes and increases in the quantity of shares traded on and around the date of earnings' announcements. This pointed to an informational effect of these announcements. This study is one of a number reviewed by Lev in his book which leads him to conclude that data found in financial statements contain useful information. (Lev 1974 p244)

1.3 Format of Disclosure

A considerable amount of research has been expended on researching the topic of disclosure itself, however the format of disclosure has been virtually ignored, or treated as a discretionary variable. By format of disclosure, I refer to the means used to transmit

and communicate data from some source to a potential user. Published annual financial reports of public companies normally contain a number of formats. The majority of reports contain; 1) Presidents' Letters and/or other qualitative statements by management, 2) Supplementary Financial Data Schedules (highlight information and statistical or historical summaries), 3) Financial Statements (traditionally the Balance Sheet, Profit and Loss Statement, Statement of Retained Earnings and Funds Statements), 4) Notes to Financial Statements, and 5) Auditors' Reports.

Traditionally, 3 and 4 are dealt with as a single item. I believe this is due to assumptions or directions regarding the usage of notes. Another reason for this treatment is that, up to recently, the usage of notes was relatively restricted. Examination of these assumptions will form part of this study.

The formats which will be examined in this study are Notes to Financial Statements and Supplementary Financial Data Schedules. The notes are part of the financial reports attested to by external auditors and are considered an integral part of the financial statements. Supplementary Financial Data Schedules may or may not be attested to by the company auditors. This study will therefore only be concerned with two specific segments of the annual report.

One need only to review the textbooks used to teach accounting and the published corporate reports to recognize an interesting discrepancy. The texts make little if any reference to notes and supplementary data as a means of financial disclosure, however, the published reports make liberal use of them. The format of the (traditional) codified portion of financial statements is taught with great care. This fact seems

to contradict one reason given for the lack of attention to these other formats.

"Obviously then, notes are only a tool of disclosure of essential information and consequently most literature deals with the problem of disclosure rather than the means."

(Forderhase 1955 p50)

Although Forderhase may be properly describing the state of the academic literature, it does not justify the lack of attention to the means. In the real world one must deal with both of these problems.

Accounting over time has developed towards the relatively simple quantified statements reflecting the position and earnings of corporations. The reversal of the trend and increased usage of textual material in published statements has developed in the last thirty to forty years. (Myers 1959) It is assumed that we have now reached the point, almost unnoticed, where a sizable portion of corporate annual reports, even if limited to that section over which an auditor gives his opinion, are notes and supplementary data.

At this point, I would like to interject a point of clarification. I do not wish to express any prior opinion as the relative merits of these formats of disclosure. It is not uncommon, as the later literature review will demonstrate, to take a negative view of the usage of Notes to Financial Statements. It will be demonstrated that any prior opinion would have to be based on either old data or even unsubstantiated assumptions. Examination of some of these assumptions will form part of my hypothesis formulation and subsequent testing. The major thrust of this study will be an extensive positive

examination of usage. It might then be possible to express an opinion or at least hypothesize a view which a more normative study can test.

1.4 Increasing Disclosure?

1.4.1 Introduction

Two interrelated factors add to the relevance of examining this topic at this time. They are, a) the evaluation of accounting by its usefulness in making decisions and b) the call for, or movement towards, an expansion of disclosure. These two factors are of course related since (b) may be a result of (a). Examination of these areas has led to questions concerning multiple users and the capabilities of a single purpose financial statement in satisfying their information needs. It is not part of this study to evaluate or defend these topics. However a brief literature review will demonstrate the relationship between them and the usage of Notes to Financial Statements and Supplementary Financial Data Schedules.

The relationship of these two topics to this study is the likelihood that they are explanatory variables of some importance, affecting the usage of Notes to Financial Statements and Supplementary Financial Data Schedules. The following sections will attempt to demonstrate that actual trends towards expanded quantities of disclosure has a direct impact on the disclosure formats being examined, due to the restricted physical capacity of the traditional tabular sections of financial statements. For example, current financial statements give single quantitative point estimates. The inclusion of multiple measurements and/or qualitative descriptions would normally be found in the more flexible format of a footnote.

1.4.2 Decision Model Approach to Accounting

The user approach to accounting with the focus on supplying information for making decisions is not a new phenomenon. Recently, however, it has received a substantial increase in attention as a result of the Trueblood Report. (A.I.C.P.A. 1973) This committee on the Objectives of Financial Statements gave the following objective as being fundamental.

"The basic objective of financial statements is to provide information useful for making economic decisions."

(A.I.C.P.A. 1973 p13)

As an interesting aside, the report continues on the same page saying, "To accomplish this basic objective, it may be that financial statements should not be limited solely to quantified information. Amplification, in narrative form, of data included in statements may be required." (A.I.C.P.A., 1973 p13)

This approach does however bring up at least two aspects which bear on the topic under study. One problem is the identification of the decision maker. How do you value information, or for that matter, disclose information in an environment of heterogeneous users? This problem was discussed in great detail at the ninth annual conference on research in accounting held at the University of Chicago in 1974. The conference used the Trueblood Report as its main topic. In their summary and synthesis of the proceedings, William Beaver and Joel Demski point out the problem of heterogeneous users requiring different information for different decisions and the choices which must be made.

(Beaver & Demski 1974) Although, as they state, they are in no way

issuing a call for more disclosure (Beaver & Demski 1974 p185), one solution might be additional disclosure of multiple measurements directed towards different decision makers.

A second problem which arises when decision models are seen as the end use of accounting data is the need to satisfy situations where there are non-specified decision models. When the decision models are known and acceptable, the financial accounting information system need only to supply the specific data inputs applicable to the model. However when the model is only partially specified or even completely unspecified, the use of, and probable need for, greater quantities of data is increased since it will be necessary to construct and test the decision models. Again one suggested solution is an expanded amount of information. This problem of financial accounting dealing with both specified and unspecified decision models is dealt with by Baruch Lev in his book, Financial Statement Analysis, A New Approach. (Lev 1974 Chapter 7)

The increasing focus on the use of financial statements for decision making has brought up the need to consider the possible expansion of disclosure. This is not to say that this will have to be the route to be followed but is one which needs to be evaluated in light of the costs and benefits occurring to a possible increase of disclosure resulting from the need to report multiple measurements.

1.4.3 General Requests for More Disclosure

This section is closely related to the previous section to the extent that the requests for more financial disclosure might be

... tied to solving the problems related to decision models. The purpose behind this section is to give some examples, drawn from the literature, of the requests for more disclosure.

On a very general level at a recent meeting of the Canadian Public Relations Society, the following remark was made by a corporate executive, "... the public is demanding more information from corporations now and most corporate executives today with few exceptions have accepted the fact that they're living in a public relations world ...". (Telling the Whole Story 1975 p3) The article points to the involvement of financial reporting in this trend.

In an article, entitled Portfolio Theory, Corporate Objectives and the Disclosure of Accounting Data, Simon M. Keane argues that both portfolio theory and the need to consider shareholders' interests will act as an incentive to increasing disclosure. (Keane 1974) He puts forth the suggestion that multiple measurements might have to be disclosed depending upon the user and use. He also presents his resolution of the information overload problem with the following statement. "Given that it is in the shareholders' best interests that information should be directed to the most efficient information processors in the market, it follows that the scope and complexity of disclosed information should not be circumscribed by any preconceived notion of the limited capacity of shareholders to assimilate and process the information." (Keane 1974 p218)

Rosemarie Tevelon, a security analyst, made the following comment in a recent article, "The annual report should be comprehensive and, if it errs at all, it should err on the side of completeness ...".

(Tevelon 1971 p19) She also states that simplification of financial statements is a mirage. Ms. Tevelon claims business is in itself complex and if a person is an unsophisticated investor, he should seek counsel. The article is on the whole a plea for more information and is generally lacking in concern for the complexity it might create in the financial reports.

Along a similar line, William Eamer surveyed Chartered Financial Analysts in Canada and concluded that they were requesting more information than was currently provided. (Eamer 1975) "The study therefore concluded that financial statements commonly do not satisfy the information requirements of Chartered Financial Analysts and, therefore shareholders and investors." (Eamer 1975 p27) The dissatisfaction referred to in the quote was primarily concerned with quantity of information, stating that there is information the analysts would like but is not currently disclosed.

Carl L. Nelson in a recently published lecture attempts to show how unresolved measurement problems in accounting can be circumvented via increased disclosure. The core of his suggestions is best summarized by the following excerpt.

"Towards more disclosure

An accountant's job is to measure and report income. To do this he must determine which concept of income to adopt. He must determine whether the resulting financial statements meet the needs of the various groups that use financial statements. These problems present him with a rather difficult maze to work through.

The task may even be an impossible one and perhaps a different road should be selected. Instead of concentrating on

measurement, disclosure through more copious use of foot-
may be preferable. It is quite possible that someday a
series of schedules and narrative paragraphs may replace
financial statements as we now know them.

The advantages of disclosure are many. For instance, we
would not have to decide how to measure inventories. Current
financial statements require a single choice: disclosure per-
mits accountants to report replacement cost, net realizable
value and historical cost of the inventories. Accountants
would no longer be constrained by uncertainty as to what the
user wants and the necessity of giving one user's needs top
priority."

(Nelson 1975 p37)

1.5 Conclusion

What the above sections demonstrate is an apparent interest in
expanding the disclosure now found in financial reporting. I suggest
that, due to their structural format, the present financial statements
are expanding mainly via footnotes and/or additional Supplementary Fin-
ancial Data Schedules. This is not to say that this is desired or the
only course available, but it does provide a rationale for explaining
the assumed increased use of these formats. The arguments normally
forwarded against increased disclosure are cost, the maintenance of cer-
tain levels of confidentiality of the entity disclosing information and
the possibility of an information overload problem. A resolution of the
arguments for or against this issue are beyond the scope of this thesis.

It is interesting to note that accounting has evolved from a
narrative journal form toward the tabular format found in the tradi-
tional financial statements. And now, as was suggested earlier in the

Carl Nelson quote, we might be moving towards, a series of schedules and narrative paragraphs". (Nelson 1975 p37)

It will be demonstrated in the next chapter that there is almost a complete lack of empirical data about the usage of Notes to Financial Statements and Supplementary Financial Data Schedules. The usage of these formats might be a manifestation of a trend towards expanded disclosure, both in quantity and kind, as well as a change in format. Therefore by filling this gap in our knowledge, I will be achieving the purpose of this thesis, given earlier as, "to document and analyze a change occurring in financial reporting in Canada."

CHAPTER TWO

NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA SCHEDULES

A REVIEW OF THE LITERATURE AND AN EXAMINATION OF THE

EMPIRICAL RESEARCH

2.1 Introduction

Chapter One discussed the purpose of this thesis and its relationship to Notes and Supplementary Financial Data Schedules. It also examined the suggested relationship between these disclosure formats and changes occurring in financial disclosure generally. This chapter will focus directly on these two formats of disclosure.

One of the more interesting and compelling aspects of this study is the scarcity of prior empirical studies which attempt to deal in some way with the two disclosure formats I will be examining. This was indicated by a Committee of the American Accounting Association who recommended that research into this area be undertaken. (Report of the Committee on Corporate Financial Reporting, 1972) This adds further justification for this particular research study. I will in this chapter first define the terms of the topic, review the literature on the topic and lastly, review the prior empirical studies. From this will flow a list of general research questions which will be converted into hypotheses and more specific research questions in Chapters Three and Four which deal with methodology.

2.2 Definition of Terms and Scope

This study will deal with Notes to Financial Statements, 'which are those explanatory notes that are appended to and are an integral part of the financial statements'. It will also examine Supplementary Financial Data Schedules, 'which are financial data in tabular format in addition to the regular financial statements'. My study will not examine Presidents' Letters or other qualitative statements made by management, or the body of the Financial Statements themselves. This thesis will further restrict itself to an examination of published financial statements versus private company statements.

Ideally I would not have restricted the universe from which the sample will be chosen to public companies, however private company statements are difficult and in some cases impossible to obtain. The one exception is federally incorporated private companies. These have been available for the last two years due to the statutory requirement that they be submitted to the Federal Department of Corporate and Consumer Affairs. One of the major aims and distinguishing characteristics of this study is the collection of data over an extended period of time, (20 years), which will permit me to analyze trends. The time period available for the private companies at the time of writing is two to three years. I suggest that research on private company usage be carried out when a longer time period is available, also the two, private and public, should then be compared. Besides the time factor, it appears generally that most of the largest and most influential companies in the economy are public, for example, all of the chartered banks. Therefore, accessibility of statements, the time factor and the coverage

of the economy by public companies has led to restricting this study to public companies.

2.3 Literature Survey Restriction

One examines and reviews the literature on a topic to determine the present state of knowledge and to derive hypotheses to be tested. The means used to disclose financial data has not been fertile ground for published material. There have been only a few theoretical discussions and an additional small number of references in the 'popular' financial press. I believe though that they will exhibit enough contradictions or statements that need to be tested. They will also demonstrate that one of the first requirements of the topic is a detailed empirical study of actual usage.

2.4 Purpose of Footnotes and Supplementary Financial Data Schedules

There is no debate that the primary purpose of Notes to Financial Statements has traditionally been one of providing information essential to the understanding of the statements which cannot be conveniently included in the statements themselves, and that they have the same significance as the statements themselves. (Forderhase 1955, Bullock 1956, Bonham 1964, C.I.C.A. Handbook, Langhout 1972 p78, Leonard 1972 p228, Hendriksen 1970 p567). This stated purpose is however very broad. Other more specific purposes have been suggested but, except for rare cases, they are capable of fitting into this broadly defined purpose.

One example of a more specific purpose of notes that has been suggested is the need to satisfy increasing disclosure requirements such

as those made by regulatory bodies, such as S.E.C. in the United States. (Forderhase 1955, Bullock 1956, Chan-1961) This form of usage is of course also seen in Canada, for example statutory requirements for the disclosure of directors' remuneration (Federal and most Provincial Companies' Acts). I assume that it would be considered preferable by some people that, if at all possible, this data on director remuneration should be part of the body of the statements. This interpretation is consistent with that of the Canadian Institute of Chartered Accountants. (C.I.C.A. Handbook 1500.05) Therefore, although this is given as a purpose, one could argue that only information that is required and material, but not conveniently able to be part of the body of the statements, should result in footnotes. Perhaps the disclosure capabilities of the body of the statements is lagging behind present disclosure requirements.

Another purpose given is,

"From the point of view of management, a footnote may be a solution by which unwanted changes of the proposed statements are avoided. From the point of view of the auditor, a footnote may be a solution by which the company makes sufficient disclosure so that the necessity of taking an exception in his report is avoided."

(Bullock 1956 p44)

Bullock is arguing that notes might be the result of a compromise between an auditor and his client with reference to disclosure. This purpose is not justifiable for at least two reasons. Firstly, notes should not be used as a replacement for proper disclosure in the body of the financial statements. (C.I.C.A. Handbook 1500.04) Secondly,

notes are considered to be an integral part of the statements, therefore avoidance of statement disclosure is, at least theoretically, imaginary. Should proper disclosure be feasible in the body of the statement and notes are being used as an alternative and the item is material, the C.I.C.A. Handbook is being violated, therefore requiring some form of auditor qualification. (C.I.C.A. Handbook 5500.29)

Supplementary Financial Data Schedules, where covered by the auditors' report, fall into the same classification. The Canadian Institute of Chartered Accountants in this case refers to them as "Supporting Schedules" which must be cross-referenced to the financial statements. (C.I.C.A. Handbook 1500.03) In the case where these schedules are not covered by the auditors' report, one could assume that management may assign any purpose they see as being useful.

Therefore, except for specific uses, which will be reviewed in the next section of this chapter, the historical purpose of Footnotes and Supplementary Financial Data is restricted to situations where required disclosure is not possible in the body of the statements. If this is indeed true and the usage of notes and supplementary data is increasing, our ability to disclose financial data in the body of the statements is lagging behind our disclosure requirements or practice is contravening generally accepted accounting principles, as defined by the C.I.C.A., with regards to suitable usage. This will be one of the questions this thesis will address.

2.5 Uses of Footnotes and Supplementary Data

There is quite obviously a fine line between purpose and use.

I am examining uses to determine how the stated purposes have been operationalized. Specific uses will be employed in the development of a classification scheme needed to analyze the copious financial reports this study will examine. This section will examine the stated uses of these formats of disclosure brought out in the literature. In the creation of the classification system a more detailed examination, incorporating various sources and consistent with the research objectives of this thesis, will be made in those chapters dealing with the methodology.

A specific use cited in the literature is the disclosure of significant events subsequent to the statement. (Forderhase 1955 p53) Since financial statements have in the past and up to the present been historical by nature, there is no provision for the disclosure of material subsequent events. This very item is both an example of a specific use and also an indication of a possible lag between disclosure capabilities and disclosure requirements.

Another specific use examined by James E. Walter is "Footnote Liabilities". (Walter 1955) The liabilities discussed by Professor Walter are pension obligations, lease agreements and construction commitments. Considerable progress has been made in the development of techniques for the disclosure of these items in the body of financial statements. I will examine if these are indeed a source of footnotes and whether they are being disclosed in the body of the statement or disclosed at all.

It is interesting that Professor Walter makes the following statement, "The essential premise is that, although footnote recognition is better than none at all, it is insufficient." (Walter 1955 p95)

Putting aside the arguments for or against disclosure of items such as leases as specific liabilities, Walter seems to view footnote disclosure as "insufficient" versus disclosure in the body of the statement. Notes are therefore perceived by Walter as some form of second quality disclosure.

A use flowing somewhat from the primary purpose of footnotes is given by Clayton Bullock as a means of simplifying statements which "is a natural result of the attempt to make the statement itself more understandable to the casual reader." (Bullock 1954 p40) This again contradicts the Canadian Institute of Chartered Accountants (among others) since it views notes as an integral part of the statements. (C.I.C.A. Handbook 1500.03) If, therefore, the casual reader ignores them, he might be missing necessary information.

In a relatively extensive study (160 companies in one year, 1957), John Myers uses a classification scheme in which he attempts to contrast actual use with the stated purpose of footnotes. (Myers 1959) He uses four classifications: Notes that Contradict, Notes that Replace, Notes that Add, and Notes that Repeat. It is apparent that the first two and the last would be grounds in themselves for arguments against the growing use of notes. He states that they are being used as a substitute for codified statements and expresses the fear that accountants are reverting to a form of textual description. (Myers 1959 p388) This also implies a normative opinion concerning the relative quality of disclosure via notes.

D. H. Bonham suggests that Supplementary Data, among which he includes notes, is useful in overcoming some of the limitations of

traditional statements. (Bonham 1964 p294) He sees notes as a form of extra statement disclosure which is beyond the concept or recommendations of current theory and regulatory bodies such as the Canadian Institute of Chartered Accountants. This concept points towards the direction of the development of the uses of supplementary data schedules, not merely as a means of clarification or further explanation, but giving "additional" or expanded information.

Another specific use discussed by Francis Bird is as a means of permitting interperiod comparability. (Bird 1969) This is of course consistent with requirements such as disclosing changes and the effects of changes in accounting methods from one period to the next and could quite easily and legitimately fall within the main purposes given for these media.

A concise list of uses of footnotes is presented by David Hawkins in his text on Corporate Financial Reporting paraphrased below:

1. Amplify numerical data - descriptive detail
2. Present additional information on events that may subsequently affect the data reported, (ie: contingencies)
3. Disclose material events subsequent to the Balance Sheet data which might effect users' evaluation.
4. Identify accounting methods
5. Disclose unusual commitments.

(Hawkins 1971 p98)

These give the impression of both being within the scope of the main purpose and also capable of being stretched beyond. The main strength, or some people might think weakness, of the general nature of the presently defined purpose is the fact that it permits flexible

interpretation. One particular concept not dealt with in this list is the question of materiality and the problem of determining what data is essential yet not capable of disclosure in the body of the statement.

In October, 1974, the Canadian Institute of Chartered Accountants issued an accounting research recommendation on the "Disclosure of Accounting Policies". (C.I.C.A. Handbook 1505) It makes one of the few direct references to both format and possible location of a particular footnote or supplementary data by the Institute. (C.I.C.A. Handbook 1505.11) It recommended that via a note or supplementary summary, there should be disclosed a "clear and concise description of the significant accounting policies of an enterprise . . .". (C.I.C.A. Handbook 1505.04) This falls into the area of expanded disclosure.

In summary therefore, our theoretical background on the uses of these media is relatively superficial and general. The lack of supporting empirical data reduces the impact of suggestions made by the previously quoted authors. For example, some of their statements were: "Footnote disclosure is better than none but insufficient" - (Walter 1955 p95), footnotes are an attempt to make statements more understandable to the 'casual reader' - (Bullock 1954 p40), Notes are being used as substitute for codified statements and accountants are reverting to a form of textual description - (Myers 1959 p388), and Notes are useful in overcoming some of the limitations of traditional statements - (Bonham 1964 p294). Without data, theoretical discussions of the usage of these media depend greatly on unproven assumptions and individual opinions. This lack needs to be filled in order that constructive theoretical development may proceed. The next section will deal with

the empirical research done in this area, especially focusing on three theses which are the beginnings of a more rigorous development of the topic.

2.6 Empirical Research of the Use of Footnotes

Four empirical studies were located; one reported in an article in the Accounting Review, (Myers 1959), and three unpublished dissertations (Secoy 1959, Chapin 1965 and Morton 1974).

Myers reviewed 160 companies' statements and classified the notes into four categories. Notes that 1) contradict, 2) replace, 3) add, and 4) repeat. (Myers 1959) Insufficient detail is given to judge the appropriateness of the classification and no overall results are given. The stated objective of the study was "to offer some suggestions for improving our presentation of financial statement information". (Myers 1959 p381) His recommendation is that since greater disclosure will be required, "... we must strive to learn to put them into the body of the statement. Otherwise our annual reports will tend to revert to a textual description rather than a codified summary of events . . .". (Myers 1959 p388) Besides the implied assumption that the body of the statement is preferable, it is interesting to note also that he assumes the trend to greater disclosure.

Aside from the lack of ability to judge the appropriateness of the classification system, the recommendation is based on two unproven assumptions, neither of which are necessarily incorrect. The first being that the usage of footnotes has been and will be increasing. The second assumption has to do with the method of disclosure. Professor

Myers assumes the codified form is "better" than the textual. This present research will deal with the first assumption and make an initial empirical examination of the second.

The next empirical study, the Secoy thesis, is entitled, "A Study of the Form, Content and Use of Notes to Financial Statements in Corporate Annual Reports". (Secoy 1959) The bulk of the thesis was an extremely detailed examination of the notes of a non-random sample of 125 companies. One year end report per company was examined over the time period; November 30, 1948 through August 31, 1951. The thesis also contained a literature survey up to the middle 50's.

The data accumulated by Secoy are of limited value today; the two main reasons are a) the years examined and b) examination of a single year. The first limitation is merely a problem of dating, in excess of 25 years have passed since the year ends of the financial reports examined. It would be difficult to assume the data are still representative of today's usage. The second problem arises from the methodology of examining a single year. The type of questions which this study wishes to examine require the analysis of trends. Secoy's conclusions and recommendations depended upon assumptions about trends not examined and relative preferability of certain forms and amounts of disclosure not proven.

A more current empirical study is by Wayne Chapin, entitled, "Criteria for Effective Footnote Disclosure in Corporate Reports". (Chapin 1965) The main objective of the Chapin study was to "formulate a body of standards or principles to apply in the use of footnotes to Financial Statements as a means of disclosure in published annual reports".

(Chapin 1965 p5-6) Therefore the study did not specifically examine trends in footnotes' usage per se. It did however analyze in detail 182 reports for one year, 1963. (Ibid p118) An additional 600, plus, annual reports were examined in less detail.

In the detailed examination (182 reports) Chapin utilized a classification scheme shown below in Table 1.

TABLE 1
A CLASSIFICATION OF FOOTNOTES ACCORDING TO
GENERAL NATURE AND PURPOSE
USED BY W. CHAPIN.

I	Detailing	Used to remove details from the financial statements, may take the form of text or schedule
II	Additive	Used to provide additional financial information not present in the financial statements
III	Explanatory	Used to define terms or principles -- essentially nonquantitative in nature
IV	Miscellaneous	Used to accomplish tasks other than detailing, adding, or explaining

(Chapin 1965 p163)

Based on this analysis, a theoretical review of the meaning and development of disclosure and the less detailed examination of a larger group of corporate reports, a list of "Recommended Principles and Practices for Effective Footnoting of Financial Statements" was made -- Table 2.

TABLE 2

RECOMMENDED PRINCIPLES AND PRACTICES FOR EFFECTIVE
FOOTNOTING OF FINANCIAL STATEMENTS
RECOMMENDED BY W. CHAPIN

I. General Prerequisite

The corporate annual report should contain a complete 'set' of formal financial statements consisting of (a) balance sheet, (b) an income statement, (c) a retained earnings statement, (d) a paid-in surplus statement, and (e) a funds statement.

II. General Principles

1. As a corollary to the general prerequisite, footnotes should be used only to perform disclosure functions that experience indicates is not well performed by the financial statements themselves.
2. Footnotes should, if at all possible, quantify precisely or disclose a reasonably based estimate of the quantitative impact of explanatory or qualitative data.
3. Footnotes should perform single functions, and information concerning specific single subjects should be functionally separated and presented in separate footnotes.
4. Footnotes or footnote subdivisions should deal with a single subject matter.
5. Footnotes should refer to statements, accounts within statements, statement subdivisions, or other footnotes and should not make reference to other sections of the annual report.
6. Footnotes should employ the schedule or tabular method of presentation wherever possible, particularly in the disclosure of quantitative details.

III. Specifically Recommended Footnotes

1. The first footnote following the presentation of the formal financial statements should be one devoted to defining accounting terms, accounts, et cetera which, in the judgement of management or the independent accountant, need defining.

2. The second footnote following the presentation of the formal financial statements should be one devoted to explaining the principles, practices, and their applications in the financial statements and other footnotes which, in the judgement of management or the independent accountant, need explanation.
3. The third footnote following the presentation of the formal financial statements should be one devoted to detailing the composition of items presented in condensed form in the formal financial statements which, in the judgement of management or the independent accountant, need detailing.

IV. Subject Matter of Footnotes

1. Footnotes should be used to disclose 'facts' as opposed to mere ideas or plans.
2. Footnotes should not be used to disclose financial information when adequate and logical means have been developed for disclosure of that information in the formal financial statements proper.

V. Referencing of and to Footnotes

1. Footnotes should be clearly referenced to statement, accounts, statement subdivisions, or other footnotes to which they relate.
2. Statements, accounts, statement subdivisions and footnotes should be clearly referenced to the footnotes which relate to them.

VI. Auditor's Opinion

The auditor's standard short-form audit report should specifically mention the footnotes to the financial statements in both the scope and opinion paragraphs.

(Chapin 1965 pp368-370)

Chapin did not focus directly on the examination of notes except to develop the main thrust of his thesis; the establishment of criteria for footnote disclosure. The lack of concentration on the empirical examination of the notes caused some areas to be underdeveloped. For example, the study restricted itself to one year; as a result there is no data on trends or changes in usage. Some of the findings are not substantiated with data; for example, "Footnotes often contained technical terminology; the meaning of which is not clear." (Chapin 1965 p366)

Although this statement may be true, no survey of users was made to substantiate this finding. The basic format of the Chapin thesis was:

- a) corporate reports make extensive use of footnotes (No specific data given.)
- b) a review of 600 reports to confirm the generalization that "The nature of the information provided in the footnotes together with its presentation format is varied and too often of little value in assisting the reader in understanding the financial statements." (Chapin 1965 p362). (No specific data given.)
- c) As a result of the above it was argued that standards and principles of usage must be developed.
- d) Detailed examination using classification system made of 182 reports, (Data given.)
- e) Recommendations made based on the less detailed study, a theoretical review of disclosure and the detailed examination.

The position of this study is that the emphasis is needed to be placed on an empirical examination of current practice and its effects, eg: a) & b). This does not discredit Chapin's assumptions or

recommendations, it merely recognizes that some of the assumptions lack evidence and one purpose of this study is to confirm or disconfirm some of Chapin's and others' assumptions, at least in Canada.

The most recent thesis dealing with this topic area is by James Rodney Morton, titled, "The Communication Effectiveness of Footnotes in Published Corporate Financial Statements". (Morton 1974) The issue addressed in the thesis was, "an examination of the effectiveness of footnotes as a means of communicating financial information". (Morton 1974 p6)

The majority of the data was gathered by employing a questionnaire seeking user and preparer perceptions, concerning financial statement footnotes. The questionnaire was mailed to four groups mainly in the Los Angeles area: security analysts, credit analysts, public accountants, and corporate executives. The questionnaire examined the perceptions of these respondent groups to footnotes with regards to three factors, relevance, understandability and bearing on investment decisions. This was done by asking both general questions about footnotes and questions which referred to seven footnotes of a real company. As a preliminary step, 38 companies' annual reports were examined in order to ascertain typical footnote practices.

His findings were that the 38 reports examined demonstrated a lack of uniformity and/or standardization. He also found some areas where there was lack of agreement between survey groups concerning the three factors listed above. He concluded that the lack of uniformity of reporting and the lack of agreement between the survey groups (encoders, decoders) is a possible threat to the viability of

notes as an effective means of communication. He therefore recommended that definitive reporting standards be established and additional research to determine the extent and cause of distortion-producing influences in the encoding process be done.

Two of the major limitations of the Morton thesis were that it was restricted geographically and the sample was not chosen randomly. His initial examination of only 38 companies for one reporting period also greatly confines his ability to describe note usage. His findings and conclusions are also preliminary since his study was exploratory. He also did not address the initial problem, as seen by this thesis, namely a definitive understanding of the extent and usage of notes. If, however, the findings are correct, the extent of the problem he saw will be affected by the extent of usage. The more prevalent the usage, the greater the necessity to further examine the communication problem he addresses.

There is one other source of empirical data concerning the use of footnotes and supplementary data schedules in financial disclosure. These are the summaries published by various public accounting bodies. Examples of these are; Survey of Published Accounts, Institute of Chartered Accountants of England and Wales; Accounting Trends and Techniques, American Institute of Chartered Public Accountants; and Financial Reporting in Canada, the Canadian Institute of Chartered Accountants. Again the discrepancy between usage and space devoted to footnotes and supplementary data is out of proportion. Direct reference to the usage of the media is relatively minor, however in a majority of cases, the description of treatment of the various statements' items

includes some form of disclosure via notes. The 1974 edition of Accounting Trends and Techniques (American Institute of Certified Public Accountants 1974), and the 1975 edition of Financial Reporting in Canada (C.F.C.A. 1975) show that almost every disclosure heading includes examples of disclosure via notes.

2.7 Attitudes towards Notes and Supplementary Data Schedules

Besides the normative comments or assumptions already mentioned, others appear to be concerned about relative understandability or usability of this media versus disclosure in the body of the statements. The following comments illustrate this point.

In 1938, an American Institute of Accountants' Committee made the following statement. "While necessary footnotes should be appended, it should be remembered that if carried to unreasonable length or complexity, they tend to obscure the significance of the statements." (Sanders, Hatfield and Moore 1938 p.10) This stresses the primacy of the codified statements. Defining what is "unreasonable length and complexity" would be very difficult but it does seem that some people are of the opinion that we are at that point now.

In a conference Harvey Kapnick Jr., Chairman of Arthur Andersen & Co. (1972), presented a paper entitled, "Changes Needed to Meet Challenges of the Future". The following is a quote which is critical of current disclosure practices with special reference to footnotes and supplementary data schedules.

"Today, with vastly more complex business entities, an evaluation of a business and its management, relies heavily on financial statements that are out-of-date for the purpose of reflecting the facts and are overbalanced with voluminous footnotes and supplementary data. If you have looked at many prospectuses and proxy statements lately, you will find them to be a jungle of data which may provide legal defenses for the issuer and rationalizations for the Securities and Exchange Commission, but they hardly serve the needs of the investor.

The wealth of almost everyone in the United States and in other developed countries is in some way affected by the financial reports of business entities. The many economic effects and the numerous decisions that arise from the use of information are endless. While we may tell ourselves to sleep by self-convincing arguments that financial statements have many limitations, these views may be of little defense if the public and the courts do not understand or fail to agree as to the limitations. When challenged that financial statements are deficient in reflecting what really has occurred, we may protest that the information could be gleaned by careful study from confusing presentations or from the technical disclosure in the footnotes. But this protestation will be to no avail even if all of the information might be put together by an expert like a jigsaw puzzle. Why, the investors will ask, should essential data be buried in a form that is of such questionable usefulness? Why should not the information be reflected clearly and forthrightly in an appropriate manner?"

(Rappaport and Revsine 1972 pp22-23)

W. C. Foster, C.P.A., Director of Financial Reporting of the New York Stock Exchange, made the following statement concerning problems of disclosure. "The third problem is related to understanding. We should strive to eliminate barely intelligible footnotes. How many

of us have had the unique experience of reading and re-reading a footnote, and still not understanding fully what it seeks to convey." (Foster 1974 p35)

These are quotes by well informed experts, not naive users of financial reports. On a more popular vein, two articles from Forbes Magazine: 1) "How to Keep From Being Taken" - Nobody expects an annual report to trumpet out where management went wrong. But read those footnotes and the phrasing of the accountants' letters, they will tell quite a revealing story. (How to . . . Taken 1970) 2) "The Numbers Game - Figuring Out Footnotes" (The Numbers . . . Footnotes 1974). Both of these articles point to the importance of notes but allude to them as being relatively difficult disclosure format to use and, as a result, not always read with sufficient care. Again these are assumptions which have not been tested.

Eldon S. Hendriksen gives the following list of advantages and disadvantages.

"The main advantages of footnotes are:

- 1) the ability to present nonquantitative information as an integral part of the financial report
- 2) the ability to disclose qualifications and restrictions to items in the statements
- 3) as a useful method of disclosing a greater amount of detail than can be presented in the statements
- 4) as a method of presenting either quantitative or descriptive material of secondary importance.

The main disadvantages of footnotes are:

- 1) they tend to be difficult to read and understand without considerable study and thus they may be overlooked

- 2) the textual descriptions are more difficult to use in decision making than the summarizations of quantitative data in the statements,
- 3) because of the increasing complexity of business enterprises, there is danger of an overuse of footnotes rather than proper development of principles to incorporate new relationships and events into the statements themselves."

(Hendriksen 1970 p567)

Hendriksen also makes the statement that, "current financial reports have been said to give rise to what is called the 'footnote era'". (Hendriksen 1970 p567) He goes on to say that this has resulted in fuller disclosure which is desirable but has an undesirable side effect which is ". . . the extensive use of footnotes has hindered the proper development of the statements themselves because it has resulted in the substitution of footnotes for better information in the body of the statement.". (Hendriksen 1970 p567) Again without questioning the validity of Hendriksen's statements, he does make assumptions which could benefit from empirical examinations or confirmation. Some of the areas or questions being, 'Is this really a footnote era?', 'What is the actual extent of usage?', 'If the usage of notes is increasing, is it due to new disclosure or merely a format change?', 'Has the growth in the usage of notes hindered proper development of the statements?', or perhaps, as I will suggest later, 'Has lack of-development of the statements caused the usage of notes to increase?'

In an interview with Gertrude Mulcahy, F.C.A., Accounting Research Director of the Canadian Institute of Chartered Accountants, the lack of specific guidelines for usage of these media was brought up. Miss Mulcahy states that the Institute did not normally get involved in recommending such details; also the Institute did not wish to differentiate between media of disclosure, eg: the body of the statements or through the use of footnotes. (Mulcahy 1974) The C.I.C.A. Handbook normally just recommends disclosure, allowing the practitioner the discretion of choosing the format which, in most cases, is obvious. The lack of direction of the Institute regarding format will be examined later, especially with regards to the working assumptions this suggests.

Miss Mulcahy suggested an interesting use of these media. She suggested that supplementary data schedules might be used as a first step towards disclosing information not previously disclosed. (Mulcahy 1974) One example given was the possibility in the near future of including with regular statements, price-level adjusted statements. (Mulcahy 1974) This has now occurred with the non-compulsory recommendation that General Price-Level Adjusted Statements be issued in the form of supplementary information. (C.I.C.A. Handbook, Accounting Guideline, December 1974) This allows this controversial item to be disclosed yet seemingly in not so drastic a fashion as actually adjusting the statements themselves. It does seem though that this contradicts the concept of the lack of differentiation of media of disclosure. A compromise (not adjusting the statements themselves) indicates that some people perceive this form of disclosure in a different light.

2.8 Summary

2.8.1 Introduction

The purpose of this chapter was to review the literature and empirical research that has been done in this topic area, in order that the present state of knowledge is documented and also to derive the research questions to which this study will direct its attention. This will be done in the following two stages, a) present state of knowledge, and b) research questions.

2.8.2 Present State of Knowledge

No empirical research on the usage of footnotes and supplementary data in Canada was located, with the exception of the short summaries found in the C.I.C.A. publication, Financial Reporting in Canada. Theoretical development of the topic in Canada has been virtually ignored with the exception of the few recommendations made in the C.I.C.A. Handbook and the article by D. H. Bonham reviewed earlier. In summary, it can be said that in Canada the topic area is virtually untouched. Therefore the major research question involves an examination of the unknown. The only constraining factors on the extent of the research to be carried out for this study are feasibility and the acceptable length of this thesis.

In the United States the situation is not quite the same. Four empirical studies were available: Myers 1959, Secoy 1959, Chapin 1965, and Morton 1974. Without evaluating the findings or methodology, the Myers and Secoy studies are dated. The Chapin study, on the other hand, did not sufficiently examine usage itself and the effects and/or

attitudes towards usage. Also the study examines corporate reports issued over ten years ago. Part of my study will be testing the hypothesis that usage has increased dramatically even in the last ten years. The Morton study dealt with a particular attribute of usage as opposed to usage itself. Secondly, a drawback of the Morton study was the restrictive sample which would affect the generality of the findings. Therefore, even if one was to accept a general similarity in corporate reporting in Canada and the U.S.A, the lack of recent and/or complete empirical data is apparent. As far as empirical research is concerned, a large void remains to be filled. Our empirical knowledge of the subject and recent trends and development in the area is minimal, (non-existent in Canada).

The literature search indicated that there has been considerably more written in the U.S. than in Canada. The literature deals mainly with uses being made of these media versus attempts to understand reasons for usage, proper usage and evaluation of this media over disclosure in the body of the statement. The literature discloses an attitude of preference for disclosure in the body of the Financial Statements. (Sanders, Hatfield and Moore 1938, Walter 1935 and Myers 1959) The reasons for less enthusiasm for this media are not necessarily based on empirical studies or deductive reasoning. I think therefore it can also be said that insufficient attention has been paid to theoretical examination of footnotes and supplementary data schedules in the U.S. I believe that the newness of the phenomena of apparent increasing usage and the lack of published empirical information on actual usage of the media has retarded the theoretical examination.

2.8.3 Research Questions

As the comments made by me in the previous sections indicate, I propose that what is needed is a comprehensive descriptive study of the usage of Notes to Financial Statements and Supplementary Financial Data Schedules. This first step has not been taken; as a result we do not know where we are at the moment, how we got here, why, and what are our present perceptions of these forms of disclosure. Without this initial information, recommendations made with regards to usage are forced to rely on unverified assumptions. I also believe that an empirical examination of these formats of disclosure has wider implications as to the trends in quantity and kind of disclosure. This implication has been overlooked because we have tended towards a narrow view of these formats.

This narrow view had more relevance when these were relatively minor appendages to our financial statements. Their growing importance as a means of financial disclosure, once established, will force us to ask why and put their relative importance in better perspective.

The major questions are therefore:

"To what extent and in what manner are Notes to Financial Statements and Supplementary Financial Data Schedules being used in Canada?"

"To what extent has usage been increasing?" (This thesis will examine the last 20 years.)

"What specific uses are being made of this disclosure?"

"What have been the trends in usage in both form and content?"

"What explanations can be made for the present trends?"

"Do the descriptions, explanations of usage and historical trends indicate future trends?"

The majority of the above questions can only be answered by a complete empirical study which properly describes usage of these formats of disclosure over an adequate time span. This thesis will provide both the data which at present are not available and the answers which will test our present assumptions. This will be accomplished, as the methodology chapters (3 and 4) will describe, by an empirical examination and analysis of these formats found in published corporate reports.

The next area raised by the literature review is the relative merits of these forms of disclosure, usually relative to the body of financial statements. As a first step in this direction, this thesis will employ survey techniques to examine the perceptions of important producer/user groups to Notes to Financial Statements. The questions raised will be:

"What are the perceptions of these groups as to the relative significance of the data disclosed by use of this format of disclosure?"

"What are their perceptions as to the relative effectiveness and efficiency of this format in relation to the body of the Financial Statements?"

"Do they perceive a need for increased direction in the usage and content of this form of disclosure?"

"What do they perceive as the reasons for usage of this form of disclosure?"

Answers to these questions will begin to fill the descriptive void. As suggested earlier, the answers and data collected will

also have much wider implications, these having to do with the following question:

"Are the observed changes a manifestation of changes occurring in financial disclosure itself?"

These changes relate to the objectives of disclosure which are influenced by recipients of the data, kinds of data they require and the uses they propose to make of it. This question will only be begun to be answered, since it is somewhat beyond the main thrust of this thesis. It is within this area that this thesis will raise further questions from which hypotheses can be formulated and tested in subsequent studies. Without this necessary initial descriptive data, further steps would be virtually impossible. This last question will be addressed in the final chapter which will deal with conclusions and implications of the results of my research.

Chapter Three will describe the methodology concerned with the empirical examination of actual usage of these forms of disclosure and Chapter Four will describe the methodology which will be used to examine the perceptions of selected preparer and user groups of financial statements to Notes to Financial Statements. These chapters will also formulate the hypotheses and itemize the specific research questions in greater detail. Besides being tested in their own right, the hypotheses will act as a form of direction to the research questions. In some ways, hypothesis formulation is somewhat premature and will more readily flow from the initial research step of empirical description.

CHAPTER THREE

SURVEY OF USES OF NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA SCHEDULES IN CANADA

3.1 Introduction

This chapter and the next will describe the hypotheses to be tested and research questions which will be investigated. They will also describe the methods to be used in gathering the data and the analysis which will be employed. This particular chapter will be concerned with the research questions and methodology associated with examining the usage of Notes to Financial Statements and Supplementary Financial Data Schedules.

Chapter Four will pertain to the perceptions of producer/user groups, including a description of interviews conducted mainly of relevance to the investigation of the producer/user perceptions. These interviews were conducted prior to finalizing the instruments described in this chapter and did have some influence. Inasmuch as they more appropriately belong in the next segment, the interviews will only be referred to in this chapter and described in the next.

3.2 Hypotheses and Research Questions

As was indicated earlier, the hypotheses will not only be tested but will act as a focus for further research questions. In keeping with that concept, they will be presented and discussed in conjunction with their related research questions.

TABLE 3

HYPOTHESIS 1 - RESEARCH QUESTIONS

<p>H₁ In the last twenty years there has been increased usage of Notes to Financial Statements.</p>	<p>RQ₁) Has the usage of Notes increased as the literature states?</p>
	<p>RQ₂) To what extent, and at what rate?</p>
	<p>RQ₃) What are the uses of Notes?</p>
	<p>RQ₄) What have been the trends in particular uses?</p>
	<p>RQ₅) To what extent are Notes a format change (i.e. information previously in body of the statements transferred to note format.)?</p>
	<p>RQ₆) To what extent are Notes providing additional or new information, not previously disclosed?</p>

TABLE 4
 HYPOTHESIS 2 - RESEARCH QUESTIONS

H ₂ In the last twenty years there has been increased usage of Supplementary Financial Data Schedules.	RQ ₁) Has the usage of S.F.D.S.s increased?
	RQ ₂) To what extent and at what rate?
	RQ ₃) What uses are being made of S.F.D.S.s?
	RQ ₄) What have been the trends in particular uses?

These hypotheses and research questions are directed at determining and measuring the extent of usage of both Notes and Supplementary Financial Data Schedules (S.F.D.S.). There is complete agreement in the literature with regards to the assumption that the usage of notes has increased. I will take a longitudinal view and determine the exact dimensions of the increased usage both generally, and with regards to specific uses. This thesis will therefore provide both the conclusive empirical evidence of growth and a complete description. The evidence used to answer these basic research questions will also have explanatory value for other questions.

With regards to S.F.D.S.s, there is little known and few references in the literature. They are being examined for at least two reasons; 1) the few references do allude to increased usage and 2) there is some overlapping in the literature between S.F.D.S.s and notes. (Bonham 1964). As a result I included S.F.D.S.s in this study.

They might also be seen as competitors to notes as a format for new or increasing disclosure.

TABLE 5

HYPOTHESIS 3 - RESEARCH QUESTIONS

<p>H₃ Increased usage of Notes to Financial Statements is related to legal and/or quasi-legal disclosure requirements.</p>	<p>RQ₁) Is the increased usage of Notes related to new or additional disclosure requirements of a) Government legislation; b) C.I.C.A. recommendations, c) other?</p>
---	--

TABLE 6

HYPOTHESIS 4 - RESEARCH QUESTIONS

<p>H₄ Increased usage of Notes to Financial Statements is related to the increasing complexity of the reporting firms.</p>	<p>RQ₁) Is there a relationship between usage of Notes and the complexity of the reporting firm?</p>
---	---

Tables 5 and 6 address the question, "Why has there been increasing usage of Notes?". The reasons given there are the most frequently cited causes found in the literature. They were also frequently referred to in the interviews. They also have intuitive appeal. The confirmation of these factors as being related to the usage of notes will also affect expectations with regards to future trends.

In themselves however they are somewhat lacking, since the underlying implications of answering these research questions relate to general disclosure implications referred to in the previous chapter.

The reason is that, although they explain the source of the pressure to disclose, they do not necessarily explain why notes are used versus some alternative, such as the body of the financial statements itself.

Traditionally the body of the financial statements has had primacy.

This view of 'primacy' is expressed by a number of the authors referred to in the literature review. (Forderhase 1958, Myers 1959, Bullock 1956, Chan 1961, Bonham 1964) Negative attitudes towards the notes also allude to notes as being secondary to the body of the statement.

Although the C.I.C.A. uses the term "equal significance" when comparing notes to the body of the statements, they still leave the distinct impression that first attempts to disclose should be by way of the body of the statements.

"Notes to financial statements, and supporting schedules to which the financial statements are cross-referenced, are useful for the purpose of clarification or further explanation of the items in the financial statements. They have the same significance as if the information or explanations were set forth in the body of the statements themselves. They should not however, be used as a substitute for proper accounting treatment."

(C.I.C.A. Handbook 1500.04)

The above paragraph, especially the last sentence, certainly gives the impression that, if it is possible to disclose either by way

R

of notes or by the body of the financial statements, notes are not an equal substitute. As a result, increasing usage of notes either points to a change in the practice of financial disclosure, namely becoming less influenced by the traditional primacy of the body of the statements, or the inability to disclose certain required information in the customary manner. This matter will be pursued further. This falls into the area of hypothesis generation which is an expected output of initial descriptive studies.

The basic approach with regards to H₃ will be to attempt to identify changes in usage and relate these to changes in legislation or recommendations. Secondly, I will examine usage in the general context of legal and quasi-legal disclosure requirements. With regards to H₄ I will relate various measures of firm composition, size and structure to various measures of usage of these formats, to determine whether greater usage will be related to increased complexity.

TABLE 7
GENERAL RESEARCH QUESTIONS RELATED TO USAGE

-
- RQ₁) Are S.F.D.S. audited and to what extent?
 - RQ₂) Is there a relationship between auditor and usage of Notes?
 - RQ₃) Is there a relationship between a company's profitability or lack of it to the extent of usage of Notes?
 - RQ₄) What is the format of Notes and trends in format:
 - a) print size vs statements themselves
 - b) location
 - c) referencing

TABLE 7 (Cont'd)

- d) particular statements, accounts, classifications,
- e) auditor references to Notes.

RQ₅) What are the expected trends in usage? Why?

Table 7 lists general research questions which are either not specifically related to a particular hypothesis or overlap a number of hypotheses. The first question is of general interest and adds an additional dimension of description. Question two is included since Chapin, in his thesis, suggested a relationship between size of audit firm and quantity of notes. He suggested a relationship between companies using more notes and smaller or regional audit firms. (Chapin 1965) The third question examines the suggestion that there is a relationship between profitability and quantity of notes, (less profitable, more explanations). Question four addresses the descriptive issue of format and changes in format over time. I will examine this area both for its descriptive contribution and will also relate the format found to the recommendations made by Chapin in his thesis, whose objective was to make format recommendations in order to increase the effectiveness of Notes to Financial Statements. (Chapin 1965)

The last question addresses the issue of, "Where are we going?". I will examine historical trends and mitigating circumstances and determine if future trends can be reasonably predicted. If usage has increased historically and if there is reason to expect this trend

to continue, the impact and importance of the topic of this thesis within the context of corporate financial disclosure will also be increasing.

This then completes the list of research questions and hypotheses which deal with the actual usage of Notes and S.F.D.S. The next sections of this chapter will describe the methodology used to test the hypotheses and answer the research questions.

3.3 Methodology

3.3.1 Introduction

The basic aim of the methodology described in this section is to facilitate the accumulation and analysis of a large quantity of data found in published financial statements. Published Financial Statements of 60 companies will be examined over a twenty year period. The actual years will be 1955, 1960, and 1965 to 1974 inclusive. This provides information over an extended period of time for the purpose of examining and analyzing trends. The sixty companies over twelve reporting periods provides a total of 720 Annual Corporate Financial Reports over a twenty year period, and will produce considerable data, permitting extensive longitudinal analysis.

3.3.2 Selection of Sample

The sample of sixty companies was randomly selected from companies listed on the Toronto Stock Exchange at the present time and which have also been listed continuously for a twenty year period prior to this study. These companies were located by comparing a June 23, 1975

Toronto Stock Exchange Daily Record with a January 7, 1955 Toronto Stock Exchange Daily Record. One hundred and ninety companies were found on both listings. Every third company was selected, the first being randomly chosen. This systematic random sampling method was examined for possibility of bias. There appeared to be nothing in the alphabetically listed stocks to cause a bias. Appendix "A" lists the sixty companies which were chosen.

Two factors most crucial to this sampling decision were the availability of the annual reports and the suitability of the T.S.E. as a representative universe.

Of the 720 possible reports, I located 719. My analysis utilized 718 since one report was located after the computer analysis was completed. The missing report was United Asbestos Corporation Limited's 1955 Annual Report. The company which was located too late for analysis was Scurry Rainbow Oil Limited (1955 report). The only other aberration was that United Asbestos Corporation Limited, who changed their year end in 1974 by 3 months and published only one report for 1973 and 1974. As a result the 1974 report covered a 15 month period, 12 months of 1973 and 3 months in 1974. This was treated as a 1973 report and the March 31, 1975 report was assigned to 1974.

In all cases only normal published annual reports were sought and used. The major sources of reports was the University of Western Ontario Library and the Toronto Public Library. Reports were also solicited and received directly from the companies or their representatives, ie: attorneys. Direct solicitation was used after all public sources were checked and reports were not located. Other

sources checked and, in some cases used as sources were the Ontario Securities Commission, Toronto Stock Exchange, Canadian Institute of Chartered Accountants, Financial Post and Financial Times and other libraries checked via interlibrary loan. The result of the search was the location of 59 of the 60 companies annual reports for 1955, and 60 out of 60 for 1960, and 1965 to 1974 inclusive. Therefore this obstacle was overcome in a very satisfactory manner.

The second factor, the utilization of the companies listed on the Toronto Stock Exchange, is justified on the basis of the dominance of companies who list on the T.S.E. in the Canadian economy. This would bias the sample in the direction of large size. Nevertheless, if one reason for studying these formats of disclosure is the potential impact of the information they are attempting to communicate on the economy, this upward bias would not negatively affect the findings of this study.

In Canada there are five stock exchanges; Toronto, Montreal, Vancouver, Alberta and Winnipeg. The value of shares traded in Toronto in 1974 represented approximately 70% of the total value of all trades in Canada. (Toronto Stock Exchange Review 1975 p12) If one removed the value of trades by companies interlisted with the T.S.E. from the other four exchanges, the coverage of the T.S.E. would be even more complete. This clearly indicates the dominance of the T.S.E. as a stock exchange in Canada.

The second aspect, the dominance of companies listed on the T.S.E. have on the Canadian economy is not as easy to measure. In a recent issue of Canadian Business, three listings of top Canadian

companies were made; 1) the top 200 manufacturing, mines and oils by sales, 2) the top 30 financial companies by assets and 3) the top 20 merchandising companies by sales. (Hughes . . . July 1975 pp11-17)

When I compare these listings with a December, 1974, T.S.E. listing, (The Toronto Stock Exchange Review 1974 pp16-55), I get the following percentages, (% of companies on the Hughes' list which are also listed on the T.S.E.); Manufacturing, Mines and Oils = 69%, Financial Companies = 67% and Merchandising Companies = 90%. These percentages give a strong indication that T.S.E. listed companies do have a considerable degree of dominance in the Canadian economy.

3.3.3 Financial Report Analysis Forms

The next obstacle which had to be overcome was the method to be employed to extract the relevant data from these annual reports. To do this, three criteria were established which any satisfactory method would have to meet. Firstly, the format must provide consistent and unbiased data from the statements. Secondly, due to the extensive number of statements, it must be relatively simple and quick to apply. Thirdly, it must facilitate analysis of the questions under question, (ie: relevant, able to be coded to permit computer analysis, etc.).

The method used was a form of questionnaire, referred to as analysis forms. The result was two forms, Statement Analysis Form One and Statement Analysis Form Two, (Appendix "B"). The reason for two was merely a matter of convenience. A single form would have been awkward due to the data file requirements made necessary by utilizing the Statistical Package for the Social Sciences.

The forms were designed with as many objective questions as possible. The input for construction were the questions under examination (eg: how many footnotes are there?), the results of the interviews, the classification schemes used by other researchers, (eg: Morton 1974, Chaffin 1965, Secoy 1959), and the classification systems used by reviews of Financial Reporting by bodies like the C.I.C.A. (C.I.C.A. 1955 to 1974) and the A.I.C.P.A. (A.I.C.P.A. 1970-1974). It was found however that previous studies had limited utility since this study's objectives were more comprehensive and original.

The forms did not attempt to look at everything but confined themselves as much as possible to the significant items under examination. They had to deal both with the company under examination in the year of examination and the usage of Notes and Supplementary Financial Data. The forms were applied by my self, however, their objectivity can be determined by evaluating whether supervised third parties would complete the forms in the same way.

3.3.4 Statement Analysis Form One

Statement Analysis Form One (SA1) is divided into five sections. One form was completed for each company for each year. For analysis purposes, each was a separate case, maximum number of cases equals 12 years times 60 companies, totalling 720 cases (Actual: 718 cases analyzed).

<u>Company Information</u>		<u>Col.</u>	<u>Code</u>
1.	Name of Company _____	1-2	_____
2.	Charter _____	3-4	_____
3.	Statement Date Day _____ Month _____ Year _____	5-6	_____
4.	Sequence _____	7-8	_____
5.	Consolidated Yes _____ No _____	9	_____
6.	If yes, how many _____	10-11	_____
7.	Sales/Revenue (Gross) _____ Mil \$	12-15	_____
8.	Assets (Gross) _____ Mil \$	16-19	_____
9.	Profit/loss P _____ L _____	20	_____

The first section, duplicated above, 'Company Information' (Questions 1-9) identified the case, and sought data dealing with year of report, the company charter and details about the company in the particular year being examined. The year and the charter under which the company was incorporated was used to examine frequencies and trends of usage of these media, in particular years, or over time. The details about the companies were used to measure the dimension of company complexity and usage or specific relationships such as the effect of profitability on usage.

All of these questions merely require the insertion of the data directly from the statement or, when not available (ie: no Income Statement) merely indicate that the data is missing. When the annual report did not disclose under which charter the company was incorporated, this was determined through outside sources. This was the only data, which was sought outside the report itself.

Section Two, Statements, identified which audited financial statements were included in the annual report and whether they were

comparative.

<u>Statements</u>			<u>Col.</u>	<u>Code</u>
10.	Balance Sheet	Y <input type="checkbox"/> N <input type="checkbox"/>	21	<input type="checkbox"/>
11.	Income Statement	Y <input type="checkbox"/> N <input type="checkbox"/>	22	<input type="checkbox"/>
12.	Statement of R/E	Y <input type="checkbox"/> N <input type="checkbox"/>	23	<input type="checkbox"/>
13.	Statement of S/A	Y <input type="checkbox"/> N <input type="checkbox"/>	24	<input type="checkbox"/>
14.	Statement of IS/RE	Y <input type="checkbox"/> N <input type="checkbox"/>	25	<input type="checkbox"/>
15.	Other _____	Y <input type="checkbox"/> N <input type="checkbox"/>	26	<input type="checkbox"/>
16.	Comparative	Y <input type="checkbox"/> N <input type="checkbox"/>	27	<input type="checkbox"/>

The third section, Notes, deals with the measurement and description of the notes themselves.

Notes

17.	Quantity _____	28-29	<input type="checkbox"/>
18.	Total Pages Statements & Notes (Audited)	30-31	<input type="checkbox"/>
19.	Total pages Statements _____	32-35	<input type="checkbox"/>
20.	Total pages Notes _____	36-39	<input type="checkbox"/>
21.	Print size of Notes $\langle = \rangle$ Statement _____	40	<input type="checkbox"/>
22.	Number of words _____	41-44	<input type="checkbox"/>
23.	Notes are located: Before statements _____		
	After Statements _____		
	Other _____	45	<input type="checkbox"/>
24.	General Notice of Accompanying Notes		
	Y <input type="checkbox"/> N <input type="checkbox"/>	46	<input type="checkbox"/>
25.	Direct Reference to Notes Y <input type="checkbox"/> N <input type="checkbox"/>	47	<input type="checkbox"/>
26.	Statements with Direct Reference B/S _____ I/S _____		
	R/E _____ S/A _____ C/S _____ O _____	48-53	<input type="checkbox"/>

Question 17 identifies the number of notes. Questions 18 through 20 were used to measure the quantity of notes in relation to the total pages of statements and notes covered by the auditor's opinion. Question 18 was rounded to the nearest page. Questions 19 and 20 were rounded to the nearest tenth of a page. Question 21 describes whether the print size used in the notes is smaller, equal or larger than that found in the statements themselves. Question 22 is another measurement of the notes, namely the total words. It was calculated by multiplying the number of words per line by the number of lines. This number was taken from Statement Analysis Form two. In readability tests, numbers are either ignored or counted phonetically. Since the purpose of this question is to arrive at a measure of size for comparative purposes, the procedure used was to take the average number of words per line in verbal paragraphs times the number of lines, verbal and numeric. Question 23 identifies the location of the notes for descriptive purposes. Questions 24 to 26 describe the extent, type and location of referencing of notes.

The next section, Supplementary Financial Data Schedules, describes and measures the usage of these formats of disclosure.

<u>Supplementary Financial Data Schedules</u>	<u>Col.</u>	<u>Code</u>
27. Are there any? Y ___ N ___	54	___
28. Number of Schedules _____	55	___
29. Number of Schedules audited _____	56	___
30. Number of Schedules not audited _____	57	___
31. Name _____ _____ _____	58-65	_____ _____ _____
32. Number of pages _____	66-68	_____ _____ _____

Questions 27 to 30 are self-descriptive. Question 31 classified S.F.D.S. into eight types for coding purposes. They were:

1. Highlights,
2. Statistical or historical summaries,
3. Source and Application of Funds (in those cases where these were identified as a Schedule as opposed to a Financial Statement)
4. Asset Schedule,
5. Liability Schedule,
6. Income Schedule,
7. Expense Schedule,
8. Other

The last segment collected data with regards to the auditor and audit report referencing to Notes and S.F.D.S.

<u>Auditor's Report</u>		<u>Col.</u>	<u>Code</u>
33. Any Reference to Notes?	Y ___ N ___	69	___
34. Any Reference to S.F.D.S.?	Y ___ N ___	70	___
35. Name of Auditor	_____	71-72	___

These questions again are self-explanatory.

This concludes the description of Statement Analysis Form One. As can be seen, all questions can be answered objectively. The measurements are directly observable and descriptions indicated in the financial reports themselves. Further description of the actual usage of this Form and its coding (Appendix "B") will be brought out in the section on analysis in this chapter and in Chapter 5 which reports the findings and analysis of the findings.

3.3.5 Statement Analysis Form Two

Statement Analysis Form Two, (SA2), describes and measures the notes themselves. Each note is treated as a separate case; the total number of cases over the twelve years for the sixty companies analyzed was 4305. In other words, a total of 4305 notes were observed and analyzed in this study.

Questions 1 to 5, inclusive, identified the cases and provided data with regards to company charter and year for analysis purposes.

	<u>COLUMNS</u>	
1. Company Code _____	1	2
2. Charter _____	3	4
3. Year _____	5	6
4. Sequence _____	7	8
5. Note Number _____	9	10

A separate form was completed for each year which enumerated all of the notes for a particular company and a particular year. However when coded, each note was coded as a separate case; its particular identification in a specific year was its note number. The company charter, as in SA1, was determined from outside sources if it was not disclosed in the annual report.

Question 6 identified the topic of the note:

6. Topic _____

(Col.11-12)

Most notes found in the financial statements had a topic heading; this topic heading was recorded. Besides the topic heading, a brief description of the contents of the notes was recorded; for example, Heading - Investments, brief description - non-consolidated subsidiaries, valuation, reason not consolidated, details of investments. The major problem was the need to construct a classification system which was able to be coded. More details with regards to the actual classification system will be given in Chapter Five. However the original coding (Appendix "B") contained 57 values. It was developed to provide greater descriptive detail of usage than other studies, since they tended to classify the usage of notes to a general purpose, ie: clarification. These studies relied heavily on the traditional definition of the purpose for notes or attempted to show note usage in a negative light. For example, the Myers' classifications - "Notes that Contradict", "Notes that Replace", "Notes that Add", and "Notes that Repeat". (Myers 1959) On the other hand I found the classifications by the Canadian Institute of Chartered Accountants, in its biennial review of Financial Disclosure (C.I.C.A. 1955 - 1976), useful, however lacking in sufficient detail and sometimes overlapping. They also tend to describe usage within the context of their own recommendations found in the C.I.C.A. Handbook. As a result, I opted for more specific description which better suited my need, "an objective description of

usage", without the prior normative judgements. It must also be recognized that this question alone was not the total description of the notes used in this study since the other questions in SA2 contributed to their description.

The next question was used as a measure of size:

7. Number of words _____
 (Cols. 13-15)

The method of counting was as described in SA1. The total of all notes in a particular year was the amount used in Question 22 of SA1.

Questions 8, 9 and 10 described whether the note was new or not, whether it contributed new, old or a combination of new and old information, and whether the note described an accounting change.

8. New/Old	16
9. New information/old/both	17
10. Accounting change Yes/No	18

These questions were always answered in relation to the previous financial statement examined. As a result a note could be new more than once over a twelve year period. The purpose of the questions was to not only describe situations where notes were contributing additional information but also, in conjunction with questions such as the one identifying the year and company's charter, to provide evidence needed to examine the cause of usage; for example, "do new notes in a particular year correspond with new legislated disclosure requirements?"

Again the objective is to both contribute to the descriptive element and also act as a means of identifying changes in the usage of notes.

The last series of questions are aimed at identifying to what statements there is direct referencing. Further the last question will identify the purpose of the notes by recording to what accounts they are referenced.

	<u>COLUMNS</u>
11. To what statement does the Note refer	
Balance Sheet	21
Income Statements	22
Retained Earnings	23
Income Statement/Retained Earnings	24
Source and Application of Funds	25
Other	26
12. Is the Note directly referenced?	
Yes/No	27
13. To what accounts - (up to eight times)	28-43

To qualify as referring to a particular statement in Question 11, the note had to deal with an existing account in the statements. For example, if a note describing long term leases only referred to future payments, it was not treated as referring to the Income

Statement. If, on the other hand, it described the current year's expenditure as well as future anticipated payments, the disclosure of the current expenditure qualified the note as referring to the current Income Statement. On the whole this was not a major problem since the majority of notes referred to existing accounts.

Question 12 is self-explanatory. Question 13 required a classification scheme which can be found in the coding of SA2, Appendix "B". The maximum number of direct references a particular note had was eight. This explains the reason for providing for up to eight direct references. The classification scheme refers to specific accounts.

These questions also serve the dual role; a) describing the note usage and b) as well as being used to trace changes in usage which in turn facilitate answering the questions that attempt to relate usage to legal and quasi-legal disclosure requirements.

This concludes the overall descriptions of the Statement Analysis Forms. There will be further more specific comments made in the next section and in later chapters.

3.3.6 Analysis

The quantitative analysis required to answer the research questions and test the hypotheses, basically fell into two categories, a) the analysis of frequencies and changes in frequencies and b) the examination of relationships between variables.

The examination of frequencies and changes in frequencies was used in two ways. Firstly, there is a need to describe the variables under examination. The analysis of frequencies will be used to determine

the basic characteristics of the usage of Notes and Supplementary Financial Data Schedules. Secondly, the examination of frequencies and changes in frequencies will provide data for explaining the usage of these formats. For example, changes in frequencies of notes in general or specific topics, from one year will be examined to determine if they correspond to legislative or quasi-legislative disclosure requirements.

This form of descriptive analysis will be utilized to test hypotheses 1 through 3 and to reply to the research questions associated with these hypotheses. It will also be used to examine research questions 1 and 4 listed in Table 7.

Hypotheses 1 and 2, with the associated research questions and the general research questions, will be analyzed by examining the frequencies and changes in frequencies of specific variables measured in the statement analysis forms. In Statement Analysis Form One this means, for the most part, in the section on 'Notes', questions 17 through 26, the section on 'Supplementary Financial Data Schedules', questions 27 through 32, and the section headed 'Auditors' Report', questions 33 to 35. The changes in frequencies will be changes over time and therefore will examine these variables in conjunction with questions 3 and 4. Statement Analysis Form Two deals with more specific description of the usage of notes with the exception of questions 5 and 7 and the identification questions. It will be used for identifying particular uses of notes. Therefore questions 5 and 7 will also be used to measure changes in the quantities of usage and questions 6 and 8 through 13 will be used to describe particular uses and trends in

these uses. In summary, the descriptive hypotheses and research questions will be answered by examining the characteristics of the variables measured in the statement analysis forms and by examining their frequencies and changes in frequencies. The statistics used will be descriptive, ie: means, and where necessary, measurements of the significance of differences.

Hypothesis 3 and its related research questions will trace frequencies of particular uses to legal and quasi-legal reporting requirements. I will also examine changes in frequency of usage in general and in specific uses, in an attempt to relate them to changes in legal and quasi-legal reporting requirements. In this area both the variable time and company charter will be important when related to observed frequency changes, measured in both SA1 and SA2.

A cause and effect relationship can not be expected since other conditions come into play. To have a direct increase of the use of notes related to a legal or quasi-legal change, the following conditions must exist. 1) The company must have a condition within it related to the required disclosure, (ie: it must have a subsequent event condition to disclose one). 2) The condition must be judged to be sufficiently material, (ie: subsequent event with material implications). 3) The company must obey the requirement to disclose, (either intentionally or unintentionally, companies do not always satisfy disclosure requirements). 4) Lastly, to observe a change, change must occur, (if a company had been disclosing an event by way of a note prior to it being a legal necessity, no change can be observed). As a result of these conditions, a direct cause and effect relationship can not be

expected to be found. What will be measured will be an unspecified degree of association, between disclosure requirements and changes and the specific usage of notes. (Actual frequencies will be measured and reported.) The result will be a subjective evaluation on the part of myself and the reader of this study as to whether "material" quantities of note usage are related to legal and quasi-legal reporting requirements.

The second category of analysis, examination of relationships between variables, will be used to address Hypotheses 4 and its related research question, (Table 6), and questions 2 and 3 of the general questions, (Table 7). The relationship between complexity of the reporting company and the usage of Notes to Financial Statements will be examined by relating the measurements of firm size, assets, and sales and whether the statement is consolidated and the number of subsidiaries to the various measures of quantity of usage referred to earlier, both in SA1 and SA2. The other relationships, auditor to of notes, and profitability, will utilize similar type of analysis of the questions in SA1.

The procedure will be in two steps. First, I will determine the existence of a relationship, but utilizing two-way and n-way cross-tabulations, (contingency tables). The existence of an association will be located by examining the Chi/square statistic (Pearson Chi-square test of association). This statistic does not measure the degree of association, therefore where an association exists, a second step is required. (Hays 1966 p613) The second step will be to measure the strength of association by utilizing Spearman and/or Kendall rank order.

correlation coefficients. Occasionally the Contingency Coefficient will be used where ranking is not possible. Non-parametric statistics are used since assumptions of parametric statistics; population normally distributed, interval scale measurements, populations having equal variance, are conditions which can not be assumed to be met at all times with my data. My data are often very amenable to rank ordering, (ie: size of firm by assets, associated with the quantity of notes).

The Spearman r_s and Kendall tau are stated to be equally powerful. When data to which the Pearson r is properly applicable, they have an efficiency of 91%, (r_s and tau are 91 percent as efficient as r in rejecting H_0). (Siegel 1956 p223) It is suggested in the S.P.S.S. manual that "as a rule of thumb", one might use Kendall's tau more readily when a fairly large number of cases are classified into a relatively small number of categories and r_s when the ratio of cases to categories is smaller. (Nie et al 1970 p153) The reason being that it is felt that Kendall's tau is preferable where there are a large number of ties. Therefore I will be using Kendall's tau since I will have, in most situations, considerably more cases than categories.

The research question dealing with expected trends (Table 7) will be answered by first examining historical trends and relationships. The factors relating to historical trends will be examined as to the possibility that they will continue to exist in the future. If historical relationships are strong and expected to continue, then it will be predicted that trends in usage could continue if other intervening factors do not change.

This concludes the description of the analysis which will be employed. On the whole, the description and analysis of Notes to

Financial Statements and S.F.D.S.s will be restricted to data derived in the application of the statement analysis forms. Where information from the interviews or the mail questionnaire might be useful, it will be incorporated or referred to where applicable.

3.4 Summary and Conclusions

This chapter described the methodology used to survey the uses of the formats of disclosure under investigation in four steps. Firstly, it took the general research questions, dealing with usage, brought out in the previous chapter, and specified them in more detail. It did so by posing hypotheses to be tested and related research questions to be answered. The relative importance of the research questions was stressed due to the descriptive nature of the study and the lack of prior data and theory formulation which would facilitate hypotheses formulation.

The next two steps described the selection of the sample and the forms to be used in accumulating the data. Selection of the Toronto Stock Exchange as the universe was defended on the grounds of dominance of exchange versus other Canadian exchanges and dominance of the companies in the Canadian economy. The analysis forms had to facilitate accumulation of a large amount of data in an objective manner, suitable for addressing the hypotheses and research questions.

The last step described the methodology which will be used to analyze the data in order to test the hypotheses and answer the research questions. The over-riding objective has been to develop the means of describing the phenomenon of the usage of Notes to Financial

Statements and Supplementary Financial Data Schedules and to begin to explain the reasons for the changes in the amounts of usage of Notes to Financial Statements. The formulating and testing of causal or normative hypotheses is beyond our present data and theory resources with regards to these forms of disclosure. Once this initial study has been completed the next research steps, if needed, will be in this direction.

Chapter Five will report and analyze the findings within the framework and methodology described in this chapter. The next chapter, Chapter Four, will describe the methodology used to examine the perceptions of important producers/users of Financial Statement to Notes to Financial Statements which is an initial evaluative measure of this form of disclosure.

CHAPTER FOUR

SURVEY OF SELECTED PRODUCERS

AND USERS OF FINANCIAL

STATEMENTS

4.1 Introduction

This chapter will detail the Hypotheses to be tested and research questions to be answered, concerning the perceptions of selected producers and users of financial reports towards Notes to Financial Statements. It will also review the methodology to be used including questionnaires that were utilized.

The three groups, representing the producers and users of Financial Statements, that this study will be concerned with are;

- 1) Individuals employed by public Canadian companies who are most responsible for the preparation of their company's annual reports,
- 2) Chartered Accountants, and 3) Financial Analysts. The first group is responsible for the production of the Financial Statements. The second, C.A.s, is responsible for attesting to the Financial Statements which contain notes. The third group, Financial Analysts, represent the users of Financial Statements; they were chosen as a means of limiting the size of the inquiry.

Financial Analysts are a sophisticated user of annual reports, therefore not totally representative of users of financial statements generally. However these users have a large input into decisions made by institutions who are major investors in public companies. They also provide investment advice to individuals. For these reasons they were chosen as a highly relevant user group who will act as my proxy for those who use financial statements.

For a number of reasons and justifications, this portion of the study will deal solely with perceptions to usage of Notes to Financial Statements and not with Supplementary Financial Data Schedules. Firstly, Supplementary Financial Data Schedules are similar in kind to the tabular form of the traditional statements. This lack of difference in this format of disclosure might obscure measurement of differences in perceptions towards the notes and the statements. Secondly, Notes, unlike Supplementary Financial Data Schedules, are always attested to by the auditors. This facilitates identification of the notes and insures that the quality of having been audited is consistent. These two factors are not present when referring to Supplementary Financial Data Schedules. Thirdly, Notes are the dominant change which we wish to examine. The inclusion of questions concerning usage of Supplementary Financial Data Schedules would have almost doubled the size of the questionnaire and therefore act as an agent which might have reduced the reply rate. For these reasons, I decided to focus on the Notes to Financial Statements and leave out questions dealing with producer and user perceptions of Supplementary Financial Data Schedules.

4.2 Hypotheses and Research Questions

I will utilize the same format as was found in Chapter Three, namely present the hypotheses in conjunction with relevant research questions. Again the hypotheses to be tested will also act as a focus for research questions concerned with extending the examination of producer/user perceptions towards notes.

TABLE 8

HYPOTHESIS 5 - RESEARCH QUESTIONS

<p>H₅ Notes to Financial Statements are perceived to have the same significance as if the information or explanations were set out in the body of the statements.</p>	<p>RQ₁) Do preparers of F.S.s, C.A.s and Analysts have this view, which is the official stance of the C.I.C.A.?</p> <p>a) as one group?</p> <p>b) individual groups?</p>
	<p>RQ₂) How do these groups, as a group or individually, perceive that other members of the respondent groups see the significance of Notes? (is there a possible communication problem? - suggested in literature review)</p>
	<p>RQ₃) Are their perceptions consistent with replies of the actual respondents? (communication problem?)</p>

RQ₄) Do preparers of F.S.s, C.A.s and Analysts, as a group and individually, perceive information found in notes as being more significant to themselves vs less specialist groups? (Is note information perceived to be different?)

Table 8 examines the perceptions of these three groups to the current stance of the Canadian Institute of Chartered Accountants toward notes. (C.I.C.A. Handbook 1500.04) This current official stance towards Notes to Financial Statements is not to distinguish between them as a format of disclosure from the body of the statement. The data they contain are considered to be equal in significance and presumably, since neither format is recommended over the other, equal in ability to disclose financial data. The first step is to test these assumptions on these groups. While notes were a relatively minor segment of the financial statements, the importance of the assumption was relatively inconsequential. As later chapters will indicate, notes are no longer minor appendages, therefore challenging this assumption will have implications concerning our attitudes to notes as a format of financial disclosure. A change in attitude is the first step if we are to focus our attention on their usage.

The second important aspect to be investigated, indicated by Table 8, is the degree of consistency among the respondent groups.

A recent thesis (reviewed in Chapter Two) by J. R. Morton indicated the possibility of a communications problem associated with the usage of notes, resulting from differences in perceptions towards them by producer/user groups. (Morton 1974) The generality of his findings was restricted due to the limitation imposed by the sample he used.

As a means of further testing his findings, as he suggested was needed, replies used to answer these and later research questions will be compared among groups to determine if there are differences. He argued that differences in perceptions towards notes between producer/user groups, would impede the communication effectiveness of notes. If this is confirmed, and notes are an increasing percentage of the audited portion of annual reports, the extent of the problem is growing.

The two studies are not strictly comparable for two main reasons. First, the Morton thesis used a five point measurement scale. I would assume, therefore, that he would be capable of measuring smaller differences. Secondly, the questions used are not identical. Nevertheless it was felt that this opportunity to compare my respondents' replies would further the investigation into this area.

TABLE 9

HYPOTHESES - RESEARCH QUESTIONS

<p>H₆ Notes to Financial Statements are perceived to be equally effective for disclosing significant information as the body of the statements.</p>	<p>RQ₁) Do preparers of F.S.s, C.A.s and analysts, see these two formats for disclosure as being equally effective?</p>
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TABLE 9 (Cont'd)

- H₇ Notes to Financial Statements are perceived as being less effective for disclosing significant information than the body of the statements.
- RQ₂) Do the three groups have the same perceptions?
(communication problem)
- H₈ Notes to Financial Statements are perceived as being equally efficient for disclosing significant information as the body of the statements.
- RQ₃) If notes are not perceived to be equally effective, are they perceived to be less effective?
- RQ₄) Do these three groups have similar perceptions (more/less effective)? (Communication problem?)
- H₉ Notes to Financial Statements are perceived as being less efficient for disclosing significant information as the body of the statements.
- RQ₅) Do preparers of F.S.s, C.A.s and Analysts, see these two formats as being equally efficient?
- RQ₆) Do these three groups have the same perceptions?
(communication problem?)
- RQ₇) If notes are not perceived as being equally efficient, are they perceived to be less efficient?
- RQ₈) Do these three groups have similar perceptions? (More/less efficient?) (communication problem)
-

Table 9 addresses the issue of relative effectiveness and efficiency of notes as a format of disclosure. The working definitions of effectiveness and efficiency which will be used in the questionnaire will be, "Effectiveness" - ability of notes to achieve desired objective in communicating information and 'Efficiency' - ability of notes to be able to be read and understood with equal ease and time as the body of the financial statements. These qualities, as defined, will be within the context of a situation where significant information is capable of being disclosed by either format. What is sought is the perceptions of these three groups as to the relative effectiveness and efficiency of Notes to Financial Statements.

The C.I.C.A. does not normally recommend the usage of either of the competing formats where one is substitutable for the other. The basic assumption is that the two are equal as a means of disclosing required data. The C.I.C.A. is not completely consistent in this approach since it also says, "They should not, however, be used as a substitute for proper accounting treatment." (C.I.C.A. Handbook 1500.04) Since the alternative accounting treatment would be disclosure in the body of the statement, the option of using either format might not be as open. In any case, the opinions of these expert producer/user groups should give at least an initial measure of the relative equality of these two means of disclosure.

This of course recognizes that there might be two situations. The first situation is where data are capable of being disclosed via either format; the second situation is where the type or kind of data is only capable of note disclosure. The implications of equality

or inequality under these two situations will be discussed when the results of the survey are examined and in the last chapter, which will be the summary and conclusions to the total study.

The second research question pertaining to each of the hypotheses again addresses the issue raised in Morton's thesis. If the three groups have different perceptions, there might be a problem of communication effectiveness related to financial disclosure, utilizing notes as a format. Since this thesis utilizes a more representative sample, the implications of the findings would be broader but, as was mentioned earlier, not completely comparable. Again these will be placed within the context of my findings regarding changes in usage of Notes to Financial Statements and expected trends in usage. The procedure of comparing replies will also be carried out with subsequent research questions.

TABLE 10

GENERAL RESEARCH QUESTIONS RELATED TO
PRODUCER/USER PERCEPTIONS OF NOTES TO
FINANCIAL STATEMENTS

-
- RQ₁) Do preparers of F.S.s, C.A.s and Analysts see the historical trend of usage of notes as it actually was?
- RQ₂) Do these three groups agree on the trend?
- RQ₃) Do preparers of F.S.s, C.A.s and Analysts see the need for recommendations from a body such as the C.I.C.A. with regards to the content and format of notes?
- RQ₄) Do these three groups respond in the same manner to the above question?

TABLE 10 (Cont'd)

- RQ₅) Is there a relationship between the perceptions of relative significance, effectiveness and efficiency and the perceived need for increased direction regarding usage of Notes to Financial Statements?
- RQ₆) What reasons do preparers of F.S.s, C.A.s and Analysts give for the usage of notes?
- RQ₇) Do the three groups give similar reasons?
- RQ₈) Do the reasons given by these three groups relate to the findings of the empirical study of actual usage found in this study?
(ie: legal or quasi-legal requirements and the complexity of reporting firms)

Table 10 lists a series of general research questions which do not fall into the framework of the hypotheses. The first question was inserted to confirm that these three groups have seen an increase in the usage of notes. I asked this question in spite of the fact that I would have been greatly surprised if the respondents did not perceive the increase. The reason for the question was the need to test this primary assumption, since it, in itself, might have an effect on how the respondents would have replied to subsequent questions.

There has been little direct intervention by the concerned agencies regarding content and format of notes. The major attitude expressed by the literature and confirmed by the accounting research director of the C.I.C.A. in an interview, (G.Mulcahy 1974), is, "We recommend what should be disclosed and for the most part leave the how and where to the person or organization who is disclosing."

The assumption is that the alternate formats are equally acceptable and therefore relatively equal as a means of financial disclosure. There might also be a desire not to intervene where it is not necessary. Questions RQ3, RQ4 and RQ5 from Table 10 will address this issue. It will be done first by soliciting the opinion of these groups with regards to the desire for increased direction and secondly, seeing if their answers regarding the relative significance, effectiveness, and efficiency influenced their opinion.

The last three questions, RQ6 through RQ8, are an attempt to seek the opinion of these specialist producer/user groups as to the reason for the usage of Notes to Financial Statements. The replies to these questions will compliment and be compared to the direct empirical examination of usage in other parts of this thesis. The replies of these experts should be useful in explaining the usage and trends in usage of notes. These groups after all are themselves directly and indirectly partly responsible for what and how public companies report in Canada.

This concludes the description of the hypotheses and research questions concerned with producer and user perceptions. As was mentioned in Chapter Two, it is an initial evaluation of this format of disclosure. The purpose of this part of the study is to examine empirically the basic assumptions made concerning the usage of notes and to tie into the findings of the empirical study of actual usage. This will act as an initial evaluative step of notes as a means of disclosing financial data. The next segments of this chapter will describe how this is to be done.

4.3 Pre-Survey Interviews

4.3.1 Introduction

Pre-survey interviews were conducted for two purposes. The main purpose of the interviews was to test the mail questionnaire described in later sections of this chapter. A secondary purpose was for the information they provided in their own right regarding the perceptions of producers and users of financial statements. A tertiary benefit was that they provided an initial positive reaction to the subject matter of this thesis.

4.3.2 Selection of Sample

Interviews were conducted with fifteen people; five individuals within public companies mainly responsible for the preparation of their companies' annual reports, five Chartered Accountants and five Financial Analysts. These individuals were not chosen at random but mainly because of their accessibility and appropriateness.

The following is a brief description of the fifteen people interviewed. Corporate Officers: 1) Corporate Accountant with a large hotel chain, 2) Comptroller - manufacturing company - industrial and consumer products, 3) Treasurer - large printing and graphics company, 4) Comptroller - large international mining company, and 5) Treasurer - industrial and consumer supplier. All of the companies are public and Canadian, some with international operations. Chartered Accountants: 1) Managing partner - national & international C.A. firm, served on the Auditing and Accounting Research Committee of the C.I.C.A.; 2) Partner of a national - international C.A. firm, located in a smaller office,

4) two individuals, one the senior partner of a regional C.A. firm, both concerned with their firm's professional practice, and 5) Audit manager of a national - international C.A. firm, member of his firm's accounting practices committee. Analysts: 1) Analysts with a private investment company, 2) Analyst with a large multiservice Brokerage House, 3) Investment Analyst for a Chartered Bank, 4) Analyst and senior officer of a large Canadian Insurance Company - analyst representative on a C.I.C.A. committee examining the 'Objectives of Financial Reporting', and 5) Analyst with an investment banking company and president of a Financial Analysts' Society.

The above list indicates that the sample was biased towards large organizations and individuals who often had a particular interest in corporate disclosure. As was indicated, they were chosen not for their relative representativeness but for their input into the design and testing of the questionnaire. They were also excellent sources of information concerning the preparation and use of Notes to Financial Statements. Their main bias was the extent to which they were informed and their level of interest in corporate reporting. In this case I felt the bias was a strength as opposed to a weakness.

4.3.3 Format of Interview

The interviews were conducted in person at the offices of the interviewees. The first item of the interview was to get the interviewee to complete a draft of the questionnaire in my presence. I recorded the time it took to complete the questionnaire as well as any difficulties they encountered completing the questionnaire.

Upon completion of the questionnaire, I debriefed the interviewee by reviewing the responses. This served a dual purpose of locating problems with the questionnaire as well as soliciting elaborations from the respondent. Problems with the questionnaire were corrected and the questionnaire redrafted when possible between interviews. This was possible when there was sufficient time between interviews to have the revised questionnaire retyped. This permitted a continual testing of the questionnaire up to the final draft.

The last part of the interview was an open-ended discussion of the topic matter. This ranged from specific items to an overall discussion of my thesis topic generally and its implications. The respondents' broad experiences, interests and levels of knowledge were useful both for their direct input into my data gathering as well as indirectly in the advice they provided.

4.3.4 Conclusions - Re: Pre-Survey Interviews

The first end result of the interviews was the final questionnaire used in the mail survey which will be discussed in the next chapter. The second benefit was the information which affected the design of the Statement Analysis Forms described in Chapter Three. The third result was the general information provided which will be reported in Chapter Six.

4.4 Methodology - Mail Questionnaire

4.4.1 Introduction

This section will describe the design of the questionnaire used to solicit the perceptions of the producer/user groups. It will also describe the selection of the sample to whom the questionnaire was mailed. The questionnaire which will be dealt with first will be described in relation to the hypotheses and research questions to which it was addressed. The methods used to pre-test the questionnaire were described above and will therefore not be repeated here.

4.4.2 Mail Questionnaire Design

Appendix "C" contains the covering letters, the mail questionnaire, including instructions and the reminder notice used. The appendix contains both the English and French versions.

The French version was used for French speaking Canadians, resident in the Province of Quebec. It was assumed that individuals with French names, resident in Quebec, would be capable or would wish to respond in French. There is the possibility that a person with a French name in Quebec would wish an English questionnaire, or a person with an English name in Quebec would wish a French questionnaire. I believe that the procedure I took accounted for the vast majority of circumstances at a reasonable cost. I did not receive any requests for alternate questionnaires, therefore I assume I was, on the whole, correct. Most convincing was the fact that the reply rates, French/English, were not statistically different, ($\chi^2 = .94, \alpha = .35$ approximately).

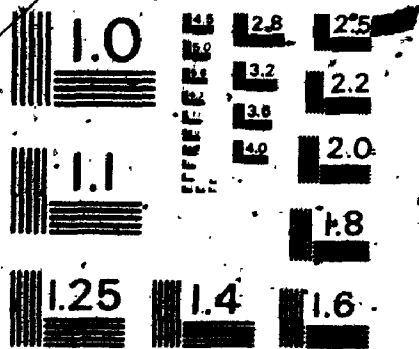
A number of steps were taken to encourage a satisfactory response rate. The respondents were offered a brief write-up of the findings as one incentive. Great care was taken in the design and printing of the questionnaire. It was printed in an attractive, clear and concise business format since the anticipated respondents are professionals. The respondents were offered the opportunity to remain anonymous. Postage paid, business reply envelopes were employed both for the anonymity they provide, no postmark, and in keeping with the professional approach. The vast majority of questionnaires were mailed to an individual and not to just a title and firm. Also, as was mentioned earlier, the length of the questionnaire was constrained as much as possible. Three main sources were found to be most useful in the design and approach to my mail questionnaire: "Questionnaire Design and Attitude Measurement" (Oppenheim 1966), "The Art of Asking Questions" (Payne 1957), and "Basic Research Methods in Social Science" (Simon 1969). The satisfactory overall response rate, of approximately 40%, appears to have justified the approach taken.

The lead-sheet to the questionnaire included instructions for completing the questionnaire and two important definitions. The only unusual instruction pertained to situations where the questionnaire had not been mailed to the appropriate Corporate Officer. It merely requested that those recipients who received the questionnaire designated as the Corporate Officer and who were not mainly responsible for the preparation of their company's Financial Statements, to please forward it to the appropriate individual. This possibility arose due to my inability to always properly identify whom this particular individual

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was within the company. This will be discussed further in the section which describes the sample selection.

The definitions were of 'Notes to Financial Statements' and the 'Body of the Financial Statements'. It was very important that these terms be properly defined due to the traditional view of the role of notes. This was necessary in order that the respondents consider these two formats as distinct, at least for the purposes of the questionnaire.

The first part of the questionnaire, reproduced below, identified the respondent group, provided information about the respondent and his position, and the number of years of experience the person had in the preparation or use of Financial Statements.

GENERAL

1. Respondent Group
 Corporate Officer Public C.A. Analyst
2. Name of Company _____
3. Name of Individual _____
4. Position of Individual _____
5. Number of years involved in the preparation/use/audit of
 published Financial Statements _____ years

} May be left blank if individual wishes anonymity.

The first question was completed prior to mailing. This insured that the respondent was aware of the respondent group for which he was chosen. A few respondents did not fill in the questionnaire since they no longer performed the function. Question 5 was used to examine if experience affected the way they responded to the questions.

The balance of the questionnaire pertained to the Notes themselves. The first two being:

-
6. Have you perceived a change in the amount of usage of Notes to Financial Statements? Yes ___ No ___
- 6a. If yes, decreasing ___, increasing ___, N/A ___
-

This question was used to confirm the assumption that the respondents were aware of the increasing usage of Notes to Financial Statements. I fully expected all but the rare exception to acknowledge the increasing usage.

The next six questions were used to test H₅.

7. Do you perceive Notes to Financial Statements as having the same significance as if the information or explanations were set forth in the body of the statements themselves? Yes ___ No ___
- 7a. If no, do you perceive them as less significant ___, more significant ___, N/A ___
8. Do you think the other respondent groups (eg: Corporate Officer or C.A. or Analyst) see Notes to Financial Statements as having the same significance as if the information or explanations were set out in the body of the statements themselves? Yes ___ No ___
- 8a. If no, do you think they perceive them as less significant ___, more significant ___, N/A ___
9. Do you think other people generally, (eg: shareholder, general public) see Notes to Financial Statement as having the same significance as if the information or explanations were set out in the body of the statements themselves?

- 9a. If no, do you think they perceive them as less significant, , more significant , N/A

There was a strong indication in the interviews that the perceived significance would be related to the level of expertness of the user. As a result, this question was asked in a manner that permitted the respondent to relate his perceptions with regards to three kinds of users: himself, the other respondent groups, and finally the general public. The interviewees indicated that they saw notes as a format for more specialized data or information. I therefore wanted to test this perception on my mail questionnaire since it was much more representative.

The next questions related to H_6 , H_7 , H_8 , and H_9 and their related research questions.

10. If data containing significant information could be disclosed in the body of the Financial Statements or in the Notes to the Financial Statements, would you perceive Footnote disclosure to be equally effective (able to achieve desired objective) in communicating the information? Yes No
- 10a. If no, would Footnotes be less effective , more effective , N/A
11. If data containing significant information could be disclosed in the body of the Financial Statement or in the Notes to Financial Statements, would you perceive Footnote disclosure to be as equally efficient (able to be read and understood with equal ease and time) in communicating the information? Yes No

11a. If no, would Footnotes be less efficient ____, more efficient ____, N/A ____

The replies to these questions were used to test perceptions of relative effectiveness and efficiency. I realized that the two formats are not always substitutable, however I wanted to address the implied assumption of the C.D.C.A. where the format of disclosure is left optional. Even if the two formats were not substitutable, it still would reflect on the information transmitting ability of notes if their effectiveness and efficiency was perceived to be different. Therefore, starting at the position of substitutability was justifiable as a means of this initial qualitative evaluation of notes.

The next question tests both the desire for intervention by an outside body in further regulating the form and content of notes and also gives an indication of concern about current practice.

12. Would you like to see an association, such as the Canadian Institute of Chartered Accountants, make specific and more extensive recommendations on the form and content of Notes to Financial Statements?

Yes ____ No ____

The relationship of this question to the other questions might also indicate the reason for wanting or not wanting outside intervention.

The last question was an open-ended question,

13. What do you perceive as the major reasons for usage of Notes to Financial Statements as opposed to disclosure in the body of the statements?

The replies to this question were coded into ten categories. These were developed after the replies were reviewed.

1. To maintain uncluttered body of financial statements, simplicity of body of the statements.
2. Data in notes difficult if not impossible to be included in the body of financial statements, ie: narrative, non-quantifiable, not part of present financial statements.
3. Expansion or elaboration of data presently part of financial statements.
4. To provide additional or supplementary data.
5. To provide data for specialist or professional user.
6. To provide data not used by all readers of financial statements, but of interest to some users.
7. To satisfy legal or quasi-legal disclosure requirements.
8. Complexity of reporting organization or complexity of transaction.
9. Specific uses identified; ie: contingent liabilities.
10. Other

Any sort of classification of an open-ended question tends to be subjective. However the classification was not crucial since the purpose of this data was not to test a hypothesis but to provide further insight into the usage of this format of disclosure.

This concludes the description of the questionnaire. As can be seen, the questionnaire was relatively short and the questions on the whole restricted to addressing the hypotheses and research

questions detailed in Tables 8, 9 and 10. No attempt was made to scale the respondents' perceptions since this was a preliminary study. Also I did not want to assume, at least at this time, an underlying scale of perceptions. I used non-parametric statistics which are suitable to analyze the resultant low-levels of measurement. Since the main purpose was to provide descriptive data rather than test a normative model, a more complex questionnaire was felt to be unnecessary at this time.

4.4.3 Sample Selection

It was decided quite arbitrarily that I would attempt to get at least sixty responses from each group. Studies mailing to similar respondents received response rates ranging from slightly less than twenty percent to slightly more than forty percent. It was therefore decided that approximately three hundred questionnaires in each group would be mailed to insure a minimum 60 replies in each group.

The first group, those mainly responsible for the preparation of public company financial statements, was selected using a list of companies with shares listed on the Toronto Stock Exchange. The April, 1975 Toronto Stock Exchange Review was used as the source. There were approximately 946 different companies listed. In order to arrive at a sample of approximately 300, one in every three was chosen. The first number was chosen at random and then every third different company. This resulted in 315 companies being chosen.

The next problem was securing names and addresses for the 315. The main sources were, the Annual Reports of the companies, various

corporate directories and from the Toronto Stock Exchange. The objective was to obtain the address of the company's head office and the name of its treasurer or comptroller or similar company officer. I decided that the treasurer or comptroller would either be the individual most likely responsible for the preparation of the financial statements or in the best position to forward the questionnaire to the appropriate person.

Eventually 288 of this group were mailed questionnaires. The ones eliminated were for the most part companies with head offices outside Canada. Two of the companies chosen had already been interviewed and were therefore deleted. Of the 288 questionnaires mailed, three were mailed french questionnaires and the balance in english.

The next group, Chartered Accountants, were chosen using the 1975 Directory of Chartered Accountants. Those who indicated to the Canadian Institute of Chartered Accountants, the publishers of the directory, that they were in public practice were identifiable by an asterisk which preceded the name. There were less than 7000 so identified, therefore one in every twenty was chosen. The first number was picked at random and every twentieth thereafter. This resulted in 311 Chartered Accountants being chosen. Fifty-three of these were mailed french questionnaires and two-hundred and fifty eight in english.

The last group, Financial Analysts, was chosen from Directories listing the members of the Toronto, Montreal, Vancouver and Winnipeg Societies of Financial Analysts. There were 1270 individuals listed, therefore, one in every four was chosen. The first was again picked at random, thereafter every fourth name was chosen. The result

was three-hundred and three analysts; seventeen french and two-hundred and eighty-six english.

TABLE 11
COMPOSITION OF SAMPLE TO WHICH
QUESTIONNAIRES WERE MAILED

	Chartered Accountants	%	Financial Analysts	%	Corp. Officers	%	Total	%
French	53	17	17	6	3	1	73	8
English	258	83	287	94	285	99	829	92
Total	311	100	303	100	288	100	902	100
Percentage	34		34		32		100	

Table 11 summarizes the composition of the sample to which questionnaires were mailed. As was mentioned earlier, french questionnaires were mailed to people with french names in the Province of Quebec. Table 11 indicates that the three samples were not exactly equal in size. The differences however were not great. I decided not to alter the samples in order to maintain the legitimacy of the random selection and prevent bias.

This therefore completes the description of the sample chosen. The questionnaires were mailed on August 20, 1975. Reminder notices, a copy of which is also part of Appendix "C", were mailed on September 10th, and 17th. Due to the intervention of a mail strike in Canada,

responses up to December 29, 1975 were used. The description and analysis of the responses, including the response rate, will be discussed in Chapter Six.

4.5 Analysis

This chapter has reviewed the two forms of data collection to be used in examining the perceptions of producers/users towards Notes to Financial Statements. The first, interviews, was used to improve the mail questionnaires and secondly, to provide overall descriptive information relating to the area under examination. Analysis simply consists of subjectively examining the responses. With regards to the primary objective, any problems the interviewees had in completing the questionnaires were translated into changes in the draft questionnaires, leading to the final questionnaire. The second objective of the interviews was achieved by examining the contents of the interviews as they relate to the topic under discussion.

Analysis of the data derived from the mail questionnaire falls into three categories. The first is the frequency of alternative responses to the questions. The replies to all but the last question which is open-ended are dichotomous or categorical. This limits the measurement to the nominal scale. Therefore the testing of the hypotheses and replies to the research questions used non-parametric statistics when statistics are required. On the whole, however, many of the research questions can be answered by simply looking at the frequency of the various replies.

The second category of analysis is to determine if the three respondent groups responded in the same way. For the most part,

the Chi-square test will be used to determine whether there are statistically significant differences among the three groups. The Morton thesis would suggest that there will be differences among the replies of the respondent groups. I will therefore test his hypothesis by attempting to reject the null hypothesis that there are no differences among the respondent groups. Inasmuch as this is not a hypothesis in my thesis, a prior level of significance will not be set. An arbitrary level for discussion purposes will be given in the analysis chapters and all the exact levels will be reported.

The last category of analysis is to measure whether there is a relationship between responses. For example, did the responses to the relative effectiveness of notes relate to the desire for outside intervention on the content and form of note usage. Therefore, besides wanting to know if there is a relationship, using χ^2 statistic, I would want to know the strength of the association. The low level of measurement, not even permitting ranking, will confine the analysis to the use of the Contingency Coefficient.

Therefore in conclusion to this section, the analysis to be used is concerned with frequency of responses, differences among respondents and correlation between variables. The measurements are only suitable to non-parametric statistical testing. The objective of the analysis is to provide descriptive information about the perceptions of the preparers/users of Financial Statements towards notes.

4.6 Summary and Conclusions

The chapter began by detailing the hypotheses and research questions about the perceptions of the three preparer/user groups which

will be examined. The over-riding objective is to make an initial qualitative evaluation of the usage of notes.

The primary means of making this evaluation was to test the traditional assumptions regarding the usage of Notes to Financial Statements. The first assumption is that the relative significance of information, disclosed by way of notes is equal to the information disclosed in the body of the statements. The second assumption is less direct. The assumption is that, if neither format of disclosure is recommended over the other, we must assume that these two formats are equally effective and efficient for disclosing significant information.

A second area examined concerns the possibility of a communication problem. It was suggested by J. Morton in his thesis that if the producer/user groups perceived notes differently, it could lead to communication problems. Therefore the responses of the three groups will be examined for differences.

The balance of the research questions deal with a number of miscellaneous questions of interest; namely, the desire for more direction with regards to usage of notes, whether perceptions about notes affected the desire for intervention and the perceived reasons for usage.

The chapter then proceeded to describe the interviews, mail questionnaire, and analysis which was used to reply to these research questions and test the hypotheses. Included in this section was the description of the selection of the sample and the sample itself.

It must be realized that the questions were formulated and means of examining designed in light of an overall objective. This objective was to make an initial evaluation of Notes to Financial

Statements. Ideally I would have liked to directly measure the relative worth of notes as a means of communicating financial information versus the body of the financial statements. Since this was not seen as being feasible, at least at this time in this thesis, a more modest objective was chosen.

Later chapters will demonstrate the extent of growth in the relative usage of notes. If the validity of the above assumptions, regarding usage, is demonstrated to be questionable, combined with a large positive change in relative usage, it would seem that there is an immediate need to re-evaluate the usage of notes. The issue of communication effectiveness would increase the urgency of re-examining our present means of financial disclosure. Therefore, although the ideal evaluative route might have been most preferable, this indirect initial evaluation might provide the incentive to pursue further research.

This result is certainly in keeping with the objectives of exploratory descriptive research studies. This will be kept in mind as the data are analyzed and implications drawn from them.

CHAPTER FIVE

USAGE OF NOTES TO FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA SCHEDULES

IN CANADA

5.1 Introduction

The purpose of this chapter, as the title indicates, is to describe the usage of Notes to Financial Statements and Supplementary Financial Data Schedules. The chapter will document the results and analysis of the empirical survey, described in Chapter Three. It will do so by following a format consistent with the hypotheses and research questions outlined in Tables 3 to 7 and in the manner described in Chapter Three.

I will begin the chapter by first briefly describing the preparation of the data for analysis. I will then proceed in the following order, 1) the description of the usage of Notes to Financial Statements, 2) usage of Supplementary Financial Data Schedules, 3) reasons for changes in usage of notes, 4) the expected trends of usage of both formats, and lastly, 5) the summary and conclusions.

5.2 Preparation of Data for Analysis

One of the major analysis hurdles was the large quantity of data. As was indicated earlier, Statement Analysis Form One was applied to 60 companies for twelve separate periods, less the two missing observations. This resulted in 718 cases examined on 32 dimensions (number of questions). Statement Analysis Form Two resulted in generating data on 4205 notes (cases) on 13 dimensions.

As a result, the analysis forms were constructed to facilitate coding. The codings used are illustrated in Appendix "C". Coding of particular questions will be discussed in more detail as the analysis is described. The basic data files contain the data in the form illustrated in this appendix.

5.3 Usage of Notes to Financial Statements

5.3.1 Introduction

This section will describe and analyze the data concerned with the usage of notes. It will first address and test Hypothesis 1, then examine specific uses, extent of new or additional information, and lastly, the general research questions which deal with the relationship of auditor to usage, the format of usage, and historical trends in format.

Three measures of usage were taken. They are, 1) number of notes, 2) pages of notes, when used in conjunction with total pages of notes and statements give a measure of relative use, and 3) number of words. These measures will be used together with other questions (ie: year, charter, topic, etc.) to describe usage and trends of usage of Notes to Financial Statements.

5.3.2 Hypothesis 1

This segment tests Hypothesis 1 and responds to the research questions which address specific uses, extent of new or additional disclosure and the general research questions described in the introduction.

H₁ IN THE LAST TWENTY YEARS THERE HAS BEEN INCREASED USAGE OF NOTES TO FINANCIAL STATEMENTS IN CORPORATE ANNUAL REPORTS IN CANADA.

Table 12 records the observed number of notes used by the sample companies in the years 1955 through 1974. The first column per year is the absolute frequency that a certain quantity of notes (0. to 21) was used. In 1955, for example, 19 of the 58 companies analyzed had no notes, 9 had 1 note, etc. The last column is the result of multiplying the number of notes by the number of observations. The total of these calculations bring to 134 total notes used by the 58 companies in 1955. The middle column, the relative frequency, is the percentage of companies who fell into a particular group, (ie: 19 companies had 0 notes, or 33% of the observed companies in 1955 had no notes). The total notes in the 12 periods examined was 4305, which is the number analyzed by Statement Analysis Form Two.

Below the schedule are statistics related to the usage of notes. Those in Column A are calculated without including those observations where there are no notes. Therefore, in 1955, they would be based on 37 observations (58 - 19 = 37). Column B includes all the cases, 58 in 1955 and 60 in all the rest of the years.

TABLE 12

QUANTITY OF NOTES BY YEAR

* = rounded
 A = does not include cases with no notes
 B = includes all cases

Quantity of Notes	1955		1960		1965		1966		1967		1968		1969		1970		1971		1972		1973		1974	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
0	19	33	0	9	15	0	0	2	3	0	0	0	4	7	4	2	3	2	1	2	1	2	1	2
1	9	16	9	14	23	14	4	8	13	8	4	5	4	7	8	2	3	2	4	2	2	1	2	1
2	11	19	22	6	10	12	7	12	14	5	8	10	4	4	5	6	5	6	6	4	2	3	4	1
3	6	10	8	8	13	24	9	15	22	7	12	21	6	8	15	8	15	15	15	8	13	24	2	6
4	3	5	12	4	7	16	5	8	20	7	12	28	5	8	20	5	8	20	7	12	28	7	12	4
5	1	2	5	5	8	25	9	15	45	7	12	35	4	15	45	6	10	30	6	10	30	5	8	5
6	5	8	30	7	12	42	5	8	30	5	8	30	10	17	60	6	10	30	6	10	30	5	8	25
7	1	2	4	2	3	14	1	2	7	6	10	42	5	8	35	7	12	49	4	7	28	5	8	15
8	2	3	16	1	2	8	4	7	32	7	12	56	5	8	40	9	15	72	9	15	72	7	12	4
9				2	3	18	5	8	45	5	8	56	5	8	40	9	15	72	9	15	72	7	12	4
10				2	3	18	5	8	45	5	8	56	5	8	40	9	15	72	9	15	72	7	12	4
11				1	2	11	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20
12				1	2	11	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20
13				1	2	11	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20
14				1	2	11	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20	2	3	20
15	1	2	15	1	2	15	1	2	14	1	2	14	2	3	28	2	3	28	2	3	28	2	3	28
16				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17
17				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17
18				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17
19				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17
20				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17
21				1	2	18	1	2	16	1	2	16	1	2	17	1	2	17	1	2	17	1	2	17

Total:	58 100*134		60 100*202		60 100*284		60 100*321		60 100*357		60 100*382		60 100*391		100*409		60 100*451		60 100*447		60 100*453		60 100*474	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Min.	1	0	1	0	1	0	1	0	1	0	1	0	1	1	1	1	1	1	1	2	2	1	1	2
Max.	15	15	18	18	15	15	16	16	17	17	17	17	17	17	19	19	21	21	21	21	21	21	18	18
Mean	3.43	2.31	3.96	3.36	5.25	4.73	5.53	5.35	6.05	5.95	6.58	6.36	6.51	6.51	6.81	6.81	7.51	7.51	7.45	7.45	7.55	7.55	7.90	7.90
S.D.	2.81	2.81	3.22	3.29	3.22	3.44	3.64	3.72	3.36	3.62	3.54	3.68	3.61	3.61	3.48	3.48	3.78	3.78	3.98	3.98	3.43	3.43	3.38	3.38
Median	2	2	3	3	5	4	5	5	6	6	6	6	6	6	6	6	7	7	7	7	7	7	7	8
Missing Val.	19	0	9	0	6	0	2	0	2	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0

In my subsequent analysis I will use both Columns A and B statistics. Using Column A is a more conservative approach which downplays the lack of usage in the earlier years. The effect of using the 'no notes' situation, as Table 12 shows, would be to decrease the mean usage in 1955, therefore increasing the change in mean usage from 1955 to 1974.

Table 12 confirms H_1 that usage of notes in Canada has increased in the last twenty years. Total notes of 58 observations in 1955 was 134 and in 1974, 474 notes were used by 60 companies. Mean usage changed from 3.43 (2.31) notes to 7.90 and the median from 2 to 8. More detailed examination of the change over time will be made as the other research questions are examined.

Table 13 looks at notes as a percentage of total audited section of annual reports. The wide variety of values resulting from the calculation, page of notes divided by pages of notes and pages of statements (audited), would have made the table too large and difficult to comprehend. The resulting calculation was therefore recoded into 11 categories. Table 13 is the same as Table 12 with the exception that the total column is not used. The statistics were also calculated using only those cases with notes, Column A and all cases, Column B. Again both situations will be referred to in the analysis.

Table 13 also confirms H_1 that the usage of notes in Canada has increased in the last twenty years. The mean was .137 in 1955 and .336 in 1974, (.092 to .336, Column B). The median has changed from .07 to .33, (.03 to .33, Column B). This indicates that the notes, as a component, have reached a state in 1974 where they represent one-

TABLE 13

QUANTITY OF PAGES OF NOTES AS A PERCENTAGE OF TOTAL PAGES, NOTES PLUS STATEMENTS

Percent of Pages, Notes	1955		1960		1965		1966		1967		1968		1969		1970		1971		1972		1973		1974	
	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency	Absol. Freq.	Relative Frequency
.00	19	32.8	9	15.0	6	10.0	2	3.3	1	1.7	2	3.3	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
.05 or less	18	31.0	20	33.3	12	20.0	15	25.0	14	23.3	10	16.7	11	18.3	8	13.3	6	10.0	4	6.7	5	8.3	1	1.7
.05 to .10	7	12.1	6	10.0	5	8.3	2	3.3	1	1.7	2	3.3	0	0.0	1	1.7	1	1.7	4	6.7	1	1.7	1	1.7
.10 to .15	1	1.7	5	8.3	7	11.7	8	13.3	4	6.7	3	5.0	4	6.7	3	5.0	4	6.7	3	5.0	1	1.7	2	3.3
.15 to .20	3	5.2	2	3.3	8	13.3	11	18.3	12	20.0	13	21.7	18	30.0	17	28.3	20	33.3	17	28.3	16	26.7	13	21.7
.20 to .25	4	6.9	8	13.3	9	15.0	9	15.0	9	15.0	8	13.3	7	11.7	8	13.3	5	8.3	6	10.0	6	10.0	3	5.0
.25 to .30	0	0.0	2	3.3	2	3.3	2	3.3	3	5.0	6	10.0	6	10.0	5	8.3	5	8.3	5	8.3	6	10.0	4	6.7
.30 to .35	1	1.7	2	3.3	2	3.3	2	3.3	7	11.7	7	11.7	6	10.0	9	15.0	6	10.0	6	10.0	10	16.7	10	16.7
.35 to .40	3	5.2	4	6.7	0	0.0	0	0.0	1	1.7	3	5.0	3	5.0	3	5.0	2	3.3	6	10.0	5	8.3	8	13.3
.40 to .45	0	0.0	1	1.7	5	8.3	5	8.3	2	3.3	5	8.3	3	5.0	2	3.3	2	3.3	6	10.0	2	3.3	3	5.0
More than .45	2	3.4	1	1.7	4	6.7	4	6.7	4	6.7	1	1.7	2	3.3	4	6.7	5	8.3	7	11.7	7	11.7	11	18.3

Total: 58 100% 60 100%

STATISTICS

	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Min.	.020	.0	.017	.0	.008	.0	.006	.0	.020	.0	.020	.0	.020	.017	.017	.017	.017	.017	.017	.017	.017	.017	.017	.017
Max.	.500	.500	.500	.500	.667	.667	.600	.600	.578	.578	.571	.571	.551	.551	.571	.571	.571	.571	.571	.571	.571	.571	.571	.571
Mean	.137	.092	.156	.132	.199	.179	.189	.193	.215	.212	.231	.224	.223	.223	.244	.253	.253	.253	.253	.253	.253	.253	.253	.253
S.D.	.144	.134	.138	.139	.154	.158	.149	.150	.142	.143	.131	.135	.126	.126	.130	.130	.135	.135	.135	.135	.135	.135	.135	.135
Median	.07	.03	.10	.07	.17	.13	.20	.17	.20	.20	.21	.20	.20	.20	.21	.21	.20	.20	.20	.20	.20	.20	.20	.20
Missing Val	19	0	9	10	6	0	2	0	1	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0

Notes: 1. Calculated on raw data - not grouped

2. A = Does not include cases with no notes
B = Includes all cases

third of the audited portion of annual reports. Whereas Table 12 indicates the usage of notes has increased, Table 13 indicates that usage of notes has increased to a greater extent relative to the body of the financial statements as a method of disclosure. The note count measurement is used by the C.I.C.A. in its publication, Financial Reporting in Canada, (C.I.C.A. 1957 to 1975). The note count method fails to relate the relatively increased usage of these formats as a means of disclosure and could underplay the importance of notes by merely seeing them as increasing as disclosure is increasing. The relative growth is the important additional dimension that this measurement gives.

Table 14 examines usage by measuring it on the word count dimension. As in Table 13, the raw number values would have been too extensive to permit the construction of an understandable table; therefore these counts were also recoded, in this case into 21 categories. The set up of the table and method of calculating the related statistics is the same as Table 13.

Table 14 also confirms H_1 that the usage of notes has increased over the last twenty years. The mean number of words used in 1955 was 288 and 999 in 1974, (193 to 999 in Column B). The median changed from 105 to 605 words, (45 to 605 in Column B). The extreme values in this measurement seem to influence the calculation of the mean to a greater extent. Therefore, it seems that the median would be a better statistic if we are interested in the change in usage by an average company. For example, as the table indicates, the mean in 1974 is greater than the usage of approximately two-thirds of the

TABLE 14
NUMBER OF WORDS BY YEAR

Number of Words	1955		1960		1965		1966		1967		1968		1969		1970		1971		1972		1973		1974	
	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency	Absolute Frequency	Relative Frequency
No Notes	19	32.8	9	15.0	6	10.0	2	3.3	1	1.7	2	3.3	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
50 or less	12	20.7	10	16.7	6	10.0	9	15.0	3	5.0	3	5.0	2	3.3	2	3.3	1	1.7	2	3.3	1	1.7	2	3.3
55 to 100	6	10.3	10	16.7	3	5.0	4	6.7	7	11.7	5	8.3	6	10.0	6	10.0	2	3.3	1	1.7	1	1.7	1	1.7
105 to 150	5	8.6	6	10.0	6	10.0	4	6.7	2	3.3	2	3.3	2	3.3	2	3.3	4	6.7	4	6.7	3	5.0	3	5.0
155 to 200	2	3.4	4	6.7	9	15.0	8	13.3	4	6.7	5	8.3	4	6.7	1	1.7	3	5.0	6	10.0	1	1.7	1	1.7
205 to 250	2	3.4	1	1.7	4	6.7	2	3.3	3	5.0	2	3.3	3	5.0	3	5.0	4	6.7	2	3.3	5	8.3	3	5.0
255 to 300	1	1.7	1	1.7	2	3.3	3	5.0	7	11.7	3	5.0	2	3.3	5	8.3	5	8.3	2	3.3	2	3.3	3	5.0
305 to 350	3	5.2	3	5.0	0	0.0	3	5.0	2	3.3	3	5.0	4	6.7	4	6.7	2	3.3	5	8.3	1	1.7	6	10.0
355 to 400	2	3.4	3	5.0	3	5.0	3	5.0	1	1.7	2	3.3	4	6.7	4	6.7	4	6.7	2	3.3	2	3.3	3	5.0
405 to 450	1	1.7	0	0.0	2	3.3	3	5.0	5	8.3	1	1.7	6	10.0	3	5.0	3	5.0	3	5.0	7	11.7	3	5.0
455 to 500	0	0.0	3	5.0	1	1.7	2	3.3	2	3.3	5	8.3	3	5.0	2	3.3	2	3.3	3	5.0	3	5.0	3	5.0
505 to 550	1	1.7	1	1.7	5	8.3	1	1.7	3	5.0	2	3.3	3	5.0	0	0.0	1	1.7	4	6.7	1	1.7	4	6.7
555 to 600	0	0.0	1	1.7	2	3.3	3	5.0	1	1.7	3	5.0	2	3.3	3	5.0	2	3.3	2	3.3	2	3.3	3	5.0
605 to 650	1	1.7	2	3.3	1	1.7	0	0.0	2	3.3	3	5.0	2	3.3	5	8.3	2	3.3	4	6.7	3	5.0	4	6.7
655 to 700	0	0.0	1	1.7	1	1.7	1	1.7	3	5.0	2	3.3	2	3.3	1	1.7	3	5.0	2	3.0	1	1.7	2	3.3
705 to 750	0	0.0	0	0.0	0	0.0	1	1.7	2	3.3	4	6.7	1	1.7	1	1.7	1	1.7	0	0.0	1	1.7	0	0.0
755 to 800	0	0.0	0	0.0	1	1.7	2	3.3	3	5.0	3	5.0	1	1.7	1	1.7	3	5.0	2	3.3	2	3.3	2	3.3
805 to 850	1	1.7	2	3.3	0	0.0	1	1.7	0	0.0	1	1.7	2	3.3	2	3.3	2	3.3	1	1.7	2	3.3	1	1.7
855 to 900	0	0.0	0	0.0	1	1.7	1	1.7	0	0.0	1	1.7	3	5.0	3	5.0	2	3.3	1	1.7	2	3.3	2	3.3
905 to 950	0	0.0	0	0.0	1	1.7	0	0.0	1	1.7	0	0.0	1	1.7	2	3.3	3	5.0	1	1.7	1	1.7	1	1.7
More than 950	2	3.4	3	5.0	6	10.0	8	13.3	8	13.3	8	13.3	11	18.3	8	13.3	11	18.3	15	25.0	18	30.0	22	36.7
STATISTICS:	58	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%	60	100%
MIN.	10	0	10	0	15	0	10	0	25	0	25	0	20	20	20	20	15	15	35	35	30	30	30	130
MAX.	2505	2250	2250	2130	1605	1605	2130	2130	2260	2260	2150	2150	1965	1965	2110	2110	2105	2105	2815	2815	4115	4115	4425	4425
MEAN	288	193	319	271	408	367	451	435	513	504	538	520	564	564	567	567	621	621	686	686	828	828	999	999
S.D.	511	435	427	418	396	392	482	476	480	477	420	420	456	456	451	451	472	472	591	591	756	756	830	830
MEDIAN	105	45	120	120	220	185	300	255	415	415	485	470	430	430	430	430	470	470	490	490	580	580	605	605
Missing Values	19	0	9	0	6	0	2	0	1	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0

Notes: 1. Calculated on raw data, not grouped
2. A = Does not include cases with no notes B = Includes all cases

companies. In any event the point is still made, usage has increased if measured by word count.

The above tables and analysis has confirmed the basic hypothesis and initial research questions that usage has increased. It has demonstrated that not only are more notes being used in total but the individual companies are increasing their usage. What the remaining research questions in this section do is focus analysis on extent and rate of change.

Table 3 RQ₂ "To what extent and at what rate has the usage of Notes to Financial Statements increased?"

Tables 15A and 15B, Changes in Means of Measurements, and Tables 16A and 16B, Changes in Medians of Measurements, will be used as the basis for examining the extent and rate of change over the period, 1955 to 1975. These tables use 1955 as the base year (base = 100) and indexes the means and medians in the various years for the three measurements.

The first part of the research questions asks, "to what extent has usage changed. . . ?"

	<u>MEAN</u>		<u>MEDIAN</u>	
	<u>Table 15A</u>	<u>Table 15B</u>	<u>Table 16A</u>	<u>Table 16B</u>
change in number of notes (1955 to 1974)	2.3 times	3.42 times	4 times	4 times
change in % of pages (1955 to 1974)	2.45 times	3.65 times	4.71 times	11 times
change in number of words (1955 to 1974)	3.47 times	5.18 times	5.76 times	13.44 times

TABLE 15A

CHANGES IN MEANS OF MEASUREMENTS OF USAGE OF NOTES
TO FINANCIAL STATEMENTS (ONLY CASES WITH NOTES)
1955 to 1974 (1955 Base Year)

	\bar{X} No. Notes	1955 Base = 100	\bar{X} % Pages	1955 Base = 100	\bar{X} No. Words	1955 Base = 100
1955	3.486	100	.137	100	288	100
1960	3.961	115	.156	114	319	111
1965	5.259	153	.199	145	408	142
1966	5.534	161	.189	138	451	157
1967	6.051	176	.215	157	513	178
1968	6.586	192	.231	169	538	187
1969	6.517	190	.223	163	564	196
1970	6.817	198	.244	178	567	197
1971	7.517	219	.253	185	621	216
1972	7.450	217	.266	194	686	238
1973	7.550	220	.286	209	828	288
1974	7.900	230	.336	245	999	347

TABLE 15B

CHANGES IN MEANS OF MEASUREMENTS OF USAGE OF NOTES
TO FINANCIAL STATEMENTS (ALL CASES)
1955 to 1974 (1955 Base Year)

	\bar{X} No. Notes	1955 Base = 100	\bar{X} % Pages	1955 Base = 100	\bar{X} No. Words	1955 Base = 100
1955	2.310	100	.092	100	193	100
1960	3.367	146	.132	143	271	140
1965	4.733	205	.179	195	367	190
1966	5.350	232	.193	210	435	225
1967	5.950	258	.212	230	504	261
1968	6.367	276	.224	243	520	269
1969	6.517	282	.223	242	524	292
1970	6.817	295	.244	265	567	294
1971	7.517	325	.253	275	621	322
1972	7.450	323	.266	289	686	355
1973	7.550	327	.286	311	828	429
1974	7.900	342	.366	365	999	518

TABLE 16A

CHANGES IN MEDIANS OF MEASUREMENTS OF USAGE
OF NOTES TO FINANCIAL STATEMENTS (ONLY CASES WITH NOTES)
1955 to 1974 (1955 Base Year)

	Median No. Notes	1955 Base = 100	Median % Pages	1955 Base = 100	Median No. Words	1955 Base = 100
1955	2	100	.07	100	105	100
1960	3	150	.10	143	150	143
1965	5	250	.17	243	220	210
1966	5	250	.20	286	300	286
1967	6	300	.20	286	415	395
1968	6	300	.21	300	485	462
1969	6	300	.20	286	430	410
1970	6	300	.21	300	430	410
1971	7	350	.20	286	470	448
1972	7	350	.25	357	490	467
1973	7	350	.16	371	580	552
1974	8	400	.33	471	605	576

TABLE 16B

CHANGES IN MEDIANS OF MEASUREMENTS OF USAGE
OF NOTES TO FINANCIAL STATEMENTS (ALL CASES)
1955 to 1974 (1955 Base Year)

	Median No. Notes	1955 Base = 100	Median % Pages	1955 Base = 100	Median No. Words	1955 Base = 100
1955	2	100	.03	100	45	100
1960	3	150	.07	233	120	267
1965	4	200	.13	433	185	411
1966	5	250	.17	567	255	567
1967	6	300	.20	667	415	922
1968	6	300	.20	667	470	1044
1969	6	300	.20	667	430	956
1970	6	300	.21	700	430	956
1971	7	350	.20	667	470	1044
1972	7	350	.25	833	490	1089
1973	7	350	.26	867	580	1289
1974	8	400	.33	1100	605	1344

As the above indicates, the number of notes has increased 2.3 (3.42) times and 4 (4) times, % of pages increased 2.45 (3.65) times and 4.71 (11) times and the number of words 3.47 (5.18) times and 5.77 (13.44) times for the means and medians respectively. The smaller change occurred in the number of notes in both cases. The percentage of pages of notes was next largest. This measure is on the conservative side since, as later analysis will indicate, the print size of notes was smaller than the statement's print size in 45% of cases and larger only in 1% of the cases. Although space utilized is not a measure of information content, it does give an initial measurement of relative use. Therefore in relation to the total of notes and statements, had print size been equal, the extent of usage would have been more dominant. Therefore this measure indicates a dramatic increase in usage of this format to disclose data versus the statements themselves. The last measure, number of words, also indicates a dramatic increase in the extent of change, 3.47 (5.18) times for the mean and 5.76 (13.44) times for the median.

The second part of the question looks at the rate of change. Tables 17A and 17B are graphs which plot the means and median of the measurements over the 20 year period. As the graphs indicate, the changes have not been stable. From 1955 to 1968 all changes are positive with one exception, in Table 17A, the change in the mean percent of pages in 1966 was negative. From 1968 to 1972 there was a general slowing down of growth and in fact 6 of a possible 24 changes were negative and in 4 there was no change when using only those cases where there were notes. In the situation where all the cases were used, there were 4 negative changes and 5 no changes during the same period. From 1972 to 1974,

TABLE 17A
GRAPH OF CHANGES OF
MEANS AND MEDIANS OF USAGE
MEASUREMENTS (only cases with notes)
1955 TO 1974

$N\bar{x}$ = MEAN NO. OF NOTES
 NM = MEDIAN NO. OF NOTES
 $P\bar{x}$ = MEAN PERCENT OF PAGES OF NOTES
 PM = MEDIAN PERCENT OF PAGES OF NOTES
 $W\bar{x}$ = MEAN NO. OF WORDS
 WM = MEDIAN NO. OF WORDS

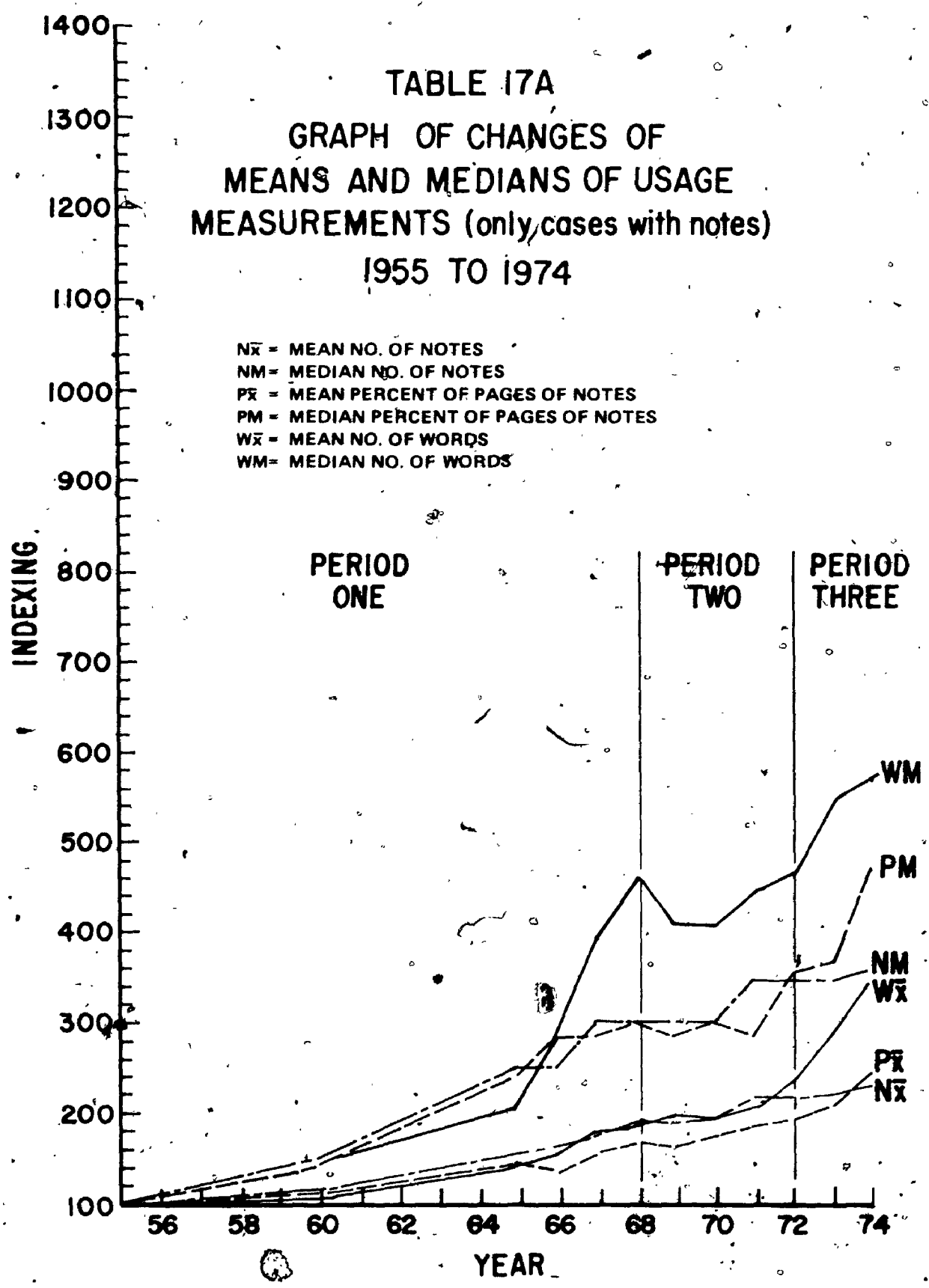
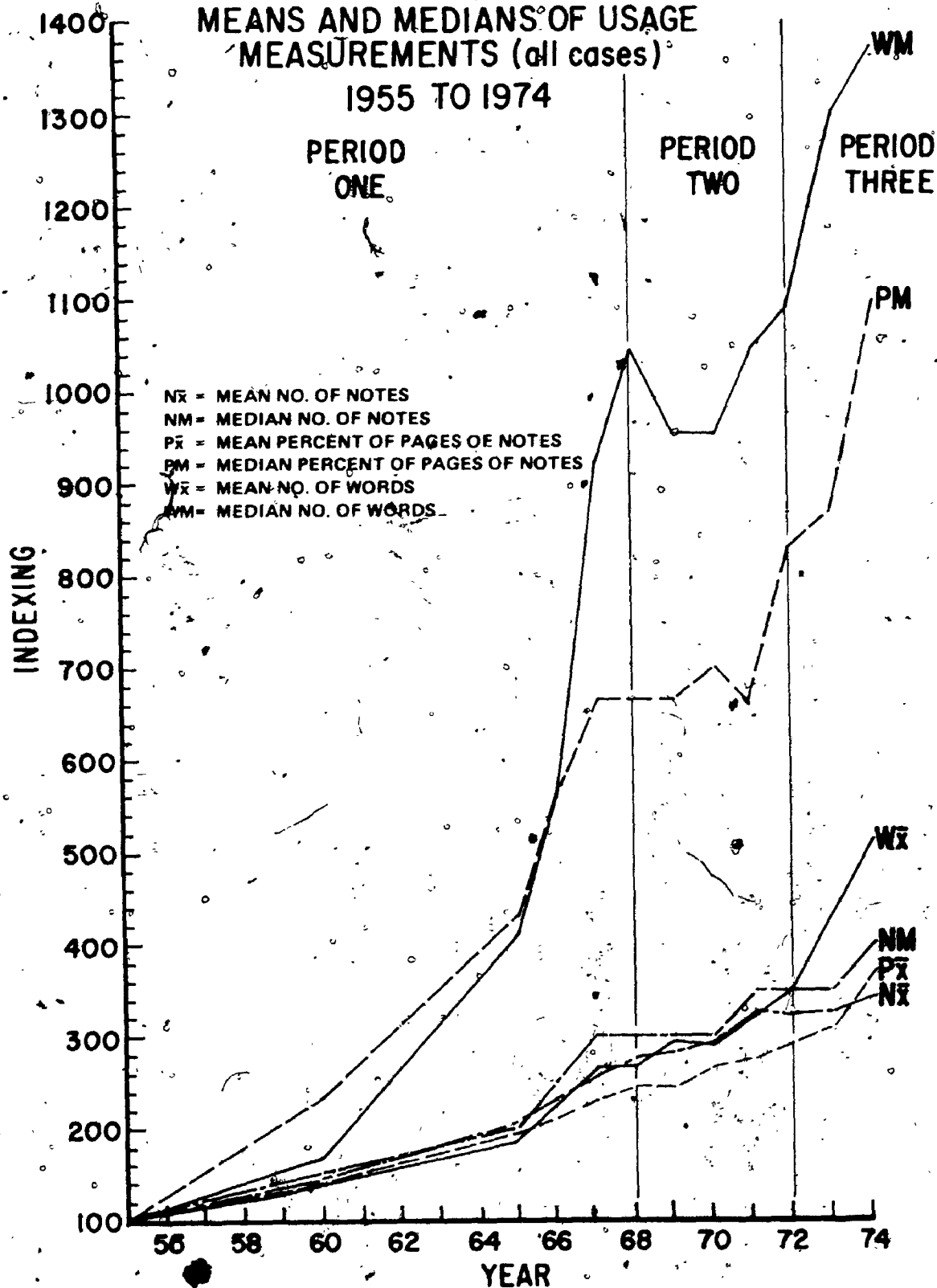


TABLE 17B
 GRAPH OF CHANGES OF
 MEANS AND MEDIANS OF USAGE
 MEASUREMENTS (all cases)
 1955 TO 1974



there were no negative changes and only 2 no change situations. Therefore the increased usage over the period examined had three periods, 1955 to 1968 - positive changes, 1968 to 1972 - leveling and negative change, and from 1972 to 1974 - positive changes. Therefore in reply to the second part of the question, the rates and direction in changes of usage have varied with a slow growth period from 1968 to 1972. At this moment I have no final explanation for the different periods of growth; it might be an interesting future research project.

5.3.3 Specific Uses of Notes to Financial Statements

The next research questions to be answered are:

Table 3 RQ₃ "What are the uses of Notes?"

RQ₄ "What have been the trends in particular uses?"

Questions 6 and 13 of Statement Analysis Form Two were used to respond to these questions. Question 6 determined the topic of the notes examined and Question 13 determined the accounts and statements to which notes, when directly referenced, were attributed to.

Appendix "D" contains a description of the development of the classification scheme used to analyze the content of the notes. The appendix also contains the original Tables resulting from the utilization of the classification scheme.

As a means of facilitating discussion of usage, Tables 54 and 55 were summarized into Tables 18 and 19. These tables highlight certain parts of the more complete schedules for discussion purposes. The first two numerical columns list the total frequency and percent of

SUMMARY OF USAGE OF NOTES TO FINANCIAL STATEMENTS BY TOPIC
1955 to 1974

TOPIC NAME	TOTAL % Use in Particular Year When Greater Than Total % Use											
	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
10 Capital Stock	423	9.8	14.9	13.9	10.2	11.5	10.4					
16 Director's Remuneration	406	9.4				9.5		9.5	10.8	11.1	11.4	11.0
9 Long Term Debt	390	9.1	9.7	11.9	10.2	10.9	9.2	10.2				
19 Basis Acctg. for Taxes	358	8.3		9.9	10.9	10.0	9.5	8.4	8.7	8.6		
4 Investment - Other	338	7.9						8.7	9.5		9.4	8.6
25 Basis Consol. + Curr. Trans	310	7.2	7.4			7.6	7.3	8.2	7.8	8.4	8.3	8.2
5 Fixed Assets - Details, Valuat.	223	5.2				5.5				5.5	5.6	6.2
22 Commitments - F/A, Leases Other	221	5.1	9.0	8.4	6.3		5.4					
23 Commitments - Pension Plans	185	4.3				4.8	5.5	5.1	4.6	4.7	4.5	5.1
3 Invest. Subsidiaries	144	3.3	8.2	5.0	5.6	5.3						
6 Depr'n & Deplet.	143	3.3	4.5	4.9	3.4	3.9	4.2	4.1	4.2	4.0	3.4	3.8
30 Miscellaneous	141	3.3	4.5	4.6		3.9					3.4	4.2
7 Others Assets	135	3.1			3.7							4.9
28 Signif. Acctg. Policies	116	2.7										4.6
24 Contingent Liab.	101	2.3	3.0	3.5				2.9	2.6	2.4	2.4	2.5
2 Inventories	100	2.3						2.4	2.4	2.7	2.7	2.4
26 Changes, Acctg. Practices	86	2.0	3.0		2.1			2.8		2.7	2.2	
27 Subsequent Events	66	1.5	2.2		2.5	2.0	2.1					2.0
13 Minority Interest	61	1.4	1.5		1.6							2.0
15 Operating Expenses	60	1.4	1.5						1.5	1.8	1.8	1.9
11 Retained Earnings	45	1.0	2.0	1.8	1.2	1.1	1.3	1.3				
8 Current Liab.	44	1.0	1.5	1.4	1.6	1.1			1.1			1.1
14 Operating Revenues	42	1.0	1.5	1.5	1.4	1.6	1.1		1.1	1.1		
17 Other Income	36	0.8							1.3			
12 Other S/E Items	31	0.7	2.2	2.5		0.8	1.0	0.8				
20 E.P.S.	29	0.7							1.5	1.3	0.9	1.3
21 Other P/L Items	27	0.6	3.0	1.5						0.7	0.9	0.8
1 Accounts Receivable	23	0.5	0.7		0.7	0.9	0.6	0.8				
18 Extraordinary Items	21	0.5								0.7	0.9	1.3
Total	4305	100%										

TABLE 19

SUMMARY OF USAGE OF NOTES TO FINANCIAL STATEMENTS BY ACCOUNT REFERENCING
1955 to 1974

ACCOUNT/STATEMENT	Percentage Referencing in Particular Year When											% Use	
	TOTAL	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972		1973
	Num	%											
23 Capital Stock	B/S 391	9.0	12.6	11.7	10.6	11.0	9.8	9.4					
19 Long Term Debt	B/S 365	8.4		9.7	8.7	11.7		9.3	9.6				
10 Investment Other	B/S 357	8.2							9.6				
11 Fixed Assets	B/S 295	6.8					7.3	7.3		10.2	9.1	8.9	
40 Taxes	I/S 223	5.1								7.3	7.0	7.3	7.1
18 Current Liabs	B/S 196	4.5	5.0				5.4	4.6	5.5	6.0	4.7	4.6	
50 Retained Earnings	R/E 190	4.4	10.1	7.3	4.9		5.6	5.1	5.0				4.5
20 Acc. Tax Allocation	B/S 176	4.0											
32 Operating Expenditures	I/S 175	4.0	4.2				4.8	4.3	4.3				4.7
9 Invest. Subs	B/S 153	3.5	7.6	3.9	4.9	5.7	4.5	3.8	4.5				4.5
38 Other Revenue	I/S 139	3.2											
27 Note B/S	B/S 136	3.1											5.0
70 Statements Other	S/O 134	3.0	5.0	5.3	3.4	3.5	3.7	3.3	3.3	3.4	3.8	3.5	3.3
17 Other Non-C/A	B/S 121	2.8											4.4
6 Inventories	B/S 109	2.5								3.0	3.8	4.6	3.7
33 Depr'n Exp.	I/S 95	2.2					2.6						3.1
14 Def'n Chgs.	B/S 77	1.8	2.4	3.0		2.5				3.7	2.9		4.3
61 Source & Applic/Sourc	S/A 76	1.7			1.9					2.3	2.0		2.0
24 Retained Earnings	B/S 75	1.7					2.6			3.7	3.1	3.3	
41 Final Figure	I/S 75	1.7								2.4	1.8		
26 Other Liabs.	B/S 69	1.6					2.3			2.2	2.0	3.1	
39 Extraordinary Items	I/S 64	1.5	1.6				1.8			1.7	2.0	1.7	
25 Other S/E Items	B/S 62	1.4	6.7	4.4	1.5	2.0				2.0	2.7	3.3	
31 Operating Revenue	I/S 58	1.3											
7 Other Current Assets	B/S 51	1.2	1.9	2.3	2.8	2.3				1.5	1.5	1.5	1.4
5 Temporary Invest.	B/S 45	1.0	1.9	1.5	1.6	1.1							1.2

total frequency of usage of notes by topics and accounts to which notes are referenced. They are listed in rank order. The totals are the sum of all observations over the twelve periods. The next twelve columns are a means of examining relative frequency and changes over time of relative frequency. The numbers are relative percentage usage of a topic or account reference where it is greater than its overall percentage use. It is an indication of relative dominance of use in a particular year. For example, in Table 18, Capital Stock was the most frequent topic over the twelve year period and was used 423 times which represents 9.3% of the total notes (4305). In 1955, this topic represented 14.9% of the notes in that year, ($\frac{20}{134} = 14.9\%$). Therefore this topic was relatively more dominant in 1955 than over the 12 periods. In fact, continuing along the row, it was also more dominant in 1960 (13.9%), 1965 (10.2%), 1966 (11.5%) and 1967 (10.4%) than over the twelve periods. This was not the case from 1968 to 1974 inclusive. This permits the identification of those periods where a note topic, or note reference was relatively dominant. It should be pointed out that decline in relative dominance does not necessarily mean that the absolute dominance does not exist. For example, in Table 54 in Appendix "D", Topic - capital stock in 1968, percentage is 9.7 (total percentage = 9.8). In absolute terms, however, the topic was observed 37 times in 1968, which is greater than any other topic in 1968. What has happened is the usage of other notes has increased more relative to notes dealing with capital stock. It is this very change which is of interest if trends and change are to be examined.

The first question to be examined is, "what are the uses of notes?" In both Tables the total uses, as indicated by topics and referencing, are ranked in the first two columns. In both cases capital stock is the most popular subject, representing 9.8% of the total in Table 18 and 9.0% in Table 19. Prior to recoding the topic, capital stock consisted of 7 sub-categories; they indicated that this topic was used to give details re: classes, authorized, and changes in both capital stock authorized and issued (107), details re: premiums, redemptions, etc. (51). The numbers in the brackets are frequencies. This indicates the importance of notes to disclose changes that occur in this account from one period to another period. The second main use being to provide details.

The second ranked topic is Directors' Remuneration, 406 times and 9.4% of the total usage. This topic is rarely directly referenced as Table 19 indicates, 5 times representing 0.1% of the total. There are occasions where it was referenced less directly, for example to operating expenditures, but on the whole the actual amount of the expenditure was too small to justify a separate account in the income statements. The disclosure by way of a note is to satisfy statutory disclosure requirements.

The third rank topic in Table 18 is Long Term Debt, 390 times representing 9.1% of the total. This usage is ranked second in Table 18, 365, 8.4% of the total. For the most part, this note was used to provide details not included in the body of the statement, 187 times, and 78 times, details plus more extensive description of the account. The balance of the time it was used to describe the type of

debt (description) and provide information about covenants or assets pledged, 125 times.

The fourth ranked topic, representing 8.3% of all topics, and used 358 times, was the basis of accounting for taxes. The counterpart to this topic in Table 19 was taxes in the Income Statement - 223, 5.1%, and the Accumulated Tax Allocation (Deferred Taxes) account in the Balance Sheet - 176, 4.0%. These ranked 5th and 8th respectively, together however they would have ranked first. The main use of this note was to either provide information as to the amount of deferred taxes, where the flow through method was used, or just to give further data or explanations with regard to the company policy of utilizing or not utilizing the deferred tax method.

The fifth rank topic was Investment - other, used 338 times, 7.9% of the total notes examined. There were 357 references to this account on the Balance Sheet (4.5%). The major use of this note was to provide details, and information about valuation, ie: current market value.

The sixth topic dealt with Consolidation Policy and method of Foreign Currency Translation (310 times, 7.2%). This account was rarely directly referenced since it doesn't apply (normally) to a single account. Where it was referenced, it would normally be to Investments in Subsidiaries or general references to the statements themselves.

The next topic in Table 18 was Fixed Assets which is ranked seventh, with 223 observations and 5.2% of the total notes. The Fixed Asset account was referenced 295 times (6.8%) and ranked 4th. Other related accounts to which this account or topic would be related

would be the depreciation accounts in both the balance sheet and the income statement. This note provided details, information concerning acquisition or valuation and sometimes disclosed situations of appraisals.

Eighth and ninth topics were Commitments - fixed assets, leases, etc., 221, 5.1% and Commitments - Pension Plans 185, 4.3%, respectively. The main counterpart in Table 19 to these two items was Note - Balance Sheet, 137 references, 3.1% of total. This was not an actual account but an appendage to the Balance Sheet which disclosed the existence of commitments, sometimes referred to as "off Balance Sheet" items. Lease payments would sometimes be referred to Income Statement expenditure accounts and Fixed Asset commitment to acquire or construct were occasionally referenced to the Fixed Asset accounts on the Balance Sheet. Pension funding payments likewise were sometimes referenced to expenditure accounts.

The tenth rank topic in Table 18 was Investment in Subsidiaries, 144 times, 3.3%. In Table 19, this account also ranked 10th (153, 3.5%). The major use of the note was to give reasons for non-consolidation and financial data concerned with the parent's share of current income or loss of the subsidiary and the change in equity since acquisition.

Three other accounts in the top ten in reference, not already mentioned, were Current Liabilities, 196, 4.5%; the Retained Earnings Statement, 190, 4.4% and Operating Expenditures, 175, 4.0%. They ranked 6th, 7th and 9th respectively. These are, by nature, composed of many individual items and therefore would not generally relate to

individual topics. Their three counter part topics - Operating Expenses (60, 1.4), Retained Earnings (45, 1.0) and Current Liabilities (44, 1.0) ranked 21st, 22nd and 23rd respectively in Table 18.

The top ten topics in Table 18 represent 69.6% of the total usage. The top ten accounts referenced equals 57.9% of its total. Twelve of the twenty are directly concerned with Balance Sheet items with another two indirectly. There were also two "off Balance Sheet" items. Therefore these two top ten classifications of usage are most concerned with Balance Sheet items and must less frequently with Income Statement and Retained Earnings accounts. The remaining topics and referenced accounts represent smaller percentages and can be read directly from the Tables.

5.3.4 Trends in Specific Uses of Notes to Financial Statements

The above descriptions relate to the entire twenty year time period. Usage in particular periods will be examined in the next few paragraphs which will examine trends in usage by utilizing the information in the next 12 columns. As was mentioned in Section 5.3.3, trends in usage will be examined by looking at relative dominance in those periods in which usage of a particular kind was relatively more frequent.

The twelve periods will be divided in two segments for discussion; they will be 1955 to 1968 inclusive and 1969 to 1974 inclusive. For discussion purposes, relative dominance in a segment will be those situations where note topics or account referencing was relatively dominant in at least 4 of the six periods. Relatively dominant, having

previously been defined as "where percentage use in a particular year was greater than total percentage use." It is indicated in Tables 18 and 19 by the insertion of the "greater percentage use".

Tables 20 and 21 indicate the following situation of segment dominance.

TABLE 20

SEGMENT DOMINANCE - 1955 to 1968.

<u>TOPIC - CLASSIFICATION</u>	<u>REFERENCING - CLASSIFICATION</u>
Capital Stock	Capital Stock B/S
Long Term Debt	Taxes I/S
Basis of Acctg. For Taxes	Acc. Tax Allocation B/S
Investment in Subsidiaries	Investment in Subsidiaries B/S
Depr'n & Depletion	Statement - Pther S/O
Subsequent Events	Other S/E items B/S
Retained Earnings	Operating Revenue I/S
Current Liabilities	Temporary Investments B/S
Operating Revenues	Income Statement I/S
Other Shareholders' Equity Items	Acc. Depr'n B/S
Accounts Receivable	Interest Expenditures I/S
	Acc. Amortization B/S
	Directors' Remuneration I/S

There is considerable consistency between the above two lists in Table 20. The major deviant is Long Term Debt, which was dominant in Table 19 for three periods and therefore just missed being included.

TABLE 21

SEGMENT DOMINANCE - 1969 to 1974

<u>TOPIC - CLASSIFICATION</u>	<u>REFERENCING - CLASSIFICATION</u>
Directors' remuneration	Investment - Other B/S
Investments - Other	Fixed Assets B/S
Basis of Consolidation	Current Liability B/S
Fixed Assets	Note to Balance Sheet B/S
Commitments - Pension Plans	Other - Non Current Assets B/S
Contingent Liabilities	Depr'n Expenditure I/S
Inventories	Deferred Charges B/S
Operating Expenses	Retained Earnings B/S
E.P.S.	Final Figure I/S
	Other Liabilities B/S
	Extra Ordinary Items I/S
	E.P.S. I/S
	Other Expenditures I/S
	Source & Application of Funds S/A
	Pension Expenditures I/A
	Current Assets B/S

Again there is consistency in the 1969 - 1974 period, (Table 21), between the two classification systems. The major deviant in this period being, Directors' remuneration. As mentioned earlier, Directors' remuneration rarely rates direct referencing since the dollar amount is not sufficiently large to be set out separately in an Income Statement. Therefore this difference between the two lists is understandable.

By examining the 1973, 1974 columns, more recent changes can be identified. In situations where the difference between the total percentage and the particular year percentage is large, it might indicate a disclosure change. For example, in Table 18, the topic, "Significant Accounting Policies", total percentage is 2.7. In 1974, the percentage is 9.1; the difference of 6.4 is relatively large. In 1974, as a result of the Canadian Institute of Chartered Accountants' research recommendation, it became necessary for companies to provide, by way of a note, information about the significant accounting policies. This disclosure requirement change resulted in the increased use of this note in 1974. Since there was increased usage in 1973, it is apparent that some companies began to follow this recommendation prior to the date it became a requirement. It is also interesting to note in this case that 21 companies out of 60 included this disclosure in 1973, and 43 in 1974 (Table 54, Appendix "D"). Therefore not all companies followed the recommendation, at least by way of a specific note identifying significant accounting policies.

In conclusion to this section I will briefly review the process and results of the means to identify the specific usage of Notes to Financial Statements. This first problem was the need to develop a classification scheme (described in Appendix "D"). It was found that there was no usable scheme available. Therefore the scheme used was a direct identification of usage without any prior normative assumptions built into the scheme. Secondly, two means of identifying usage were utilized. The first utilized a topic classification, the second used the referencing of notes. The referencing of notes is a

direct indication on the part of the disclosing company of the purpose for the note. Tables 54 and 55 in Appendix "D" display these two means of identifying usage over the time period examined. Tables 18 and 19 were used to summarize usage and identify trends in usage. The two schemes demonstrated considerable consistency with differences being explainable. Therefore, the objective of answering the research questions identified in the first paragraph of this segment has been accomplished; namely, "what are the uses of notes?" and "what are the trends in usage?". The next segment will answer the more general research questions about the usage of notes.

5.3.5 The Usage of Notes to Financial Statements in General

The previous segment described specific uses of notes; this segment will respond to the research questions addressing general usage. The first question to be answered is from Table 3, RQ5, "To what extent are notes a format change (ie: information previously in the body of the statements transferred to note format)?" This will be answered in conjunction with RQ6 from the same table, "To what extent are Notes providing additional or new information, not previously disclosed?"

These research questions will be answered by examining questions 8 and 9 of Statement Analysis Form Two. Question 8 determined whether a note was new or old. To qualify as a new note, it would have not been used in the previous statement examined. As a result, as was discussed in Chapter Three, a note could conceivably qualify as a new note more than once. This would occur by appearing,

disappearing and appearing again over a period of three or more years. This however rarely happened.

The purpose of Question 9 was to determine whether the note, new or old, contained new or old information or in some cases, both new and old information. By new information was meant information not previously disclosed in some manner in the Financial Statements. For example, if details about Long Term Debt were merely transferred from the body of the statement to a note, this would be classed as 'old' information. If information concerning various covenants, not previously disclosed, was disclosed in a note, this would be classed as 'new' information. If previously disclosed details and new information concerning covenants appeared in the same note, this would be classed as 'both'. Therefore these two questions first identified new or old notes and then determined if the information within the note was new, old or new and old.

Table 22 is the contingency table for Questions 8 and 9. The variable name for Question 8 is NEWOLD and for question 9, NOINFO. The table indicates that there were 1224 new notes, 3050 old and 31 cases where I was unable to determine whether a note was either new or old. With regards to information within notes, 986 notes contained new information, 3080 old information, 208 both old and new and again there were 31 situations where I was unable to determine which situation prevailed. The 31 not known situation occurred because I was unable to locate prior period statements of some companies - 24 in 1955 and 7 in 1960.

TABLE 22

CONTINGENCY TABLE

SA 2 - Questions 8 & 9

		NOINFO								
COUNT		I								
ROW PCT		I								
COL PCT		I								
TOT PCT		I								
NEWOLD		I	NEW	I	OLD	I	BOTH	I	NOT KNOWN	ROW TOTAL
		I		I		I		I		
		I	954	I	155	I	115	I	0	1224
		I	77.9	I	12.7	I	9.4	I	0.0	28.4
	NEW	I	96.8	I	5.0	I	55.3	I	0.0	
		I	22.2	I	3.6	I	2.7	I	0.0	
		I		I		I		I		
		I	32	I	2925	I	93	I	0	3050
		I	1.0	I	95.9	I	3.0	I	0.0	70.8
	OLD	I	3.2	I	95.0	I	44.7	I	0.0	
		I	.7	I	67.9	I	2.2	I	0.0	
		I		I		I		I		
		I	0	I	0	I	0	I	31	31
		I	0.0	I	0.0	I	0.0	I	100.0	.7
	NOT KNOWN	I	0.0	I	0.0	I	0.0	I	100.0	
		I	0.0	I	0.0	I	0.0	I	.7	
		I		I		I		I		
	COLUMN TOTAL		986		3080		208		31	4305
			22.9		71.5		4.8		.7	100.0

RAW CHI SQUARE = 7478.48754 WITH 6 DEGREES OF FREEDOM.

SIGNIFICANCE = 0.0000

CONTINGENCY COEFFICIENT = .79665

The table indicates that the reply to RQ5 is that new notes are not merely a format change but that new notes provide new information in most cases. The top row of the table demonstrates that 954 of the 1224 new notes provided new information and 115 provided both new and old information. Therefore 87.3% of new notes were not merely a format change, but also provided new information. The Chi-Square, 7478.49, and its significance of 0.00 indicate that these variables are not independent and the contingency coefficient of .80 indicates a strong association between new notes and new information.

With regards to RQ6, Table 22 indicates that 986 notes provided new information and 208, both old and new. Therefore the extent to which notes are providing additional information is 1194 out of 4305 notes or 27.7% of the times. Therefore in conclusion to this segment, notes appear to be a vehicle for providing new disclosure and not merely a change in format. They also are providing a considerable degree of new information not previously disclosed.

The next research question arose because, in his thesis, W. Chapin reported the following finding. "In general the larger national accounting firms appear to be associated with those companies exhibiting fewer footnotes." (Chapin 1965 p231) He did not demonstrate this statistically and he examined only one reporting period. 'National' firms were classified as larger and 'regional' firms were classified as smaller. He did not suggest a reason for this association. I was unable to explain this finding and therefore would expect no association.

As a result of the above, I tested this finding more rigorously. My research question addressing this issue is the first part of RQ2 from Table 7, "Is there a relationship between auditor and usage of Notes and Supplementary Financial Data Schedules?". By usage I will mean quantity, (using my three measurements). The audit firm dichotomy, large (National) and small (Regional), used by Chapin will also be used by me.

The Chi-square statistic was used to test if an association existed, as was reported by Chapin. I will also control for the size of the company; the reason is that later segments of this paper indicate a relationship between the quantity of notes and the size of the firm. I therefore dichotomized the companies into large/small categories, using asset size as a measure of size. Inasmuch as there is no theoretical justification for hypothesizing a relationship in either direction, I will not establish a prior level of significance. The exact significance will be reported. An arbitrary level of significance of .01 however will be used for discussion purposes. Therefore for discussion purposes these relationships will be considered statistically independent if $\alpha \geq .01$. Table 23 lists the statistics that result.

The coding of question 35, name of auditor, in SA1, detailed in Appendix "C", was recoded into two groups; 'National', 1 thru 9, 12 thru 15, 24, 25, 45 thru 48 and 'Regional' 10, 11, 16 thru 23, 26 thru 44, 49, 50. Auditors changed over time; as a result the companies did not have the same auditor over time.

TABLE 23
 STATISTICS RE: RELATIONSHIP OF AUDIT FIRM SIZE
 TO QUANTITY OF NOTES.

	CHI SQUARE	DEGREES OF FREEDOM	LEVEL OF SIGNIFICANCE	CONTINGENCY COEFFICIENT
<u>SMALLER FIRMS (358*)</u>				
Quantity of Notes**	12.89	13	.4564	.1864
Percentage Notes**	20.68	10	.0235	.2337
Number of words**	27.96	20	.1103	.2692
<u>LARGER FIRMS (360*)</u>				
Quantity of Notes**	16.37	20	.6936	.2085
Percentage Notes**	15.16	10	.1264	.2010
Number of words**	27.54	20	.1207	.2666

* Firms were divided at MEDIAN ASSET SIZE

** Classification and coding used was the same as described in section examining H₁

The median asset size of the companies was the point of division; it was 10.833 (millions of dollars). Firms did not stay the same size over time, as a result the same firms would be in both categories at different points in time. Table 23 illustrates frequencies resulting from the reclassifications, 'National' or 'Regional' auditors and 'smaller' or 'larger' companies.

TABLE 24

FREQUENCIES OF 'NATIONAL' AND 'REGIONAL' AUDITORS
AND 'SMALLER' AND 'LARGER' COMPANIES

	AUDIT FIRMS		
	National	Regional	Total
Smaller Companies	284	74	358
Larger Companies	336	24	360
Total:	620	98	718

Table 24 indicates that there were 358 smaller companies and 360 larger companies. Over the twelve periods 620 of the companies were audited by National C.A. firms, and 98 by Regional C.A. firms. Table 23, referred earlier to, reflects these classifications.

Table 23 indicates, at the .01 level of significance, Chapin's contention that smaller auditor firms are associated with companies with larger quantities of notes does not hold. In the situation of the smaller companies, the relationship between auditor and percentage of notes results in a relatively low α of .0235. If however, a larger

level of significance had been chosen, i.e.: .05, the strength of the association, as measured by the Contingency Coefficient, is low, .2337.

(Perfectly correlated variables approach 1.)

Chapin suggested the association of smaller audit firms (regional) and larger quantities of notes after examining only one measure, quantity of notes. The above table not only fails to confirm the association, it also shows that using other measures does not change the finding. I believe that one of the following occurred, 1) Chapin's findings occurred by chance, 2) there was something wrong with his sample or 3) the difference in the quantity of notes was not significant. He did not test the difference statistically or measure the strength of his suggested association.

As part of the descriptive process, I examined the possibility of a relationship between the amount of notes and whether the reporting firm reported a profit or a loss. A cynical expectation might be that companies in a loss position might have more to explain. Further, if one accepts the negative attitude about notes, perhaps these firms might prefer to use the notes as a less-obvious vehicle of disclosure.

Of the 718 annual reports, 30 firms did not include a statement to indicate whether the firm was profitable or not. The main source of non-statement situations were resource companies in the development stage. Of the remaining 688 firms, 34 did not have any notes leaving 654 annual reports with notes. A vast majority reported profits, 89.3% or 584, with 10.7% or 70 reporting losses.

The specific research question to be answered is, Table 7, RQ3, "Is there a relationship between a company's profitability or lack

of it to the extent of usage of notes?". Table 25 reports the Chi-squares and related levels of significance resulting from examination of the relationship between a company reporting a profit or loss and, the extent of usage of notes.

TABLE 25

STATISTICS: RE: RELATIONSHIP OF COMPANY REPORTING
A PROFIT OR LOSS AND THE EXTENT OF NOTES

<u>MEASURES OF USAGE</u>	<u>CHI-SQUARE</u>	<u>DEGREES OF FREEDOM</u>	<u>LEVEL OF SIGNIFICANCE</u>
Quantity of Notes	10.58	19	.9371
Percentage of Notes	11.25	9	.2592
Number of words	25.34	19	.1497

Table 7 utilizes the three measurements taken. The χ^2 and related high levels of significance indicate that the variables profit/loss and quantity of notes, percentage of notes, and number of words are statistically independent. The one unusual finding not disclosed in the table is that the 34 annual reports without any notes all reported profits. The only explanation available from the data is that a large majority of companies' statements reporting losses occurred in the later years, (80%), whereas the no note situations all occurred in earlier years, 19 in 1955, 9 in 1960, and 6 in 1965.

The format of notes will be examined under the following headings, a) Print size, b) Location, c) General Referencing,

d) Referencing to particular statements, and e) Auditor references to notes.

Print size: Question 21 of SA1 determined if the print size of the notes was less, equal or bigger than in the financial statements themselves. Table 26 displays the results of this question. In only five cases were the notes bigger, representing .7% of total notes. Over the 20 year period, in 303 cases the notes used smaller print size and 371 cases, the same print size. Smaller print size cases remains relatively constant over the twenty year period. Stabilization of the larger print size cases occurs after 1965. Therefore a slight majority of companies use equal print size but there is no strong trend indicating that a change in the 60%/40% split (equal/smaller) is underway. The continued use of small print might act as a disincentive to using the data in notes.

Location: Question 23 of SA1 determined if notes were located before, after the financial statements, or somewhere in between. The answer to this question is summarized in Table 27. The smallest number, 6, .8%, was located before the financial statements. The largest number, 485, 67.5%, were located after. Over time this format increased. There were 188, 26.2%, located somewhere in between. The table indicates a decrease in this format over time. The recent requirement to disclose significant accounting policies might affect the location of notes. It was found that some companies placed this note before the statements and the other notes after. This trend, if it occurs, might therefore tend to increase the other classification in the future.

TABLE 26

PRINT SIZE OF NOTES RELATIVE
TO BODY OF STATEMENTS
1955 to 1974

Date	PRINT SIZE								
	COUNT	ROW PCT	COL PCT	TOT PCT	SMALLER	SAME	BIGGER	NO NOTES	ROW TOTAL
					0.00	1.00	2.00	3.00	
55.00	1	27	46.6	8.9	3.8	11	19	32.8	58
60.00	1	28	46.7	9.2	3.9	22	15	23.1	60
65.00	1	38	46.7	9.2	3.9	26	10	15.4	60
66.00	1	26	43.3	8.6	3.6	32	3	5.1	60
67.00	1	27	45.0	8.9	3.8	32	1	1.7	60
68.00	1	26	43.3	8.6	3.6	32	3	5.1	60
69.00	1	20	33.3	6.6	2.8	39	0	0.0	60
70.00	1	22	36.7	7.3	3.1	37	0	0.0	60
71.00	1	25	41.7	8.3	3.5	34	0	0.0	60
72.00	1	25	41.7	8.3	3.5	35	0	0.0	60
73.00	1	25	41.7	8.3	3.5	35	0	0.0	60
74.00	1	24	40.0	7.9	3.3	36	0	0.0	60
COLUMN TOTAL					303	371	5	39	718
					42.2	61.7	.7	5.4	100.0

TABLE 27
LOCATION OF NOTES
1955 to 1974

Date	NOTE LOCATION								ROW TOTAL	
	COUNT	I	BEFORE		AFTER	OTHER	NO NOTES			
	ROW PCT	I								
	COL PCT	I								
TOT PGT	I	0.00	I	1.00	I	2.00	I	3.00	I	
55.00	I	0	I	18	I	21	I	19	I	-58
	I	0.0	I	31.0	I	36.2	I	32.8	I	8.1
	I	0.0	I	3.7	I	11.2	I	48.7	I	
	I	0.0	I	2.5	I	2.9	I	2.6	I	
60.00	I	0	I	24	I	27	I	9	I	60
	I	0.0	I	40.0	I	45.0	I	15.0	I	8.4
	I	0.0	I	4.9	I	14.4	I	23.1	I	
	I	0.0	I	3.3	I	3.8	I	1.3	I	
65.00	I	1	I	33	I	20	I	6	I	60
	I	1.7	I	55.0	I	33.3	I	10.0	I	8.4
	I	16.7	I	6.8	I	10.6	I	15.4	I	
	I	.1	I	4.6	I	2.8	I	.8	I	
66.00	I	1	I	39	I	18	I	2	I	60
	I	1.7	I	65.0	I	30.0	I	3.3	I	8.4
	I	16.7	I	8.0	I	9.6	I	5.1	I	
	I	.1	I	5.4	I	2.5	I	.3	I	
67.00	I	1	I	40	I	18	I	1	I	60
	I	1.7	I	66.7	I	30.0	I	1.7	I	8.4
	I	16.7	I	8.2	I	9.6	I	2.6	I	
	I	.1	I	5.6	I	2.5	I	.1	I	
68.00	I	1	I	40	I	17	I	2	I	60
	I	1.7	I	66.7	I	28.3	I	3.3	I	8.4
	I	16.7	I	8.2	I	9.0	I	5.1	I	
	I	.1	I	5.6	I	2.4	I	.3	I	
69.00	I	0	I	45	I	15	I	0	I	60
	I	0.0	I	75.0	I	25.0	I	0.0	I	8.4
	I	0.0	I	9.3	I	8.0	I	0.0	I	
	I	0.0	I	6.3	I	2.1	I	0.0	I	
70.00	I	0	I	47	I	13	I	0	I	60
	I	0.0	I	78.3	I	21.7	I	0.0	I	8.4
	I	0.0	I	9.7	I	6.9	I	0.0	I	
	I	0.0	I	6.5	I	1.8	I	0.0	I	
71.00	I	0	I	50	I	10	I	0	I	60
	I	0.0	I	83.3	I	16.7	I	0.0	I	8.4
	I	0.0	I	10.3	I	5.3	I	0.0	I	
	I	0.0	I	7.0	I	1.4	I	0.0	I	
72.00	I	1	I	50	I	9	I	0	I	60
	I	1.7	I	83.3	I	15.0	I	0.0	I	8.4
	I	16.7	I	10.3	I	4.8	I	0.0	I	
	I	.1	I	7.0	I	1.3	I	0.0	I	
73.00	I	1	I	50	I	9	I	0	I	60
	I	1.7	I	83.3	I	15.0	I	0.0	I	8.4
	I	16.7	I	10.3	I	4.8	I	0.0	I	
	I	.1	I	7.0	I	1.3	I	0.0	I	
74.00	I	0	I	49	I	11	I	0	I	60
	I	0.0	I	81.7	I	18.3	I	0.0	I	8.4
	I	0.0	I	10.1	I	5.9	I	0.0	I	
	I	0.0	I	6.8	I	1.5	I	0.0	I	
COLUMN TOTAL		6		485		188		39		718
		.8		67.5		26.2		5.4		100.0

Referencing: The presence of notes and their importance to the company's financial disclosures are sometimes disclosed by a general notice on the face of the Financial Statements. A common form of this notice is, "The Accompanying Notes are an Integral Part of the Financial Statements."; sometimes location of the notes is indicated. Table 28 displays the replies to question 24 of SA1. Overall there are more cases without a general notice, 441, 61.4%. There were 338, 33.1% of the cases where a general notice referring to the notes occurred. Again the most noticeable change is the decline of no note situation and stabilization of the split, 60/40, (no notice/notice) in the 1960's. At present the situation appears stable.

The next and more direct form of referencing is when an account in the Financial Statements is directly referenced. Both SA1 and SA2 had questions addressing this question. SA1, Question 25 determined if any of the financial statements had any account which was directly referenced. Table 29 indicates the responses to this question. A large majority of the statements contained at least one direct reference, 627 - 87.3%, over the total period, and in excess of 90% since 1967. Therefore most companies use some degree of direct referencing, where at least one account in the body of the financial statements is directly referenced to at least one note:

Whereas Table 29 looked at the frequency of statements which had at least one direct reference; Table 30 determines the frequency of the notes themselves being referenced. The table displays the results of Question 12 of SA2. It presents a slightly different picture than Table 29. It indicates stability or even a slight decline

TABLE 28

FREQUENCY OF USE OF GENERAL NOTICE OF NOTES

1955 to 1974

Date	COUNT		NGNOTICE				ROW TOTAL
	ROW PCT	COL PCT	YES	NO	NO NOTES		
	COL PCT	TOT PCT	I	I	I	I	
	I	I	0.00	1.00	2.00	I	
55.00	7	32	19	58			58
	12.1	55.2	32.8	8.1			8.1
	2.9	7.3	48.7				
	1.0	4.5	2.6				
60.00	12	39	9	60			60
	20.0	65.0	15.0	8.4			8.4
	5.0	8.8	23.1				
	1.7	5.4	1.3				
65.00	19	35	6	60			60
	31.7	58.3	10.0	8.4			8.4
	8.0	7.9	15.4				
	2.6	4.9	.8				
66.00	20	38	2	60			60
	33.3	63.3	3.3	8.4			8.4
	8.4	8.6	5.1				
	2.8	5.3	.3				
67.00	19	40	1	60			60
	31.7	66.7	1.7	8.4			8.4
	8.0	9.1	2.6				
	2.6	5.6	.1				
68.00	17	41	2	60			60
	28.3	68.3	3.3	8.4			8.4
	7.1	0.3	5.1				
	2.4	5.7	.3				
69.00	22	38	0	60			60
	36.7	63.3	0.0	8.4			8.4
	9.7	8.6	0.0				
	3.1	5.3	0.0				
70.00	23	37	0	60			60
	38.3	61.7	0.0	8.4			8.4
	9.7	8.4	0.0				
	3.2	5.2	0.0				
71.00	24	36	0	60			60
	40.0	60.0	0.0	8.4			8.4
	10.1	8.2	0.0				
	3.3	5.0	0.0				
72.00	24	36	0	60			60
	40.0	60.0	0.0	8.4			8.4
	10.1	8.2	0.0				
	3.3	5.0	0.0				
73.00	26	34	0	60			60
	43.3	66.7	0.0	8.4			8.4
	10.0	7.7	0.0				
	3.6	4.7	0.0				
74.00	25	35	0	60			60
	41.7	58.3	0.0	8.4			8.4
	10.5	7.9	0.0				
	3.5	4.9	0.0				
COLUMN TOTAL	238	441	39	718			718
	33.1	61.4	5.4	100.			100.

TABLE 29
 FREQUENCY OF DIRECT REFERENCING
 TO STATEMENTS
 1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	DIRECT REFERENCING			ROW TOTAL
		I YES	NO	NO NOTES	
		0.00	1.00	2.00	
55.00		27	12	19	58
		46.6	20.7	32.8	8.1
		4.3	23.1	48.7	
		3.8	1.7	2.6	
60.00		40	11	9	60
		66.7	18.3	15.0	8.4
		6.4	21.2	23.1	
		5.6	1.5	1.3	
65.00		47	7	6	60
		78.3	11.7	10.0	8.4
		7.5	13.5	15.4	
		6.5	1.0	.8	
66.00		53	5	2	60
		88.3	8.3	3.3	8.4
		8.5	9.6	5.1	
		7.4	.7	.3	
67.00		56	3	1	60
		93.3	5.0	1.7	8.4
		8.9	5.8	2.6	
		7.8	.4	.1	
68.00		55	3	2	60
		91.7	5.0	3.3	8.4
		8.8	5.8	5.1	
		7.7	.4	.3	
69.00		57	3	0	60
		95.0	5.0	0.0	8.4
		9.1	5.8	0.0	
		7.9	.4	0.0	
70.00		56	4	0	60
		93.3	6.7	0.0	8.4
		8.9	7.7	0.0	
		7.8	.6	0.0	
71.00		60	0	0	60
		100.0	0.0	0.0	8.4
		9.6	0.0	0.0	
		8.4	0.0	0.0	
72.00		59	1	0	60
		98.3	1.7	0.0	8.4
		9.4	1.9	0.0	
		8.2	.1	0.0	
73.00		59	1	0	60
		98.3	1.7	0.0	8.4
		9.4	1.9	0.0	
		8.2	.1	0.0	
74.00		58	2	0	60
		96.7	3.3	0.0	8.4
		9.3	3.8	0.0	
		8.1	.3	0.0	
COLUMN TOTAL		627 87.3	52 7.2	39 5.4	718 100.0

TABLE 30

FREQUENCY OF DIRECT REFERENCING
OF NOTES TO STATEMENTS

1955 to 1974

134

Date	COUNT ROW PCT COL PCT TOT PCT	DIRECT REFERENCING		ROW TOTAL
		YES	NO	
		0.00	1.00	
55.00		80	54	134
		59.7	40.3	3.1
		2.7	4.2	
		1.9	1.3	
60.00		150	52	202
		74.3	25.7	4.7
		5.0	4.0	
		3.5	1.2	
65.00		200	84	284
		70.4	29.6	6.6
		6.6	6.5	
		4.6	2.0	
66.00		239	82	321
		74.5	25.5	7.5
		7.9	6.4	
		5.6	1.9	
67.00		253	104	357
		70.9	29.1	8.3
		8.4	8.1	
		5.9	2.4	
68.00		270	112	382
		70.7	29.3	8.9
		9.0	8.7	
		6.3	2.6	
69.00		287	104	391
		73.4	26.6	9.1
		9.5	8.1	
		6.7	2.4	
70.00		288	121	409
		70.4	29.6	9.5
		9.6	9.4	
		6.7	2.8	
71.00		329	122	451
		72.9	27.1	10.5
		10.9	9.5	
		7.6	2.8	
72.00		310	137	447
		69.4	30.6	10.4
		10.6	10.6	
		7.2	3.2	
73.00		296	157	453
		65.3	34.7	10.5
		9.8	12.2	
		6.9	3.6	
74.00		312	162	474
		65.8	34.2	11.0
		10.4	12.5	
		7.2	3.8	
COLUMN TOTAL		3014	1291	4305
		70.0	30.0	100.0

in the extent to which notes themselves are directly referenced on a percentage basis. In the period, 1960 thru to 1971, 70. or more percent of notes were directly referenced whereas in 1972, it was 69.4%; 1973 - 65.3%; and in 1974 - 65.8%. On the whole however Table 30 shows considerable stability over the 20 year period.

Referencing to particular statements: Tables 31 to 36 indicate the frequency of referencing to particular statements. They summarize the responses to Question 26 of SA1. The last column of the tables refer to those cases where there was, no notes, no statement of the kind indicated in the table or no direct referencing. Table 31, Frequency of Referencing to the Balance Sheet, indicates that 601 of the 718 financial reports (83.7%) had a direct reference to at least one account in the Balance Sheet. It also shows that in 7 of the 12 periods examined, this occurred in 90% or more of the financial reports. This occurs in this statement more than any of the statement classifications used in this study.

Table 32 demonstrates that at least one account in the Income Statement was referenced 308 times (42.9%) overall. In situations where there were notes, direct referencing and an Income Statement, the percentage was 73% (308/424). In the more recent years, 1969 to the present, this same calculation indicated that referencing to the Income Statement in the feasible situations was approximately 75%. Again indicating frequent referencing to at least one account, second to the Balance Sheet.

Table 33 provides the same information with regards to the Retained Earnings Statement. The overall frequency of direct referencing

TABLE 31
 FREQUENCY OF REFERENCING
 TO BALANCE SHEET
 1955 to 1974

COUNT	REFERENCING BALANCE SHEET			ROW TOTAL
	YES	NO	NO NOTES	
ROW PCT				
COL PCT				
TOT PCT	0.00	1.00	2.00	
Date: 5/800	21	6	31	58
	36.2	10.3	53.4	8.1
	3.5	23.1	34.1	
	2.9	.8	4.3	
60.00	36	4	20	60
	60.0	6.7	33.3	8.4
	6.0	15.4	22.0	
	5.0	.6	2.8	
65.00	45	2	13	60
	75.0	3.3	21.7	8.4
	7.5	7.7	14.3	
	6.3	.3	1.8	
66.00	52	1	7	60
	86.7	1.7	11.7	8.4
	8.7	3.8	7.7	
	7.2	.1	1.0	
67.00	54	2	4	60
	90.0	3.3	6.7	8.4
	9.0	7.7	4.4	
	7.5	.3	.6	
68.00	51	4	5	60
	85.0	6.7	8.3	8.4
	8.0	15.4	5.5	
	7.1	.6	.7	
69.00	54	3	3	60
	90.0	5.0	5.0	8.4
	9.0	11.5	3.3	
	7.5	.4	.4	
70.00	54	2	4	60
	90.0	3.3	6.7	8.4
	9.0	7.7	4.4	
	7.5	.3	.6	
71.00	59	1	0	60
	98.3	1.7	0.0	8.4
	9.8	3.8	0.0	
	8.2	.1	0.0	
72.00	58	1	1	60
	96.7	1.7	1.7	8.4
	9.7	3.8	1.1	
	8.1	.1	.1	
73.00	59	0	1	60
	98.3	0.0	1.7	8.4
	9.8	0.0	1.1	
	8.2	0.0	.1	
74.00	58	0	2	60
	96.7	0.0	3.3	8.4
	9.7	0.0	2.2	
	8.1	0.0	.3	
COLUMN TOTAL	601	26	91	718
	83.7	3.6	12.7	100.0

TABLE 32

FREQUENCY OF REFERENCING
TO INCOME STATEMENT

1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	REFERENCING INCOME STATEMENT			ROW TOTAL
		I YES	NO	NO NOTES	
		0.00	1.00	2.00	
	55.00	11	7	40	58
		19.0	12.1	69.0	8.1
		3.6	6.0	13.6	
		1.5	1.0	5.6	
	60.00	12	13	35	60
		20.0	21.7	58.3	8.4
		3.9	11.2	11.9	
		1.7	1.8	4.9	
	65.00	25	9	26	60
		41.7	15.0	43.3	8.4
		8.1	7.8	8.8	
		3.5	1.3	3.6	
	66.00	29	9	22	60
		48.3	15.0	36.7	8.4
		9.4	7.8	7.8	
		4.0	1.3	3.1	
	67.00	28	10	22	60
		46.7	16.7	36.7	8.4
		9.1	8.6	7.5	
		3.9	1.4	3.1	
	68.00	24	13	23	60
		40.0	21.7	38.3	8.4
		7.8	11.2	7.8	
		3.3	1.8	3.2	
	69.00	29	11	20	60
		48.3	18.3	33.3	8.4
		9.4	9.5	6.8	
		4.0	1.5	2.8	
	70.00	26	11	23	60
		43.3	16.3	38.3	8.4
		8.4	9.5	7.8	
		3.6	1.5	3.2	
	71.00	30	10	20	60
		50.0	16.7	33.3	8.4
		9.7	8.6	6.8	
		4.2	1.4	2.8	
	72.00	31	8	21	60
		51.7	13.3	35.0	8.4
		10.1	6.9	7.1	
		4.3	1.1	2.9	
	73.00	32	7	21	60
		53.3	11.7	35.0	8.4
		10.4	6.0	7.1	
		4.5	1.0	2.9	
	74.00	31	8	21	60
		51.7	13.3	35.0	8.4
		10.1	6.9	7.1	
		4.3	1.1	2.9	
	COLUMN TOTAL	308	116	294	718
		42.9	16.2	40.9	100.0

TABLE 33

FREQUENCY OF REFERENCING
TO RETAINED EARNINGS

1955 to 1974

Date	REFERENCING RETAINED EARNINGS			ROW TOTAL	
	COUNT ROW PCT COL PCT TOT PCT	YES	NO		NO NOTES
		0.00	1.00	2.00	
55.00	4	13	41	58	
	6.9	22.4	70.7	8.1	
	4.2	4.3	12.9		
	.6	1.8	5.7		
60.00	4	23	33	60	
	6.7	38.3	55.0	8.4	
	4.2	7.5	10.4		
	.6	3.2	4.6		
65.00	7	26	27	60	
	11.7	43.3	45.0	8.4	
	7.3	8.5	8.5		
	1.0	3.6	3.8		
66.00	7	27	26	60	
	11.7	45.0	43.3	8.4	
	7.3	8.9	8.2		
	1.0	3.8	3.6		
67.00	6	29	25	60	
	10.0	48.3	41.7	8.4	
	6.3	9.5	7.9		
	.8	4.0	3.5		
68.00	6	29	25	60	
	10.0	48.3	41.7	8.4	
	6.3	9.5	7.9		
	.8	4.0	3.5		
69.00	8	30	22	60	
	13.3	50.0	36.7	8.4	
	8.3	9.8	6.9		
	1.1	4.2	3.1		
70.00	6	29	25	60	
	10.0	48.3	41.7	8.4	
	6.3	9.5	7.9		
	.8	4.0	3.5		
71.00	10	27	23	60	
	16.7	45.0	38.3	8.4	
	10.4	8.9	7.3		
	1.4	3.8	3.2		
72.00	11	26	23	60	
	18.3	43.3	38.3	8.4	
	11.5	8.5	7.3		
	1.5	3.6	3.2		
73.00	12	25	23	60	
	20.0	41.7	38.3	8.4	
	12.5	8.2	7.3		
	1.7	3.5	3.2		
74.00	15	21	24	60	
	25.0	35.0	40.0	8.4	
	15.6	6.9	7.6		
	2.1	2.9	3.3		
COLUMN TOTAL	96	305	317	718	
	13.4	42.5	44.2	100.0	

to at least one account was relatively low, 96 times or 13.4% of the total annual reports. In situations where there was a Retained Earnings Statement as well as direct referencing and notes, the percentage was 24% (96/401). This percentage has been increasing since 1970. Therefore although less frequent than the Balance Sheet or the Income Statement, there has been an increase in the last five years.

Table 34 displays the results with regards to the Statement of Source and Application of Funds. The first point to be made is that in the last three years of the study, especially in 1974, this statement has been replaced with the Statement of Changes in Financial Position. For the purpose of this study, since this change had its main impact in a single year (1974), this new statement was included in the classification, 'Other' - Table 36. Direct referencing to the Statement of Source and Application of Funds was relatively low, total 81 (11.3%) and where feasible (as described in the previous two paragraphs), 19% (81/437). This statement also indicated a recent trend towards increasing direct referencing. The trend towards the new statement supercedes this trend and switches it to the new statement.

There were 184 corporate reports which combined the Income Statement and the Statement of Retained Earnings. Table 35 indicates the situation with regards to direct referencing where this was the case. The overall percentage was 19.1% (137/711). This percentage is misleading since the usage of this combined statement is considerably less frequent, than the use of separate statements. In the feasible situations, again as previously defined, the frequency was 137 out of 184 or 74%. This is similar to direct referencing to the Income Statement (73%).

TABLE 34

FREQUENCY OF REFERENCING TO
SOURCE AND APPLICATION OF FUNDS STATEMENT

1955 to 1974

COUNT ROW PCT COL PCT TOT PCT	REFERENCING SOURCE & APPLICATION/FUNDS						ROW TOTAL
	I YES	I NO	I NO	I NOTES	I	I	
	0.00	1.00	1.00	2.00			
Date 55.00	0	2	2	56			58
	0.0	3.4	3.4	96.6			8.1
	0.0	.6	.6	19.9			
	0.0	.3	.3	7.8			
60.00	0	1	1	59			60
	0.0	1.7	1.7	98.3			8.4
	0.0	.3	.3	21.0			
	0.0	.1	.1	8.2			
65.00	2	23	23	35			60
	3.3	38.3	38.3	58.3			8.4
	2.5	6.5	6.5	12.5			
	.3	3.2	3.2	4.9			
66.00	5	35	35	20			60
	8.3	58.3	58.3	33.3			8.1
	6.2	9.8	9.8	7.1			
	.7	4.9	4.9	2.8			
67.00	7	44	44	9			60
	11.7	73.3	73.3	15.0			8.4
	8.6	12.4	12.4	3.2			
	1.0	6.1	6.1	1.3			
68.00	12	40	40	8			60
	20.0	66.7	66.7	13.3			8.4
	14.8	11.2	11.2	2.8			
	1.7	5.6	5.6	1.1			
69.00	6	46	46	8			60
	10.0	76.7	76.7	13.3			8.4
	7.4	12.9	12.9	2.8			
	.8	6.4	6.4	1.1			
70.00	9	44	44	7			60
	15.0	73.3	73.3	11.7			8.4
	11.1	12.0	12.0	2.5			
	1.3	6.1	6.1	1.0			
71.00	10	45	45	5			60
	16.7	75.0	75.0	8.3			8.4
	12.3	12.6	12.6	1.8			
	1.4	6.3	6.3	.7			
72.00	13	36	36	11			60
	21.7	60.0	60.0	18.3			8.4
	16.0	10.1	10.1	3.9			
	1.8	5.0	5.0	1.5			
73.00	13	31	31	16			60
	21.7	51.7	51.7	26.7			8.4
	16.0	8.7	8.7	5.7			
	1.8	4.3	4.3	2.2			
74.00	4	9	9	47			60
	6.7	15.0	15.0	78.3			8.4
	4.0	2.5	2.5	16.7			
	.6	1.3	1.3	6.5			
COLUMN TOTAL	81	356	356	281			718
	11.3	49.6	49.6	39.1			

TABLE 35

FREQUENCY-OF REFERENCING TO COMBINED
INCOME/RETAINED EARNINGS STATEMENTS

1955 to 1974

Date	REFERENCING INCOME/RETAINED EARNINGS							ROW TOTAL
	COUNT ROW PCT COL PCT TOT PCT	I I I I	YES I I I	NO I I I	NO NOTES I I I	I I I I	I I I I	
			0.00		1.00		2.00	
55.00		3		4		51		58
		5.2		6.9		87.9		8.1
		2.2		8.5		9.6		
		.4		.6		7.1		
60.00		7		5		48		60
		11.7		8.3		80.0		8.4
		5.1		10.6		9.0		
		1.0		.7		6.7		
65.00		10		1		49		60
		16.7		1.7		81.7		8.4
		7.3		2.1		9.2		
		1.4		.1		6.8		
66.00		10		5		45		60
		16.7		8.3		75.0		8.4
		7.3		10.6		8.4		
		1.4		.7		6.3		
67.00		14		3		43		60
		23.3		5.0		71.7		8.4
		10.2		6.4		8.1		
		1.9		.4		6.0		
68.00		12		4		44		60
		20.0		6.7		73.3		8.4
		8.8		8.5		8.2		
		1.7		.6		6.1		
69.00		11		4		45		60
		18.3		6.7		75.0		8.4
		8.0		8.5		8.4		
		1.5		.6		6.3		
70.00		14		3		43		60
		23.3		5.0		71.7		8.4
		10.2		6.4		8.1		
		1.9		.4		6.0		
71.00		15		3		42		60
		25.0		5.0		70.0		8.4
		10.9		6.4		7.9		
		2.1		.4		5.8		
72.00		13		6		41		60
		21.7		10.0		68.3		8.4
		9.5		12.8		7.7		
		1.8		.8		5.7		
73.00		15		3		42		60
		25.0		5.0		70.0		8.4
		10.9		6.4		7.9		
		2.1		.4		5.8		
74.00		13		6		41		60
		21.7		10.0		68.3		8.4
		9.5		12.8		7.7		
		1.8		.8		5.7		
COLUMN TOTAL		137		47		534		718
		10.1		6.5		74.4		100.0

The last classification used in this study was 'Other', Table 36. To qualify as 'Other' in my study, a statement had to be clearly labelled a statement as opposed to a Schedule and be referred to in the Auditor's Report. If it did not meet these criteria, it was included as a Supplementary Financial Data Schedule. Besides the previously mentioned Statement of Financial Position, the statements in this classification tended to be specialty statements, serving special disclosure needs of institutions, like banks, or Statements of Exploration Development expenditures of Resource Companies. These statements occurred 181 times as the tables indicated or in 25.2% of the total financial reports examined. Interestingly, the Canadian Institute of Chartered Accountants' Biennial Survey of Financial Reporting, (C.I.C.A. 1955 to 1975) does not report on these specialty statements. Their relatively substantial usage points to the need to the inclusion of these in the survey. My figures are somewhat inflated, especially in 1974, due to the inclusion of the Statement of Financial Position in this classification. Nevertheless, they are an interesting example of how companies with special disclosure needs coped with their particular situations. Except in 1973 and 1974, due to the inclusion of the new statement, direct referencing to these other statements was relatively low, overall 6.7% or 27% (48/181) where feasible. Prior to 1973, the tables indicate considerably less frequent direct referencing. Referencing to the new statement affected the frequency in 1973 and 1974.

In conclusion to this discussion of direct referencing to specific statements, it appears that there is a growing trend in all statements. The Balance Sheet has reached near totality and the Income

TABLE 36
 FREQUENCY OF REFERENCING
 OTHER STATEMENTS

1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	REFERENCING OTHER STATEMENTS			ROW TOTAL
		I YES	NO	NO NOTES	
		0.00	1.00	2.00	
55.00		1	7	50	58
		1.7	12.1	86.2	8.1
		2.1	5.3	9.3	
		.1	1.0	7.0	
60.00		3	6	51	60
		5.0	10.0	85.0	8.4
		6.3	4.5	9.5	
		.4	.8	7.1	
65.00		2	6	52	60
		3.3	10.0	86.7	8.4
		4.2	4.5	9.7	
		.3	.8	7.2	
66.00		3	8	49	60
		5.0	13.3	81.7	8.4
		6.3	6.0	9.1	
		.4	1.1	6.8	
67.00		3	11	46	60
		5.0	18.3	76.7	8.4
		6.3	8.3	8.6	
		.4	1.5	6.4	
68.00		4	8	48	60
		6.7	13.3	80.0	8.4
		8.3	6.0	8.0	
		.6	1.1	6.7	
69.00		3	12	45	60
		5.0	20.0	75.0	8.4
		6.3	9.0	8.4	
		.4	1.7	6.3	
70.00		1	11	48	60
		1.7	18.3	80.0	8.4
		2.1	8.3	8.9	
		.1	.5	6.7	
71.00		2	10	48	60
		3.3	16.7	80.0	8.4
		4.2	7.5	8.9	
		.3	1.4	6.7	
72.00		4	10	46	60
		6.7	16.7	76.7	8.4
		8.3	7.5	8.6	
		.6	1.4	6.4	
73.00		9	10	41	60
		15.0	16.7	68.3	8.4
		18.8	7.5	7.6	
		1.3	1.4	5.7	
74.00		13	34	13	60
		21.7	56.7	21.7	8.4
		27.1	25.6	2.4	
		1.8	4.7	1.8	
COLUMN TOTAL		48 6.7	133 18.5	537 74.8	718 100.0

statement in excess of 70%. The remaining statements demonstrate growth. It would be interesting to speculate as to the reasons for differences among the statements. Perhaps the Balance Sheet, as will be discussed later, with the highest quantity is demonstrating the least capability to cope with new disclosure requirements. This would be consistent with the criticisms leveled against the Balance Sheet. Pursuing this subject would however be another study.

Auditor References to Notes: The last format description is the extent to which notes are referred to in Auditor's Reports. Question 33 of SA1 determined if there was any reference to the note in the Auditors' Reports; Table 37 presents the replies to this question. Inasmuch as notes are an integral part of the statements of equal importance as the body of the statements, at least in theory, there is no obligation on the part of the auditor to draw special attention to them; the exception is when a particular note describes a situation which causes the auditor to qualify his opinion, at least to some degree. This is the case in practice. Very rarely does the auditor draw general attention to the notes. He might however refer to notes such as those which describe an accounting change since they indicate a situation where accounting principles have not been applied consistently. Since the auditor expresses an opinion of the extent of consistency, a material contravention described in a note should be referred to. The use of notes as a means of explaining how assets have been valued or disclosing accounting changes and the effect of changes makes them prime targets for specific reference.

TABLE 37

REFERENCING OF NOTES IN
AUDITORS' REPORTS

1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	REF. IN AUDITORS' REPORTS			ROW TOTAL
		I YES	NO	NONE	
		0.00	1.00	2.00	
55.00	I	6	33	19	58
	I	10.3	56.9	32.8	8.1
	I	4.0	6.3	40.7	
	I	.8	4.6	2.6	
60.00	I	14	37	9	60
	I	23.3	61.7	15.0	8.4
	I	9.3	7.0	23.1	
	I	1.9	5.2	1.3	
65.00	I	14	40	6	60
	I	23.3	66.7	10.0	8.4
	I	9.3	7.6	15.4	
	I	1.9	5.6	.8	
66.00	I	12	46	2	60
	I	20.0	76.7	3.3	8.4
	I	7.9	8.7	5.1	
	I	1.7	6.4	.3	
67.00	I	18	41	1	60
	I	30.0	68.3	1.7	8.4
	I	11.9	7.8	2.6	
	I	2.5	5.7	.1	
68.00	I	8	50	2	60
	I	13.3	83.3	8.3	8.4
	I	5.3	9.5	5.1	
	I	1.1	7.0	.3	
69.00	I	12	48	0	60
	I	20.0	80.0	0.0	8.4
	I	7.9	9.1	0.0	
	I	1.7	6.7	0.0	
70.00	I	10	50	0	60
	I	16.7	83.3	0.0	8.4
	I	6.6	9.5	0.0	
	I	1.4	7.0	0.0	
71.00	I	12	48	0	60
	I	20.0	80.0	0.0	8.4
	I	7.9	9.1	0.0	
	I	1.7	6.7	0.0	
72.00	I	11	49	0	60
	I	18.3	81.7	0.0	8.4
	I	7.3	9.3	0.0	
	I	1.5	6.8	0.0	
73.00	I	19	41	0	60
	I	31.7	68.3	0.0	8.4
	I	12.6	7.8	0.0	
	I	2.6	5.7	0.0	
74.00	I	15	45	0	60
	I	25.0	75.0	0.0	8.4
	I	9.9	8.5	0.0	
	I	2.1	6.3	0.0	
COLUMN TOTAL	I	151	528	39	718
		21.0	73.5	5.4	100.0

The list of frequencies and percentages in Table 37 indicates a relatively consistent period from 1955 to 1972 inclusive. There is however a brief flurry in 1973, when 19 or 31.7% of the annual reports had referencing in the Auditors Reports to notes. In 1974, the number was 15 instances or 25% of the 60 financial statements examined. Whether this is a trend or an aberration can not be determined at this time.

This concludes Section 5.3.5 which addressed general descriptive questions about the usage of Notes to Financial Statements. It also concludes the description of the usage of notes with the exception of explaining the changes in quantities of usage and the expected trends in usage. Before discussing this aspect however, we will first turn to the usage of Supplementary Financial Data Schedules, which will be discussed next.

5.4 The Usage of Supplementary Financial Data Schedules

5.4.1 Introduction

As in the previous section, which examined the usage of Notes to Financial Statements, this section will utilize the Hypothesis and Research Questions dealing with Supplementary Financial Data Schedules (S.F.D.S.s) as an outline.

5.4.2 Hypothesis 2

This section will test Hypothesis 2 which states that the usage of S.F.D.S.s has been increasing; it is:

H₂

IN THE LAST TWENTY YEARS THERE HAS BEEN INCREASED USAGE OF SUPPLEMENTARY FINANCIAL DATA SCHEDULES.

This hypothesis will be examined in three dimensions; first, the number of companies making use of S.F.D.S.s, secondly the average number of S.F.D.S.s used by a company per year and, lastly, the number of pages used for S.F.D.S.s.

Table 38 compiles the replies to Question 27 of SA1. This table is a tabulation of the number of companies that had S.F.D.S. as part of their annual reports over the twenty year period. During the twelve periods, 432 or 60.2% of the total (718) annual reports examined had at least one S.F.D.S. The table indicated that there has been an increase in the amount of companies who published at least one S.F.D.S. The rate of growth has not been steady, for example, 1965 - there was a relatively large jump, declining in the next year and only reaching the 1965 level again in 10 years - 1974. As a result of the data in Table 38, H₂ can be confirmed on this dimension, number of companies using S.F.D.S.s.

Table 39 will be used to examine the average number of S.F.D.S.s used by the companies who published annual reports containing and not containing S.F.D.S.s. The table provides on a yearly basis the number of companies with S.F.D.S.s, number of companies without S.F.D.S.s, total S.F.D.S.s, mean usage, median usage, maximum and minimum. The statistics are calculated both for only those companies with S.F.D.S.s and in total.

Unlike the conclusions derived from Table 38, we are unable to see an increase in the average usage of S.F.D.S.s by users. In fact the peak years were 1955 (2.261), 1960 (2.229), 1967 (2.353), and 1968 (2.400). The bracketed figure is the mean usage. There is little or no indication of a trend of increasing numbers of S.F.D.S.s

TABLE 38
 NUMBER OF ANNUAL REPORTS
 USING S.F.D.S.s

1955 to 1974

Date	COUNT	S.F.D.S.s		RDW TOTAL
		YES	NO	
ROW PCT	COL PCT	TOT PCT		
		0.00	1.00	
55.00	I	23	55	58
	I	39.7	60.3	8.1
	I	5.3	12.2	
	I	3.2	4.9	
60.00	I	35	25	60
	I	58.3	41.7	8.4
	I	8.1	8.7	
	I	4.9	3.5	
65.00	I	40	20	60
	I	66.7	33.3	8.4
	I	9.3	7.0	
	I	5.6	2.8	
66.00	I	35	25	60
	I	58.3	41.7	8.4
	I	8.1	8.7	
	I	4.9	3.5	
67.00	I	34	26	60
	I	56.7	43.3	8.4
	I	7.9	9.1	
	I	4.7	3.6	
68.00	I	35	25	60
	I	58.3	41.7	8.4
	I	8.1	8.7	
	I	4.9	3.5	
69.00	I	36	24	60
	I	60.0	40.0	8.4
	I	8.3	8.4	
	I	5.0	3.3	
70.00	I	38	22	60
	I	63.3	36.7	8.4
	I	8.8	7.7	
	I	5.3	3.1	
71.00	I	39	21	60
	I	65.0	35.0	8.4
	I	9.0	7.3	
	I	5.4	2.9	
72.00	I	38	22	60
	I	63.3	36.7	8.4
	I	8.8	7.7	
	I	5.3	3.1	
73.00	I	38	22	60
	I	63.3	36.7	8.4
	I	8.8	7.7	
	I	5.3	3.1	
74.00	I	41	19	60
	I	68.3	31.7	8.4
	I	9.5	6.6	
	I	5.7	2.6	
COLUMN TOTAL	I	432	286	718
		60.2	39.8	100.0

TABLE 39

USAGE OF S.F.D.S.s
1955 to 1974

YEAR	NO. OF CO.'S		TOTAL S.F.D.S.s	STATISTICS CASES WITH S.F.D.S.s				STATISTICS ALL CASES			
	WITH S.F.D.S.s	WITHOUT S.F.D.S.s		MEAN USAGE	MIN. USAGE	MAX. USAGE	MEAN USAGE	MIN. USAGE	MAX. USAGE		
1955	23	35	52	2.261	2	1	6	.897	0	6	
1960	35	25	78	2.229	2	1	6	1.300	1	6	
1965	40	20	77	1.925	2	1	7	1.283	1	7	
1966	35	25	76	2.171	2	1	6	1.267	1	6	
1967	34	26	80	2.353	2	1	7	1.333	1	7	
1968	35	25	84	2.400	2	1	7	1.400	1	7	
1969	36	24	79	2.194	2	1	7	1.317	1	7	
1970	38	22	79	2.079	2	1	7	1.317	1	7	
1971	39	21	75	1.923	2	1	4	1.250	1	4	
1972	38	22	76	2.000	2	1	7	1.267	1	7	
1973	38	22	76	2.053	2	1	7	1.267	1	7	
1974	41	19	82	2.000	2	1	6	1.367	1	6	
TOTAL	432	286	914	2.116	2	1	7	1.273	1	7	

being used. The median usage exhibits similar trends as the mean. The minimum usage has remained constant at 1, and the maximum has ranged from 4 to 7, with 7 being the maximum in 8 of 12 periods. This table does not support H_2 . Instead of growing, S.F.D.S. usage has remained relatively constant when measured as the average number of S.F.D.S. per annual report of company who employ them. Therefore, although the number of companies using S.F.D.S.s has increased, they are not using increasing numbers of S.F.D.S.s.

The conclusions are the same when all cases are examined with the exception that there is a small increase in the mean over the twenty year period. This is due to the increase in users of S.F.D.S.s. Again, though, one can only conclude that usage of S.F.D.S.s has remained relatively constant.

Table 40 lists the total pages of S.F.D.S., the average number of pages per company and average page per S.F.D.S. This measure can only be used as a rough estimate; the main reason being that pages differ in size between reports. Nevertheless, an analysis of this measure results in similar conclusions to those drawn from examining average numbers of S.F.D.S. per report, Table 39. Basically, Table 40 indicates that the number of pages per report has changed very little over time, ranging from 1.99 in 1965 to 2.49 in 1968 for companies with S.F.D.S.s, (.87 to 1.48 per company when averaged over all cases). Also the average pages per S.F.D.S. has averaged in the area of 1 (.97 to 1.15). The conclusion again being that even though there is an increase in the number of companies using S.F.D.S., the average usage per company has not shown an increasing trend.

TABLE 40

PAGES OF S.F.D.S.s
1955 to 1974

YEAR	Co.s		TOTAL PAGES S.F.D.S.s	NO. OF S.F.D.S.s	AVERAGE PAGES PER S.F.D.S.s	AVERAGE PAGES PER Co. TOTAL	AVERAGE PAGES PER Co. WITH S.F.D.S.s
	WITH S.F.D.S.s	WITHOUT S.F.D.S.s					
1955	23	35	50.3	52	.97	.87	2.19
1960	35	25	79.9	78	1.02	1.33	2.28
1965	40	20	79.4	77	1.03	1.32	1.99
1966	35	25	81.2	76	1.07	1.35	2.32
1967	34	26	84.1	80	1.05	1.40	2.47
1968	35	25	87.0	84	1.04	1.45	2.49
1969	36	24	78.6	79	.99	1.31	2.18
1970	38	22	80.1	79	1.01	1.34	2.11
1971	39	21	82.4	75	1.10	1.37	2.11
1972	38	22	87.2	76	1.15	1.45	2.29
1973	38	22	84.9	76	1.12	1.42	2.23
1974	41	19	88.5	82	1.08	1.48	2.16

In conclusion to this segment, H_2 can be supported if 'increasing usage of S.F.D.S.' is interpreted to mean increasing numbers of companies who are using them. If, on the other hand, 'increasing usage of S.F.D.S.' is defined as average number per company, or average pages of use per company, or average size of S.F.D.S., H_2 can not be supported. Therefore I conclude that usage has remained stagnant over the period examined. This is in marked contrast to the usage of Notes to Financial Statements. It appears that the S.F.D.S., as a means of disclosure, is not becoming increasingly popular on an average basis. My data therefore supports the contention of the Canadian Institute of Chartered Accountants when it states that a gradually increasing proportion of Canadian companies are using S.F.D.S. (C.I.C.A. 1973 p11), however the format itself is not expanding in usage.

5.4.3 Specific Uses of Supplementary Financial Data Schedules

Table 41 displays the specific uses of S.F.D.S.s during the period examined in this study. The table examines the usage of S.F.D.S. under eight different classifications. The first column in each classification lists the frequencies by years that the financial reports examined contained the particular S.F.D.S., identified by the heading. The second column indicates those reports that contained S.F.D.S. but not this particular one.

The first heading, Financial Highlights, shows a steady increase in usage up to 1969 and then a leveling in absolute usage but a slight decline in percentage usage. For example, in 1969, 91.7% of all reports with S.F.D.S.s contained a Schedule of Financial Highlights.

TABLE 41
 SPECIFIC USES - S.F.D.S.s
 1955 to 1974

Date	FINANCIAL HIGHLIGHTS				ROW TOTAL	HISTORICAL SUMMARIES				ROW TOTAL
	COUNT	I				I	I			
	ROW PCT COL PCT TOT PCT	YES	NO			YES	NO			
55.00		0.00		1.00	23		0.00		1.00	23
	13		10		5.3	9		14		5.3
	56.5		43.5			39.1		60.9		
	4.0		9.3			2.0		12.1		
	3.0		2.3			2.1		3.2		
60.00					35					35
	20		15		8.1	22		13		8.1
	57.1		42.9			62.9		37.1		
	6.2		14.0			7.0		11.2		
	4.6		3.5			5.1		3.0		
65.00					40					40
	24		16		9.3	23		17		9.3
	60.0		40.0			57.5		42.5		
	7.4		15.0			7.3		14.7		
	5.6		3.7			5.3		3.9		
66.00					35					35
	26		9		8.1	23		12		8.1
	74.3		25.7			65.7		34.3		
	8.0		8.4			7.3		10.3		
	8.0		2.1			5.3		2.8		
67.00					34					34
	27		7		7.9	24		10		7.9
	79.4		20.6			70.6		29.4		
	8.3		6.5			7.6		8.6		
	6.3		1.6			5.6		2.3		
68.00					35					35
	29		6		8.1	27		8		8.1
	82.9		17.1			77.1		22.9		
	8.9		5.6			8.5		6.9		
	6.7		1.4			6.3		1.9		
69.00					36					36
	33		3		8.3	27		9		8.3
	91.7		8.3			75.0		25.0		
	10.2		2.8			8.5		7.8		
	7.6		.7			6.3		2.1		
70.00					38					38
	32		6		8.8	28		10		8.8
	84.2		15.8			73.7		26.3		
	9.8		5.6			8.9		8.6		
	7.9		1.4			6.5		2.3		
71.00					39					39
	31		8		9.0	31		8		9.0
	79.5		20.5			79.5		20.5		
	9.5		7.5			9.8		6.9		
	7.2		1.9			7.2		1.9		
72.00					38					38
	29		9		8.8	33		5		8.8
	76.3		23.7			86.8		13.2		
	8.9		8.4			10.4		4.3		
	6.7		2.1			7.6		1.2		
73.00					38					38
	30		8		8.8	33		5		8.8
	78.9		21.1			86.8		13.2		
	9.2		7.5			10.4		4.3		
	6.9		1.9			7.6		1.2		
74.00					41					41
	31		10		9.5	36		5		9.5
	75.6		24.4			87.8		12.2		
	9.5		9.3			11.4		4.3		
	7.2		2.3			6.3		1.2		
COLUMN TOTAL		325		107	432		316		116	432
		75.2		24.8	100.0		73.1		26.9	100.0

Date	SOURCE AND APPLICATION OF FUNDS					ASSET SCHEDULES				
	COUNT	YES	NO	ROW	ROW	YES	NO	ROW	ROW	
	ROW PCT	COL PCT	TOT PCT	TOTAL	TOTAL	COL PCT	TOT PCT	TOTAL	TOTAL	
			0.00	1.00			0.00	1.00		
55.00	5	18	23	5.3	2	21	23	5.3		
	21.7	78.3			8.7	91.3				
	21.7	4.4			5.9	5.3				
	1.2	4.2			.5	4.9				
60.00	8	27	35	8.1	4	31	35	8.1		
	22.9	77.1			11.4	89.6				
	34.8	6.6			11.8	7.8				
	1.9	6.3			.9	7.2				
65.00	5	35	40	9.3	4	36	40	9.3		
	12.5	87.5			10.0	90.0				
	2.7	8.6			11.8	9.0				
	1.2	8.1			.9	8.3				
66.00	2	33	35	8.1	4	31	35	8.1		
	5.7	84.3			11.4	88.6				
	8.7	8.1			11.8	7.8				
	.5	7.6			.9	7.2				
67.00	0	34	34	7.9	5	29	34	7.9		
	0.0	100.0			14.7	89.3				
	0.0	8.3			14.7	7.3				
	0.0	7.9			1.2	6.7				
68.00	1	34	35	8.1	5	30	35	8.1		
	2.9	97.1			14.3	85.7				
	4.3	8.3			14.7	7.5				
	.2	7.9			1.2	6.9				
69.00	0	36	36	8.3	3	33	36	8.3		
	0.0	100.0			8.3	91.7				
	0.0	8.8			8.8	8.3				
	0.0	8.3			.7	7.6				
70.00	1	37	38	8.8	2	36	38	8.8		
	2.6	97.4			5.3	94.7				
	4.3	9.0			5.9	9.0				
	.2	8.6			.5	8.3				
71.00	1	38	39	9.0	2	37	39	9.0		
	2.6	37.4			5.1	94.9				
	4.3	9.3			5.9	9.3				
	.2	8.8			.5	8.6				
72.00	0	38	38	8.8	1	37	38	8.8		
	0.0	100.0			2.6	97.4				
	0.0	9.3			2.9	9.3				
	0.0	8.8			.2	8.6				
73.00	0	38	38	8.8	1	37	38	8.8		
	0.0	100.0			2.6	97.4				
	0.0	9.3			2.9	9.3				
	0.0	8.8			.2	8.6				
74.00	0	41	41	9.5	1	40	41	9.5		
	0.0	100.0			2.4	97.6				
	0.0	10.0			2.9	10.1				
	0.0	9.5			.2	9.3				
COLUMN TOTAL	23	409	432	5.3	34	398	432	7.9		
		94.7	100.0			92.1	100.0			

TABLE 41 (CONJ'D)

Date	LIABILITY SCHEDULES					ROW TOTAL	INCOME SCHEDULES					ROW TOTAL
	COUNT ROW PCT COL PCT TOT PCT	I I YES I	0.00	I I NO I	1.00		I I YES I	0.00	I I NO I	1.00	I	
55.00	2	I	21	I	23	1	I	22	I	23		
	8.7	I	91.3	I	5.3	4.3	I	95.7	I	5.3		
	20.0	I	5.0	I		7.1	I	5.3	I			
	.5	I	4.9	I		.2	I	5.1	I			
60.00	1	I	34	I	35	2	I	33	I	35		
	2.9	I	97.1	I	8.1	5.7	I	94.3	I	8.1		
	10.0	I	8.1	I		14.3	I	7.9	I			
	.2	I	7.9	I		.5	I	7.6	I			
65.00	0	I	40	I	40	3	I	37	I	40		
	0.0	I	100.0	I	9.3	7.5	I	92.5	I	9.3		
	0.0	I	9.5	I		21.4	I	8.9	I			
	0.0	I	9.3	I		.7	I	8.6	I			
66.00	0	I	35	I	35	3	I	32	I	35		
	0.0	I	100.0	I	8.1	8.6	I	91.4	I	8.1		
	0.0	I	8.3	I		21.4	I	7.7	I			
	0.0	I	8.1	I		.7	I	7.4	I			
67.00	1	I	33	I	34	3	I	31	I	34		
	2.9	I	97.1	I	7.9	8.8	I	91.2	I	7.9		
	10.0	I	7.8	I		21.4	I	7.4	I			
	.2	I	7.6	I		.7	I	7.2	I			
68.00	1	I	34	I	35	1	I	34	I	35		
	2.9	I	97.1	I	8.1	2.9	I	97.1	I	8.1		
	10.0	I	8.1	I		7.1	I	8.1	I			
	.2	I	7.9	I		.2	I	7.9	I			
69.00	1	I	35	I	36	1	I	35	I	36		
	2.8	I	97.2	I	8.3	2.8	I	97.2	I	8.3		
	10.0	I	8.3	I		7.1	I	8.4	I			
	.2	I	8.1	I		.2	I	8.1	I			
70.00	1	I	37	I	38	0	I	38	I	38		
	2.6	I	97.4	I	8.8	0.0	I	100.0	I	8.8		
	10.0	I	8.8	I		0.0	I	9.1	I			
	.2	I	8.6	I		0.0	I	9.1	I			
71.00	0	I	39	I	39	0	I	39	I	39		
	0.0	I	100.0	I	9.0	0.0	I	100.0	I	9.0		
	0.0	I	9.2	I		0.0	I	9.3	I			
	0.0	I	9.0	I		0.0	I	9.0	I			
72.00	1	I	37	I	38	0	I	38	I	38		
	2.6	I	97.4	I	8.8	0.0	I	100.0	I	8.8		
	10.0	I	8.8	I		0.0	I	9.1	I			
	.2	I	8.6	I		0.0	I	8.8	I			
73.00	1	I	37	I	38	0	I	38	I	38		
	2.6	I	97.4	I	8.8	0.0	I	100.0	I	8.8		
	10.0	I	8.8	I		0.0	I	9.1	I			
	.2	I	8.6	I		0.0	I	8.8	I			
74.00	1	I	40	I	41	0	I	41	I	41		
	2.4	I	97.6	I	9.5	0.0	I	100.0	I	9.5		
	10.0	I	9.5	I		0.0	I	9.8	I			
	.2	I	9.3	I		0.0	I	9.5	I			
COLUMN TOTAL	10	I	422	I	432	14	I	418	I	432		
	2.3	I	97.7	I	100.0	3.2	I	96.8	I	100.0		

TABLE 41 (CONT'D)

Date	EXPENSE SCHEDULES					ROW TOTAL	OTHER SCHEDULES					
	COUNT	I YES		NO			I YES	NO		ROW TOTAL		
	ROW PCT COL PCT TOT PCT	0.00	1.00	0.00	1.00		0.00	1.00				
55.00	2	21	23	10	13	23	8.7	91.3	5.3	43.5	56.5	5.3
	13.3	5.0		13.8	3.6		.5	4.9		2.3	3.0	
60.00	3	32	35	.9	26	35	8.6	91.4	8.1	25.7	74.3	8.1
	20.0	7.7		12.5	7.2		.7	7.4		2.1	6.0	
65.00	3	37	40	6	34	40	7.5	92.5	9.3	15.0	85.0	9.3
	20.0	8.9		8.3	9.4		.7	8.6		1.4	7.9	
66.00	2	33	35	5	30	35	5.7	94.3	8.1	14.3	85.7	8.1
	13.3	7.9		6.9	8.3		.5	7.6		1.2	6.9	
67.00	2	32	34	6	28	34	5.9	94.1	7.9	17.6	82.4	7.9
	13.3	7.7		8.3	7.8		.5	7.4		1.4	6.5	
68.00	2	33	35	6	29	35	5.7	94.3	8.1	17.1	82.9	8.1
	13.3	7.9		8.3	8.1		.5	7.6		1.4	6.7	
69.00	1	35	36	4	32	36	2.8	97.2	8.3	11.1	88.9	8.3
	6.7	8.4		5.6	8.9		.2	8.1		.9	7.4	
70.00	0	38	38	6	32	38	0.0	100.0	898	15.8	84.2	8.8
	0.0	9.1		8.3	8.9		0.0	8.8		1.4	7.4	
71.00	0	39	39	5	34	39	0.0	100.0	9.0	12.8	87.2	9.0
	0.0	9.4		6.9	9.4		0.0	9.0		1.2	7.9	
72.00	0	38	38	5	33	38	0.0	100.0	8.8	13.2	86.8	8.8
	0.0	9.1		6.9	9.2		0.0	8.8		1.2	7.6	
73.00	0	38	38	5	33	38	0.0	100.0	8.8	13.2	86.8	8.8
	0.0	9.1		6.9	9.2		0.0	8.8		1.2	7.6	
74.00	0	41	41	5	36	41	0.0	100.0	9.5	12.2	87.8	9.5
	0.0	9.8		6.9	10.0		0.0	9.5		1.2	8.3	
COLUMN TOTAL	15	417	432	72	360	432	3.5	96.5	100.0	16.7	83.3	100.0

Financial Highlights which are a summary of certain key financial data are often comparative, usually found at the front of the annual report. Their total frequency of 325 is the largest of the eight classifications, however in the last few years examined, they were less frequent than the next most frequent S.F.D.S., Historical Summaries.

The next most frequent S.F.D.S., Historical Summaries, provides financial and/or statistical summaries over an extended period of time, most frequently ten years. They can include summarized Balance Sheets, Income Statements or a wide variety of financial data. During the period examined, 316 annual reports had at least one Historical Summary. Over the twenty year period, they have shown increased usage. In the last three years they surpassed Financial Highlights in relative usage. In excess of 85% of those annual reports containing S.F.D.S. included at least one Historical Summary during this period. Therefore there has been a positive trend in this S.F.D.S. which would be of more use to the individual performing detailed analysis of the company than the Financial Highlights.

The next segment of the table lists those instances when the Source and Application of Funds Statement was a supplementary schedule. It was classed as a S.F.D.S. when clearly labelled as a S.F.D.S. or when it was not referred to in the auditor's report. The majority of 23 observations of this statement as a S.F.D.S. occurred in the early years of the study when inclusion of the Source and Application of Funds Statement, as part of the Financial Statements, was not the norm. As the statement gained acceptance, maybe partially as a result of its inclusion as a S.F.D.S., it assumed the status of the Balance Sheet or Income Statement.

The fourth classification used was Asset Schedules. Those schedules which listed details or dealt with assets' generally were included in this classification. Over the period there were 34 annual reports with this type of schedule. As Table 41 indicates, there was a brief flurry of usage in the 1960's which appears to have receded to the point that in the past three years of the study, only one report contained this form of S.F.D.S. Therefore, if a trend exists for this S.F.D.S., it is a declining one:

The next S.F.D.S. classification used was Liability Schedule. Only 10 reports included this form of Schedule, the lowest of the eight classifications. There is no apparent trend in usage of this schedule.

The sixth classification used was for schedules dealing with income. It was the second lowest used schedule. It was not used by the companies in my sample since 1969. It, therefore, had slight usage from 1955 to 1969 and for the last five years, has disappeared altogether.

Schedules detailing expense items have the same history as the income S.F.D.S.s; that is only 15 observations, one more than income, and no observations since 1969. The usage of this schedule has also died out.

The last schedule classification used was 'other'. Some examples of the type of schedules falling into this class were, Disposition of Each Sales Dollar, financial information about a subsidiary, etc. Even though it was the third most popular schedule, it was used only 72 times during the twelve periods examined. The last four years, there has been a steady-state situation with regards to usage. However,

over the total time period, its usage has also been declining.

As a result of the above analysis, I conclude that the only S.F.D.S.s in common or growing usage are Highlight Summaries and Historical Summaries. The more detailed and technical Historical Summaries were the only ones showing increasing usage in the last few years of the study. Their utility to the individual performing a detailed analysis or evaluation of the company might explain their relative strength. In the last year of the study, 1974, 51.7% of all the companies included a Financial Highlights Schedule and 60% contained an Historical Summary Schedule.

5.4.4 Supplementary Financial Data Schedules - General Questions

Table 42 shows that in the twelve periods examined, 84 of the 914 schedules were classed as being audited. This represented 9.2% of the total. With the exception of 1965, 1966 and 1971, the percentages of audited S.F.D.S.s remained relatively constant. The schedule indicates no trend, either increasing or decreasing with regards to this aspect.

One problem which I faced was distinguishing between S.F.D.S.s and 'Other' Financial Statements. To qualify as an audited S.F.D.S., two criteria had to be met. Firstly, the schedule had to be clearly indicated to be a Supplementary Financial Data Schedule. Secondly, it was required that the statement be covered by the auditor's report. This was accomplished in two ways. The S.F.D.S. had to be either mentioned in the auditor's report or referenced to a statement which was covered by the auditor's report. As a result all Source and

TABLE 42

EXTENT TO WHICH S.F.D.S.s ARE AUDITED
1955 to 1974

YEAR	S.F.D.S.s AUDITED			S.F.D.S.s NOT AUDITED			TOTAL S.F.D.S.s
	NO.	%	% OF YRS TOTAL	NO.	%	% OF YRS TOTAL	
1955	8	9.5	15.4	44	5.3	84.6	52
1960	5	6.0	6.4	73	8.8	93.6	78
1965	4	4.8	5.2	73	8.8	94.8	77
1966	4	4.8	5.3	72	8.7	94.7	76
1967	8	9.5	10.0	72	8.7	90.0	80
1968	9	10.7	10.7	75	9.0	89.3	84
1969	9	10.7	11.4	70	8.4	88.6	79
1970	9	10.7	11.4	70	8.4	88.6	79
1971	5	6.0	6.7	70	8.4	93.3	75
1972	8	9.5	10.5	68	8.2	89.5	76
1973	8	9.5	10.5	68	8.2	89.5	76
1974	7	8.3	8.5	75	9.0	91.5	82
TOTAL	84	100	9.2	830	100	90.8	914

Application of Funds Statements, covered by the auditor's report, were classed as statements. Where they were not, they were classed as S.F.D.S.s. As a result, there is a clear overlapping between the two formats. Perhaps 'Statements - Other' should have been classed as S.F.D.S.s and unaudited Source and Application of Funds be classed as statements.

In any case this classification was considered to be somewhat arbitrary. Perhaps the problem is more deeply rooted to the semi-orphan status of S.F.D.S.s. This is a result of restricting the auditor's report to very specific items. When one realizes that a 'Ten Year Summary' of the Balance Sheet, for example, is classed as a S.F.D.S. and not directly covered by the auditor's report, the problem is highlighted. The balance sheets included in this summary should be consistent with the prior years audited balance sheets. Also the current year of the ten year summary should be identical to the current years audited balance sheet. Yet we do not cover this historical summary in the auditor's report. The same can be said for 'Financial Highlights'. This S.F.D.S. should also be consistent with the audited statements where comparable. Interestingly, the auditor, in reviewing the consistency of the annual report, should object to inconsistent S.F.D.S.s. Therefore, in my opinion, the dichotomy of 'official' statements and 'S.F.D.S.s' is artificial. Perhaps we should review the implications of extending the auditor's report to a greater number of 'Financial Reports' within the 'Annual Report'.

It would be interesting to determine if the slow or no growth of S.F.D.S.s might be related to their unofficial status. Their

potential as a means of developing innovative reporting might be better exploited if they received more recognition. It seems that when certain statements are deemed official and/or necessary, the introduction of new statements/schedules becomes more difficult. After all, if the auditor certifies notes to financial statements, which can, in themselves, be complex schedules, the conferring of some form of legitimacy on the S.F.D.S.s should not be an insurmountable barrier.

This concludes the section describing the usage of S.F.D.S.s. The trends of future usage will be discussed in later segments together with the future trends of Notes to Financial Statements. Our review of the historical trends in usage both generally and specifically has shown that they have not exhibited nearly as much growth and development as 'Notes to Financial Statements'. I have postulated that this might be related to the lack of attention focused on them due to their lacking official status. Their possibility as a means of innovative disclosure should be investigated.

5.5 Hypothesis 3 and Hypothesis 4 - 'Reasons for Increased Usage of Notes to Financial Statements'

5.5.1 Introduction

Hypotheses 3 and 4 examine the reason for the increased usage of Notes to Financial Statements. Even though they are complementary, increasing legal or quasi-legal disclosure requirements and increasing complexity of the reporting company, the means available for testing are in contrast. Evidence to test Hypothesis 3 will be marshalled in a somewhat subjective/descriptive manner, whereas Hypothesis 4

is amenable to a more objective quantitative analysis. The lack of hard objective evidence should however not detract from the attempt to examine the validity of the legal or quasi-legal pressures, as a frequently suggested reason for the increased usage of notes.

Also, as was suggested earlier, these reasons have greater impact on the need to disclosure as opposed to the mode of disclosure. As I will suggest in later segments, the pressure to disclose can be related to these two reasons. But on a less superficial level, what caused notes to become the format of disclosure might be related to the restricted capabilities of the body of the statements to respond to the disclosure pressures. Nevertheless, the pressures for more and, in many cases, different kinds of data acted as the catalyst without which the traditional tabular forms of financial statements might not have changed, at least not as drastically as they appear to have. It would seem, therefore, that the detractors of the increasing quantities of notes might be looking at the wrong problem. The notes themselves might not be the problem. The limited capacity of the traditional statements might, on the other hand, be the problem and therefore, reduction in the usage of notes would not mean 'better disclosure' but 'less disclosure'. I will return to this subject, but first I must examine the catalysts, namely legal and quasi-legal disclosure requirements and the increasing complexity of the reporting organizations.

5.5.2 Hypothesis 3

Hypothesis 3 was stated in Table 5 as:

H₃
INCREASED USAGE OF NOTES TO FINANCIAL STATEMENTS IS RELATED
TO LEGAL AND/OR QUASI-LEGAL DISCLOSURE REQUIREMENTS.

There are two basic ways to test this hypothesis. The first and most direct method would be to examine the specific uses of notes over time, locate points of change, preferably sudden increases in usage, and trace these to changes in legal status such as the Canada Corporations Act or quasi-legal disclosure requirements of the Canadian Institute of Chartered Accountants. Section 3.3.6 indicated four conditions that must exist to permit this method. Because one or all of the conditions might not be present, this direct method has limited application.

A second less conclusive method of testing this hypothesis is to examine note usage and compare it to general disclosure requirements. This method would at least permit us to relate the two. If a note has a high degree of usage without a related disclosure requirement, we could not attribute increasing note usage to legal or quasi-legal disclosure requirements. I will examine the topics listed in Tables 18 and 54 (Appendix "D"), utilizing both methods; in order of their overall frequency. If the topics can be traced to a legal disclosure requirement, either at the point of change or more indirectly, I will have satisfied the requirement of demonstrating the increasing usage is related to legal or quasi-legal disclosure required.

Instead of constantly repeating references to the companies' acts, or sources enumerating legal or quasi-legal requirements, I will enumerate them here prior to the analysis and discussion. They are, The Accounting and Auditing Practice Bulletins, (C.I.C.A.); The C.I.C.A. Handbook, (C.I.C.A.); Financial Reporting In Canada, (C.I.C.A. 1957 to 1975); Analysis and Interpretation of Canadian Financial Statements,

(Langhout 1972); Financial Statement Disclosure Requirements For Canadian Companies, (Peat, Marwick, Mitchell & Co. 1973); Dominion Companies Law Reporter, Vol. 1 & 2, (C.C.H.); Business Corporations Act and Regulations Ontario (1972); Canada Corporations Act (1968).

The most frequent topic of notes was capital stock.

Examining the frequency over time in Table 54, it is apparent that, although increasing consistently, there was no sudden surge of usage. Therefore, it is not possible to pinpoint a particular change in legal or quasi-legal disclosure requirements to associate with usage; on the other hand the extensive usage of these notes can be explained by a continuing flow of statements from the C.I.C.A. by way of Bulletins No. 1, 1948; No. 14, 1957; No. 20, 1964 and eventually the C.I.C.A. Handbook. There has also been active Federal and Provincial corporate legislation requiring disclosure of the type details that are disclosed in notes. The details most frequently required have to do with two general areas; first, complete description of the stock, ie: authorized, dividend rates, existence of conversion provision, stock options, etc. and second, details about any changes that occurred since the last period. As a result, depending upon the complexity of the capital structure, extent of conditions such as share option plans and the extent of changes in authorized or issued shares, companies would make frequent use of notes dealing with capital stock. Therefore, frequent usage of this topic in notes is matched with frequent and extensive legal and quasi-legal disclosure requirements beyond the capacity of the Balance Sheet.

The next most frequent topic, directors' remuneration, also has a long history of legal and quasi-legal disclosure requirements.

It is also interesting to make two particular observations. There was a relatively large increase in 1965 (Table 54) and this coincides with the Canada Corporations Act disclosure requirement at that time. Also Table 55 indicates that comparatively few direct references were made of this note to an account in the companies' statements. Therefore, although disclosed by way of a note, directors' remuneration was rarely considered material enough to rate disclosure on the income statement. Therefore, usage of the note does not seem to be internally motivated but externally required. At this time most provinces, the Federal government and the C.I.C.A. require this disclosure.

The third most frequent note topic was long term debt. This is a good example of the interaction between the requirements to disclose details, changes, covenants, etc. and also the need for the conditions to be present requiring disclosure. In 1955, there are 13 notes dealing with this topic; 24 in 1960; 29 in 1965 and 35 in 1966. All during this period, there was some degree of disclosure requirements, however, the statements examined in the study indicated that there was relatively less use of Long Term Debt by the companies in the sample in the earlier periods. As debt structures become more complex, adhering to the disclosure requirements in the body of the statements would have caused this account to require a large quantity of space. Therefore, both the need to disclose details and increasing number of debt instruments jointly caused the usage of this note to grow.

The topic, basis of accounting for taxes, was the next most frequently used. From Bulletin 10 of the C.I.C.A. in 1954 to 12,

26 and now the Handbook, including at this time most provincial and the Federal Companies' Acts, there has been considerable legal and quasi-legal disclosure requirements. A large portion can be attributed to the need to explain the difference between taxes payable on taxable income and what would be payable, if special accelerated deductions were not permitted for tax purposes. Besides this disclosure, the existence of loss carried forward items or special assessments are required to be disclosed. Therefore, the frequency of this topic matches with conditions and disclosure requirements.

The fifth most popular topic and the tenth, Investment - other and Investment - subsidiaries, have a common reason for usage. Firstly, it has been required to segregate the two accounts and then deal with the methods of valuation and current values. With regards to investment - other, the disclosure of market values and difficulties in obtaining market values if large blocks were liquidated caused textual description. It is required in the case of companies with non-consolidated subsidiaries to disclose the parent company's share of current profits or losses and accumulated changes in equity since acquisition. It is also interesting to note in Table 54, the declining usage of Investment in subsidiaries coinciding with the increasingly stronger requirements that subsidiaries be consolidated. Therefore, both the legal need to disclosure details and changes in accounting recommendations with regards to the method of accounting for subsidiaries can be reflected in the usage and subsequent decline in usage of notes.

The sixth most frequent topic, basis of consolidation and currency translation, have a long history of disclosure requirements both in the legal statutes of the companies' acts and in the quasi-legal recommendations of the Canadian Institute of Chartered Accountants. There are also two circumstances reflected in the change in usage over the time period examined in Table 54. First is that, over time, an increasing number of the companies issued consolidated statements. This is reflected in the increasing usage of this note. The second reflection of change in the usage of this note is the sudden decrease from 1973 to 1974 of 37 times to 18. This can be explained by the switch to disclosing the basis of consolidation in a recently recommended note, disclosure of significant accounting policies, (1972 used 11 times, 21 in 1973 and 43 in 1974). Also the decline in 1974 of the basis of accounting for taxes can also be explained by the usage of this new note. Therefore again we can see the effect of changes in both environmental circumstances and disclosure requirements being reflected in note usage. This further establishes the relationship between the usage of notes and legal or quasi-legal disclosure requirements.

The C.I.C.A. has, for a long period of time, required that the seventh topic, Fixed Assets, be supplemented with details, re: valuation, information concerning appraisals and disclosure by categories. This is matched by similar unanimous disclosure requirements found in the Federal and Provincial companies' acts. Again, however, the complexity of the valuation, the existence of an appraisal and variety of classes would be intervening factors making the disclosure requirements operational.

The 8th and 9th ranking topics relate to commitments of the reporting company. The 8th refers to fixed assets, leases, etc., whereas the 9th refers to disclosure pension plan commitments. These contractual obligations are required to be disclosed in the majority of the companies' acts, and also in the C.I.C.A. recommendations. These future liabilities are not normally capable of being disclosed on the Balance Sheet which is a combination of historical and current values and obligations. Therefore the requirements for disclosure cause the need for footnote format.

The above description of the top ten topics represents 70% of the notes of the companies examined over the twenty year time period. Similar analysis can be made of the balance of topics. The point, however, has been made. The analysis indicates that, for the reasons enumerated earlier, direct relationship between note usage and legal or quasi-legal requirements for disclosure is difficult. However, the notes themselves satisfy disclosure requirements which would be difficult or impossible in the body of the Financial Statements. This is due to the descriptive nature or extensive detail of the disclosures needed to satisfy these disclosure requirements.

More direct effect of legal disclosure requirements on note usage is still apparent however. For example, the decrease in the usage of notes to describe the basis of consolidation or basis of accounting for taxes can be linked to the required disclosure of significant accounting policies. This same topic, significant accounting policies, also demonstrates that companies' usage of particular notes can precede its legal requirement. This topic was required in 1974; however, as Table 54 indicates, the first large increase in usage occurred in 1973

but it was also used in earlier years. Therefore, although the legal necessity can be linked to increased usage, it does not create a cause-effect relationship. The table indicates usage prior to being legally required; as well it indicates that 17 out of the sixty companies were still not using the note in 1974.

As a result of the preceding analysis, I have shown that legal and quasi-legal disclosure requirements are related to increased usage, therefore confirming H_3 . The analysis also indicated other mitigating circumstances; one of these was the organizational setting required to create a need to disclose. One instance is the increasing complexity of the reporting organizations creating sufficient circumstances which would operationalize the legal disclosure requirements to the particular company. This will be examined in the next segment which tests H_4 .

On a more general level, the increasing usage of notes occurred as the C.I.C.A., as well as governmental regulatory bodies, were requiring greater financial disclosure. As Tables 15A/15B and 16A/16B indicate the usage of notes relative to the statements as a whole increased dramatically, 2.5 to 3.5 times increase in the mean and 4.5 to 11 times increase in the median, (notes as a percentage of notes and statements). This relative increase indicates that notes were absorbing new disclosure requirements more than that of the body of the statements. Therefore, both on a general level and specific instances, the evidence is compelling in favour of accepting the hypothesis that the increasing usage of notes is related to legal and quasi-legal disclosure requirements. I will now examine Hypothesis 4

which relates the extent of corporate complexity to the usage of notes.

5.5.3 Hypothesis 4

Hypothesis 4 as stated in Table 6 was:

H₄

INCREASED USAGE OF NOTES TO FINANCIAL STATEMENTS IS RELATED TO THE INCREASING COMPLEXITY OF THE REPORTING FIRMS.

In order for a company to be affected by a disclosure requirement, it would need a situation where the circumstances requiring disclosure exist. It would therefore be expected that increasing diversity and size of company would be related to increasing usage of Notes to Financial Statements.

As was indicated earlier in this chapter and in Chapter Three, this relationship is testable in a more rigorous, quantitative manner than Hypothesis 3. The procedure used will be to first determine the existence of the relationship and then measure the strength of the association. This will be accomplished by examining the relationship of whether the statements were consolidated, number of firms consolidated, asset size of firm, and gross revenue with the three measures of usage; number of notes, pages of notes as a percentage of the total pages of notes and statements, and the number of words. Therefore, increasing complexity is defined in this study as to, whether the statements are consolidated, increasing numbers of consolidated subsidiaries, increasing gross revenue and increasing asset size.

One of the first problems to be dealt with was to recode the variables in a way that the guideline requirements for the use of χ^2 be met. It is suggested that the expected frequencies, (E_{ij})

should not be too small. The suggested guidelines for use of χ^2 are that fewer than approximately 20 percent of the cells have expected frequencies of less than 5 and no cell have an expected frequency of less than 1. It is also suggested the combining of categories should be meaningful. (Siegal 1955 p178) Therefore the variables were re-coded with the following results: numbers of subsidiaries was collapsed into 7 categories, revenue was divided into 12 categories, assets into 11 categories, quantity of notes into 11 categories, percentage of pages of notes - 10 categories and number of words into 11 categories.

Table 43 lists the relevant statistics of the pairs examined to test. Table 43 indicates the significance of .0000 for all the χ^2 statistics and .0000 for the Contingency Coefficient and .001 to .002 for the Kendall's tau statistic. These would be satisfactory levels of significance to accept that the pairs are related and measures of association were significantly above 0.

The Contingency Coefficient was used to examine the strength of the relationship between consolidated and non-consolidated statements and the quantity of notes because of the nominal (categorical information) scale of the variable consolidated. The statistic goes from 0 (no association) and approaches 1 as the table size increases beyond 2 x 2. The maximum for a 2 x 2 table is .707. The level of significance is the same as the χ^2 used to calculate the Contingency Coefficient. Since its upper limit changes as the table size changes, only tables of equal size should be compared. (Siegal 1955 pp200-201)

The Kendall tau was used for the other variable pairs because of their ability to be ranked. The statistic goes from -1 to

TABLE 43

SUMMARY OF STATISTICS RELATING TO EXISTENCE,
AND STRENGTH OF ASSOCIATION BETWEEN MEASURES
OF FIRM COMPLEXITY AND QUANTITIES OF NOTES

VARIABLE PAIRS	CHI-SQUARE	DEGREES OF FREEDOM	SIGNF. COEFFICIENT	CONTINGENCY COEFFICIENT	SIGNF.	WITH CATEGORIES WITHOUT CATEGORIES	
						KENDALL'S TAU	KENDALL'S TAU
Consolidated - Qty. of Notes	123.78	10	.0000	.39	.0000	.29	.001
Consolidated - Percent Notes	94.29	9	.0000	.35	.0000	.11	.001
Consolidated - No. of Words	121.53	9	.0000	.39	.0000	.16	.001
No. Consolidated - Qty. of Notes	129.35	40	.0000	.39	.0000	.37	.001
No. Consolidated - Percent Notes	92.35	36	.0000	.22	.0000	.19	.001
No. Consolidated - No. of Words	91.89	36	.0000	.34	.0000	.31	.001
Revenue - Qty. of Notes	361.26	90	.0000	.42	.0000	.42	.001
Revenue - Percent Notes	235.76	81	.0000	.27	.0000	.25	.001
Revenue - No. of Words	204.49	81	.0000	.41	.0000	.38	.001
Assets - Qty. of Notes	497.02	100	.0000				
Assets - Percent Notes	306.32	90	.0000				
Assets - No. of Words	403.99	90	.0000				

0, negative association, 0 where the two variables are unrelated and greater than 0 to 1 for a positive association.

The first three pairs examine the strength of the association between whether the statements are consolidated and the three measures of the quantity of notes, using the Contingency Coefficient. The first pair has a slightly larger table than the other two, therefore only the last two are comparable. They all, however, indicate positive association with the association of company being consolidated and increasing numbers of words being greater than notes as a percent of statements and notes increasing.

With the remaining three groups of pairs, the Kendall tau statistic was calculated. It was calculated both using the categorized data, used in determining the χ^2 statistic, as well as uncategorized. Again all Kendall taus are positive and all significant to the .001 level, with one exception, that being .002. The Kendall's tau statistics for the categorized and uncategorized data is very similar. The strongest association is between assets and the quantities of notes, followed by revenue and number of subsidiaries consolidated.

All of the statistics, χ^2 , Contingency Coefficients and Kendall's Tau indicate the acceptance of H_4 . Therefore, increasing complexity, as defined by these variables, is associated with the increasing usage of Notes to Financial Statements.

This concludes this section which dealt with reasons for usage. It has been shown that, during the 20 year period examined, increasing usage of notes has been associated with legal and quasi-legal disclosure requirements which are also increasing, and increasing

complexity of the reporting firms. While it would be premature to see these factors in a cause-effect relationship, they will be useful in suggesting the future trends in usage.

5.6 Expected Trends in Usage of Notes to Financial Statements and S.F.D.S.

5.6.1 Introduction

The only remaining research question is, "What are the expected trends in usage? and why?". The usage of notes and S.F.D.S.s has not been shown to be the result of a cause and effect relationship. Therefore, attempts to predict future trends are constrained. What is possible is an educated guess. This section will briefly examine the possible future trends in usage based on the findings with regards to historical trends.

5.6.2 Trends in Usage of Notes

In order to predict the future from historical trends, one must identify the key factors affecting historical behavior and be able to predict what these factors will be like in the future. It has been shown that the usage of Notes to Financial Statements increased and that this increase was associated with legal and quasi-legal reporting requirements and the increasing complexity of the reporting firms.

Should these two factors continue to be operational, there is every reason to believe the usage of notes will continue to increase. The legal and quasi-legal disclosure requirements are the reflection of increasing pressure from the users and possible users of financial

statements. Full disclosure is a popular cause in a society demanding increasing democratization of its institutions. There does not seem to be any reason to believe that this will change in the near future.

The second aspect, increasing complexity of the reporting organization, is also unlikely to change. It seems that financial reporting is going to have to continue to find ways of reflecting the positions and operations of increasingly large organizations who are finding that the constituency to whom they report is becoming larger and more diverse. This is reflected in the effort being made to develop in areas such as social accounting.

I would therefore propose that, unless the tabular portion of the Financial Statements undergoes change, notes will continue to be used to accommodate new disclosure requirements. They appear to contain an element of flexibility which is needed. I suggest that notes, as a means of disclosing financial data, are more flexible than the tabular portion of the financial statements for five reasons. First, notes are not confined to a proscribed form. Second, notes are able to contain both qualitative and quantitative data. Thirdly, notes are not confined to a single statement and can in fact refer to financial data related to more than one statement. Fourth, notes can disclose data not related to any of the traditional statements. Fifth, notes are not restricted to a point estimate measurement, and can in fact give a range or a number of alternate values.

Also, even though H₃ and H₄ point out important impacts on increased usage, there is an underlying factor, namely the inability of the traditional tabular Financial Statements to cope with these two

factors. Therefore, unless the basic format of our present financial statements undergoes a change, I would expect the continued relative growth of notes. What might occur is that the statements will be a summary statement followed by notes, (or similar format using another name), which contain the bulk of the data.

5.6.3 Trends in Usages of S.F.D.S.

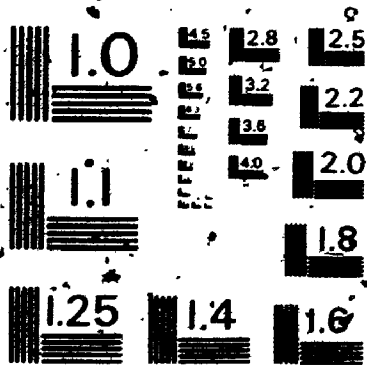
Increases in the usage of S.F.D.S. has been much less dramatic. I have shown that there has been an overall small increase in total usage; that is a small increase in the number of firms using S.F.D.S.s. There is, however, no evidence that individual firms are using more supplementary schedules. The usage of historical statistical summaries have almost reached the point where they can not grow much more since most companies now use them. It seems that these formats of disclosure lack the impetus and legal sanctioning found to be related to the usage of notes.

Two recent occurrences increase my feeling that the usages of S.F.D.S. will not grow very quickly in the near future. The first was the lack of inclusion by the vast majority of companies in 1975 of prime level adjusted Financial Statements, as S.F.D.S.s. (Annual Reports . . . 1976 p8) Disclosure in this manner was recommended but not required, by the Canadian Institute of Chartered Accountants. This may change but it appears that it might require more legal enforcement to get the majority of companies to disclose this additional data. The importance of legal enforcement in the development of financial disclosure was stressed by Maurice Moonitz in a research study he authored.

3

4

OF/DE



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A

(Moonitz 1974) The second recent occurrence is the shelving by the Canadian Institute of Chartered Accountants of a research project looking into special purpose statements. (Thomas 1976 p58)

Circumstances of the above sort do not convince me that the usage of S.F.D.S. will increase very quickly. Interestingly within the Notes to Financial Statements are found quite long and complex schedules. They are, therefore, seen as a preferable vehicle of disclosure as opposed to increasing usage of S.F.D.S. Therefore, in conclusion, it was shown that there is a no growth or slow growth trend to the usage of S.F.D.S. and it does not appear that there will be any change in the near future.

5.7 Summary and Conclusions

This conclusion will be brief, leaving a more comprehensive summary, including implications, to the final chapter of the thesis. The purpose of this conclusion is to merely outline what I have covered in this chapter, prior to examining the results of the interviews and mail survey which examined the perceptions of preparer/user groups to Notes to Financial Statements.

The purpose of this chapter was to investigate the usage of Notes to Financial Statements and Supplementary Financial Data Schedules. Two Statement Analysis Forms were used to gather data concerning the usage of these forms of disclosure over the last twenty years. The documenting and analysis of this data was reported in this chapter. The purpose was to measure and describe the change in usage of these formats of disclosure.

The data accumulated and its analysis confirmed Hypothesis 1 that the usage of Notes to Financial Statements has increased over the last 20 years. One of the more indicative measures was the increase in notes as a percentage of notes and statements. At the end of the period examined, notes had reached the point where they represented 1/3 of the space devoted to the audited section of the corporate financial reports. The growth in the usage has gone through three steps; fast growth - 1955 to 1968, less growth and relatively stable - 1968 to 1972, and returning to fast growth from 1972 to 1974. It is also apparent that the traditional measure; number of notes, relatively underestimates the extent of growth. By examining specific uses, I identified certain uses which predominate. I was also able to show the periods of relative dominance of certain notes. The top ten note topics were discussed and compared to their counterparts in a schedule which used direct referencing as a means of identifying usage. It was also shown that notes were not merely a format change, but also a means of disclosing new information. I demonstrated that smaller (regional) auditor firms are not associated with companies using more notes. This is contrary to a hypothesis found in an earlier thesis. (Chapin 1965) Although a small majority of firms used a print size for notes that was equal to that of the statement, (as opposed to smaller) there appeared to be no strong trend to continue to move in this direction. A majority (67.5%) of notes were found after the statements with this location strengthening over time. With regards to general referencing, a majority of companies do not give a general indication of the notes and this situation also appears stable. Most financial reports, however, used

some degree of direct referencing; this was not, however, the case for the individual statements.

Supplementary Financial Data Schedules were found to be in a much less fluid and dynamic situation. My data indicated an increase in overall usage of S.F.D.S.s. This was due to an increase in the number of companies using these forms of disclosure. There was, however, no trend of increasing usage of S.F.D.S.s by individual companies. Therefore, Hypothesis 2 could not be confirmed in an unqualified manner. Rather than increasing, S.F.D.S.s appear to be stagnating. The usage of S.F.D.S.s was dominated by two schedules, Financial Highlights and Historical Summaries. Of the two, Historical Summaries appeared to be gaining in strength. S.F.D.S.s on the whole, remain unaudited. The conclusion drawn from this segment was the S.F.D.S.s were suffering from lack of recognition. Their potential as a testing area for new forms of disclosure was not being exploited.

Both Hypothesis 3 and 4 were confirmed. Namely, that the increasing usage of notes is related to legal and quasi-legal disclosure requirements, and also related to the increasing complexity of the reporting firms. The first hypothesis had to rely on less direct methods of confirmation due to other factors which tended to mask the relationship. On the other hand, Hypothesis 4 was proven in a much more conclusive quantitative fashion.

Drawing on the whole chapter, I indicated that the usage of notes would continue to increase whereas S.F.D.S. would continue to stagnate. The most important underlying factors are the trend towards more disclosure and the inability for the traditional tabular statements

to cope with the situation. If a change occurred in these factors, it would probably cause a change in the trend of usage of Notes to Financial Statements.

I believe that the pressures for increasing financial disclosure are being relieved by the most flexible format available, Notes to Financial Statements. It seems that they are a reflection of what is happening in financial disclosure. As a result, they are much more important than a mere appendage or, in the words of the C.I.C.A., 'useful for clarification or further explanation'. I would suggest that this appendage role has tended to retard their development and degrade their importance. Rather than assume a negative or critical view of notes, we should recognize their importance and move to make them as efficient and effective as possible, at least until better means of disclosure are developed.

In the next chapter, I will investigate the more evaluative aspects of the perception to notes by important preparer/user groups.

CHAPTER SIX

PERCEPTIONS OF SELECTED PRODUCERS AND

USERS OF FINANCIAL STATEMENTS TO

NOTES TO FINANCIAL STATEMENTS

6.1 Introduction

The purpose of this chapter is to examine the perceptions of producers and users of Financial Statements to Notes by documenting and analyzing the results of the interviews and mail questionnaire. As in the previous chapter, the order followed will be consistent with the detailing of the hypotheses and research questions. In this case the pertinent Tables are 8, 9 and 10.

6.2 Interviews

6.2.1. Design of Mail Questionnaire

The end result of the interviews with regards to the questionnaire design is the final questionnaire found in Appendix "C" and described in Chapter Four. The interviewees were observed while completing the questionnaires and then debriefed. The purpose was to insure that the questions were clearly understood and appropriate.

It was found in the interviews that the covering letter and questionnaire instructions were understandable and required few

alterations. The definitions in the front sheet were developed with the help of those interviewed. The important point, especially it seemed from the point of view of the C.A.s who were interviewed, was to differentiate between the notes and the body of the financial statements. Their professional training caused them to be reluctant to perceive these formats as being separable. The final definitions used appeared to clarify this problem. The interviews were also useful in clarifying the wording of the questions themselves. I also sought the interviewees' opinions regarding the general format and design of the questionnaire. This was considered in the context of insuring that the purpose of the questionnaire be maintained while encouraging a satisfactory response rate. All of those I interviewed assured me the length and subject matter would not discourage response.

The next area which benefited from the interviews were the changes related to the questions dealing with the relative significance of notes versus the body of the statements. The initial questionnaire asked only one question. Generally it asked, "if notes were perceived as significant as the body of the statement?". The interviewees suggested that the response to this question was dependent upon whom the user of the financial statements was. This possibility raised two issues.

The first issue raised is whether the traditional concept of notes being an integral part of the statements was practiced in the real world. The need to clarify or indicate who was the prospective user was, interestingly, also raised by C.A.s who were themselves reluctant at times to consider notes as being separable from the body of the

statements. In any case the interviewees convinced me of the need to specify the user when asking respondents to give their opinions regarding the perceived significance of Notes to Financial Statements.

This led to the second issue, "what classifications of users might be acceptable?" The first dichotomy was expert versus non-expert. It was first suggested that the significance of notes was a function of whether the user was a specialist or expert. The experts needed and used notes and saw them as being equally or even more significant than the body of the statements. It was also suggested that the three groups to whom I was directing the questionnaire might perceive the significance of notes differently. It was therefore finally decided to relate the significance of notes to three groups: the individual responding to the questionnaire, the other respondent groups and the general public or the less expert users.

A more detailed list of users was considered to be not attractive for two reasons. Firstly, I felt it would be difficult enough for the respondents to provide their opinions on these three groups without further complicating the issue by distinguishing more user groups. Secondly, I wished to maintain the brevity of the questionnaire to insure a satisfactory response rate. A possible additional reason from my point of view was the realization that this was an initial evaluation of notes and subsequent research studies would require increased objectivity and more precise measurement.

The interviewees contributed other less major points to the final construction of the questionnaire since any ambiguities they found were clarified as much as possible. The average time taken to

complete the questionnaire was approximately ten minutes. I was therefore satisfied that the respondents would not be discouraged from responding due to the length. The overall opinion of the people interviewed was that I should get an adequate response rate judging from the questionnaire itself.

6.2.2 Perceptions of Interviewees Towards Notes

The interviewees were relatively consistent with a few general themes being expressed by the majority of the respondents. There was general agreement, as was expected, that the usage of notes has increased. This increase was referred to as "providing better disclosure" and it was also said that, "increased disclosure was useful". The feeling of the majority appeared to be that notes are acting as a means of increasing the amount of data corporations disclose and generally, this trend was felt to be for the better.

A second theme expressed was that the additional disclosure was seen as more useful for experts. One analyst indicates that he starts with the body of the statements and moves on to the more complex notes as the depth of his analysis increases. The type of comments made were, "for some less sophisticated users, notes are irrelevant", "more specialized information", "experts' information", etc. Even the non-analysts referred to notes as mainly serving analysts or professionals.

The increased usage of notes resulting from new disclosure was frequently attributed to legal requirements. For example, some comments made were, "notes are due to increasing legal disclosure

requirements", "notes are a function of legislative requirements"; and "notes have expanded due to pressures from statutory bodies".

The analysts were often seen as the main recipients of this added disclosure. A Chartered Accountant stated, "information in notes is mainly for in depth study of corporations by analysts". A corporate treasurer said that "most of the public ignore notes, analysts read them". An analyst made the following interesting comment, "Analysts will get the information anyway, notes are a short cut". The analyst group was seen as an important source of pressure with regards to changes in financial disclosure and, as a result, the new data was directed at them as primary or at least important users.

Besides the theme of more disclosure for expert users, the respondents expressed the view that the general format of the annual reports was changing. The evolution they described indicated that the single general purpose report was becoming segmented. Different people would be interested or not interested in different parts of the report. One senior analyst with extensive experience and more than average interest and knowledge about financial disclosure used the term, 'staged reports'. He elaborated that perhaps the body of the Financial Statements would be an essential summary for the more casual user whereas the notes would contain detail and more complex data of interest to the individual performing more in depth research and analysis. A change in this direction would require a rethinking of the format of financial disclosure and the relationship of Notes to Financial Statements to the body of the statements. He also expressed the opinion that the variety of constituents, shareholders, employees (unions),

governments and the general public might cause further fragmentation since different users with different data needs might not be able to be satisfied by the same reports.

On a general level the analysts and corporate officers were very conscious of notes and expressed considerable interest in my study. The chartered accountants expressed concern over their expanded liability resulting from the expanded quantities of disclosure. One Chartered Accountant stated that, up to a few years ago, he tended to repress the usage of notes and only recently viewed them in a positive light. A corporate officer, who was also a Chartered Accountant, stated that he "saw notes as more useful since he started preparing statements versus auditing them." The interest expressed by the interviewees indicated that the increasing usage of notes and their relationship to changes in financial disclosure was an active topic in the real world.

6.2.3 Summary and Conclusions - Interviews

The primary objective of the interviews, to pretest the questionnaire, was felt to have resulted in an improved questionnaire. There is of course no direct way of evaluating the end result. The interviews certainly were useful in debugging the questionnaire but also added to it in a positive way. The interviewees provided to me both real life feedback on my proposed study and initial data on producer/user perceptions of Notes to Financial Statements.

6.3 Mail Questionnaires

6.3.1 Introduction

The findings associated with the mail questionnaire will begin with an examination of response rate. Then the findings will be reported and analyzed in the manner described in the opening paragraph. This initial evaluation of the usage of Notes to Financial Statements follows the description of the extent and kind of growth in the usage of notes. The findings described in Chapter Five increase the urgency that we evaluate the usage; the findings resulting from the mail questionnaire, which will be described, are somewhat indirect but nevertheless an initial step in this direction.

6.3.2 Questionnaire Response Rate

Table 44 describes the responses received from the mailing of the questionnaire to the sample described in Chapter Four. Of the 992 mailed, 60 were returned either by the post office or various individuals. The post office returns were due to incorrect addresses. The other returns were made by individuals who for various reasons did not consider themselves to be suitable respondents.

The usable overall response rate for the remaining 842 questionnaires mailed was 39.8%. Any findings from a mail questionnaire are limited by the possible bias of the non-respondents. The problem with non-respondents is that you cannot assume that they are the same as the respondents. Most research texts indicate that the reasons for non-response are numerous and can vary from study to study. (Babbie 1973, Selltitz et al 1959, Simon 1969) Therefore the findings from a mail

questionnaire could be limited, especially if the reasons for non-response are due to factors which would effect the type of responses, for example, personal or morally sensitive questions. A subjective evaluation of my questionnaire however does not lead me to this conclusion.

TABLE 44

RESPONSE RATE TO MAIL QUESTIONNAIRE

	CORPORATE OFFICERS	CHARTERED ACCOUNTANTS	ANALYSTS	TOTAL
Mailed	288	311	303	902
less:				
Returned by Post Office	19	10	7	36
Balance (A)	269	301	296	866
Returned Other	6	10	8	24
Balance (B)	263	291	288	842
Usable Responses (C)	117	121	97	335
Response Rate A/C	43.4%	40.2%	32.8%	38.7%
Response Rate B/C	44.5%	41.6%	33.7%	39.8%

My response rate compares favorably with studies in the U.S. and Canada who mailed to similar groups in a similar manner. In two U.S. studies which mailed to Financial Analysts, the following response rates were reported; 21.3% and 26.2% in mailings to 150 and 500 analysts respectively, (Buzby 1974) and 47.6% and 42.6% returns in

a mailing to 231 C.P.A.s and 298 Analysts respectively, (Godwin 1975)

In Canada in a recent study dealing with financial disclosure, a questionnaire was mailed to 203 Chartered Financial Analysts and a response rate of 20.7% was achieved (Eamer, 1975). My response rate of 44.5% - Corporate Officers, 41.6% - C.A.s., and 33.7% - Analysts achieved a superior rate of return than two of the above studies and somewhat smaller rate than the Godwin Study. This does not eliminate my response bias but does at least indicate that my questionnaire did not create an unusually low response rate.

As a result of the above, any findings and conclusions drawn from the data will have to be treated somewhat tentatively. However, non-response bias, even though it is a serious problem when using the mail questionnaire, has to be lived with. In favour of the findings is the substantial returns, which compare favorably with other studies. There is also the lack of indication either from the interviews or the receipts from the mailing that the reason for non-response can be attributed to factors related to the possible findings derived from the questionnaire.

6.3.3 The Perceived Significance of Notes to Financial Statements

Hypothesis 5, the first to be tested using the results of the mail questionnaire, was:

H₅

NOTES TO FINANCIAL STATEMENTS ARE PERCEIVED TO HAVE THE SAME SIGNIFICANCE AS IF THE INFORMATION OR EXPLANATIONS WERE SET OUT IN THE BODY OF THE STATEMENTS.

Table 45 details the responses to the questions which examine this hypothesis which paraphrases the recommendation of the Canadian Institute of Chartered Accountants and the traditional assumption concerning notes. The interviewees suggested that the relative significance of notes was related to the perceived user. Therefore the three questions examine first: the respondent's own perception of relative significance, followed by what he or she thought the other respondent groups perceived and lastly, more general users, described as shareholders or the general public.

Table 45 indicates that a majority of the respondents, both individually (Corporate Officers - 62.4%, C.A.s - 72.5%, Analysts - 69.1%) and as a group (68%), perceive that notes have the same significance as the body of the statements. They also believe with slightly lower percentages, with one exception, (Corporate Officers - 64.9%, C.A.s - 61.3%, Analysts - 58.2%) and as a group (61.7%) that the competing respondent groups also perceive notes as equally significant. The lack of a significant difference between these two questions at the group level is indicated by a χ^2 of 2.75, $\alpha = .10$. On the other hand they believe the general users do not see notes as significant, (Corporate Officers - 70.8%, C.A.s - 73.9%, Analysts - 87.2%) and as a group, (76.7%). The differences between Questions 7 and 9 and Questions 8 and 9 are statistically significant, as indicated by χ^2 s of 132.6 and 98.1 respectively, and in both cases $\alpha = .0000$.

In summary the data confirms H_5 with regards to the respondents themselves, and their perception of their competing groups. The data indicates however that these respondents would not confirm H_5 with

TABLE 45

RESPONSES DEALING WITH PERCEPTIONS OF
RELATIVE SIGNIFICANCE

	CORPORATE OFFICERS		CHARTERED ACCOUNTANTS		FINANCIAL ANALYSTS		TOTAL	
	AMT	%	AMT	%	AMT	%	AMT	%
<u>Question 7</u>								
Do you perceive Notes to Financial Statements as having the same significance as if the information or explanations were set forth in the body of the statements themselves?								
YES	73	62.4	87	72.5	67	69.1	227	68.0
NO	44	37.6	33	27.5	30	30.9	107	32.0
<u>Question 7a</u>								
If no, do you perceive them as								
LESS SIGNIFI.	19	44.2	14	43.8	7	23.3	40	38.1
MORE SIGNIFI.	24	55.8	18	56.2	23	76.7	65	61.9
<u>Question 8</u>								
Do you think the other respondent groups (eg: Corporate Officers, C.A.s, or Analysts) see Notes to Financial Statements as having the same significance as if the information or explanations were set out in the body of the statements themselves?								
YES	74	64.9	73	61.3	53	58.2	200	61.7
NO	40	35.1	46	38.7	38	41.8	124	38.3
<u>Question 8a</u>								
If no, do you think they perceive them as								
LESS SIGNIFI.	19	47.5	27	60.0	20	52.6	66	53.7
MORE SIGNIFI.	21	52.5	18	40.0	18	47.4	57	46.3

TABLE 45 (CONT'D)

	CORPORATE OFFICERS		CHARTERED ACCOUNTANTS		FINANCIAL ANALYSTS		TOTAL	
	AMT	%	AMT	%	AMT	%	AMT	%
<u>Question 9</u>								
Do you think other people generally (eg: shareholders, general public) see Notes to Financial Statements as having the same significance as if the information or explanations were set out in the body of the statements themselves?								
YES	33	29.2	31	26.1	12	12.8	76	23.2
NO	80	70.8	88	73.9	82	87.2	250	76.7
<u>Question 9a</u>								
If no, do you think they perceive them as								
LESS SIGNIFI.	71	88.8	76	89.4	72	92.3	219	90.1
MORE SIGNIFI.	9	11.2	9	10.6	6	7.7	24	9.9

NOTE: The replies to Question 7a total 105 or two less than the 'no' replies to Question 7. This occurred because two respondents who replied 'no' to Question 7 did not respond to Question 7a and non-responses were not included in the above table. Other similar situations were treated in a similar manner.

regards to the others generally, (shareholders, general public). The implications of this finding and others described in this chapter will be left to the final chapter of the thesis. Both Chapter Five and this chapter on the whole restrict themselves to reporting findings.

The above data and analysis also responds to RQ1 of Table 8, as well as the first parts of RQ2, RQ3 and RQ4. Whether the groups responded in a similar manner will be examined later in this segment. Of interest next is what those respondents who did not agree with H_5 replied when asked if notes were more or less significant.

With regards to the respondents themselves, a majority of those who replied that they did not perceive notes as equally significant, perceived notes as more significant, both individually and as a group. As Table 45 reveals, Analysts had the highest percentage in this direction, 76.7%. On the other hand, those who replied 'no' to Question 8 gave the opposite opinion when asked the same question. This is an early indication of a possible communication conflict. Two of the three groups, Chartered Accountants and Analysts, indicated that the other respondent groups saw notes as less significant. A majority of the Corporate Officers who replied 'no' to Question 8 felt that the other respondent groups perceived notes as more significant.

In responding to Question 9, a relatively large majority replied that they felt that people, other than those surveyed, did not see notes as being equally significant. In responding to its related question, the largest majority of all questions was given indicating that the respondents felt that 'others generally' perceived notes as being less significant. This data also answers RQ4, that notes are

perceived by the respondents as being more significant and presumably more useful to themselves who are professionals, versus less specialist groups.

TABLE 46

STATISTICS MEASURING THE SIMILARITY IN RESPONSES
OF THE GROUPS TO THE RELATIVE SIGNIFICANCE
OF NOTES TO FINANCIAL STATEMENTS

	χ^2	Df.	Signif.	Contingency Coefficient
Contingency Table Respondents to:				
Question 7	2.86	2	.24	.09
Question 7a	3.83	2	.16	.18
Question 8	.96	2	.62	.05
Question 8a	1.40	2	.51	.11
Question 9	8.54	2	.01	.16
Question 9a	.64	2	.73	.05

The last part of the research questions in Table 8 dealt with the consistency among the respondent groups. Table 46 lists statistics which measure whether the three groups of respondents' replies are different. The Chi-square statistic and Contingency Coefficient were calculated for the six pairs of comparisons, consisting of the identity of the respondent groups with the replies to Questions 7 through 9a. The measure of the level of significance disclosed is the same for both the Chi-square and the Contingency Coefficient. For dis-

discussion purposes, I will use an α of .01 to accept that the replies are dependent upon the respondent group (ie: if $\alpha > .01$, reject hypothesis that there is no difference in the replies). This, as earlier sections of the thesis indicated, would not measure the strength of the association. Therefore, the Contingency Coefficient was also calculated as a measure of the strength of the association, should one exist.

Table 46 indicates that the only pair of comparisons with a sufficient indication of a degree of association between the respondents and their replies occurred with Question 9. The level of significance of .01 meets the criteria established for discussion purposes. However, the Contingency Coefficient of .16 indicates that the association is weak. Table 45, Question 9 shows that the difference being isolated is the approximately 17 percent point spread among the replies. The replies being, 70.8% of Corporate Officers, 73.9% of C.A.s, and 87.2% for Analysts, thinking that notes are not perceived as equally significant by others generally. The difference is not one of direction but one of degree. The low Contingency Coefficient is an indication that the association is not very strong. I conclude therefore that there is insufficient evidence of a substantial difference in the way the respondents view the relative significance of Notes to Financial Statements versus the body of the statements.

In summary to this section, Hypothesis 5 is confirmed with regards to the respondents' perceptions of themselves and how respondent groups view themselves. The three groups of respondents however think that less specialist groups would see notes as being less significant. Discussion of this finding and implications will be continued in the

concluding chapter. My data do not provide evidence, with regards to relative significance of notes, to lead me to confirm the findings reported in the Morton Thesis. On the whole, the three respondent groups replied in a similar manner. There were only two indications of differences, the first being the replies to Question 8a, which was not statistically significant, and the second, the replies to Question 9 whose strength of association was relatively weak.

6.3.4 The Perceived Effectiveness and Efficiency of Notes to Financial Statements

Hypothesis 6 and 7 listed in Table 9 were:

H₆ NOTES TO FINANCIAL STATEMENTS ARE PERCEIVED TO BE EQUALLY EFFECTIVE FOR DISCLOSING SIGNIFICANT INFORMATION AS THE BODY OF THE STATEMENTS.

H₇ NOTES TO FINANCIAL STATEMENTS ARE PERCEIVED AS BEING LESS EFFECTIVE FOR DISCLOSING SIGNIFICANT INFORMATION THAN THE BODY OF THE STATEMENT.

Table 47 gives the replies to Questions 10 and 10a which address H₆ and H₇. A small majority overall (53.5%) indicated that they did not perceive notes to be as effective as the body of the financial statements. On an individual basis, the Corporate Officers perceive notes as being not equal by the largest majority - 60.9%. This compares with the 53% of the Analysts who also indicated that they did not perceive notes as being equally effective. A small majority of the Chartered Accountants (53.3%) perceived notes as being equally effective.

As an indicator of the statistical relationship between the responses, I calculated the Chi-square statistic comparing;

TABLE 47

RESPONSES DEALING WITH PERCEPTIONS OF
RELATIVE SIGNIFICANCE

	CORPORATE OFFICERS		CHARTERED ACCOUNTANTS		FINANCIAL ANALYSTS		TOTAL		
	AMT	%	AMT	%	AMT	%	AMT	%	
<u>Question 10</u>									
If data containing significant information could be disclosed in the body of the Financial Statements or in the Notes to Financial Statements, would you perceive footnote disclosure to be equally effective (able to achieve desired objective) in communicating the information?									
	YES	45	39.1	64	53.3	44	46.8	153	46.5
	NO	70	60.9	56	46.7	50	53.2	176	53.5
<u>Question 10a</u>									
If no, would footnotes be,									
	LESS EFFECTIVE	52	80.0	47	85.5	44	89.8	143	84.6
	MORE EFFECTIVE	13	20.0	8	14.5	5	10.2	26	15.4

NOTE: The replies to Question 10a total 169 or seven less than the 'no' replies to Question 10. This occurred because seven respondents who replies 'no' to Question 10 did not respond to Question 10a and non-responses were not included in the above table. Other similar situations were treated in a similar manner.

Corporate Officers with Chartered Accountants, $\chi^2 = 4.72$, $d.f. = .03$, Contingency Coefficient .14, and Analysts with Chartered Accountants, $\chi^2 = .86$, $d.f. = .37$, Contingency Coefficient .06. These statistics indicate that the differences between the Corporate Officers' replies and Chartered Accountants is the larger of the two. But if .01 level of significance is again used, we could not reject that there are no differences. Comparison of the three groups together will be reviewed later.

In summary, therefore, a small overall majority of responses does not support Hypothesis 6. On the other hand, the Chartered Accountants' group do support the hypothesis. These mixed results indicate a certain degree of uncertainty by the respondents. Nevertheless the respondents' replies did not confirm H_6 .

Question 11a indicates that a large majority (84.6%), those who do not perceive notes as being equally effective, see them as being less effective. Therefore this segment of the respondents confirm Hypothesis 7. Even though all of the individual groups as well as the groups in total responded to Question 11a overwhelmingly indicating notes to be less effective, they do not represent a majority of the total respondents. Therefore, confirmation of the hypothesis is restricted to those who do not perceive notes as being equally effective. Nevertheless the percentages, Corporate Officers - 80%, Chartered Accountants - 85.5%, and Financial Analysts - 89.8%, indicate that a large number of the respondents perceive notes to be less effective.

Hypotheses 8 and 9, set out below, deal with the relative efficiency of Notes to Financial Statements.

H₈. NOTES TO FINANCIAL STATEMENTS ARE PERCEIVED AS BEING EQUALLY EFFICIENT FOR DISCLOSING SIGNIFICANT INFORMATION AS THE BODY OF THE STATEMENTS.

H₉. NOTES TO FINANCIAL STATEMENTS ARE PERCEIVED AS BEING LESS EFFICIENT FOR DISCLOSING SIGNIFICANT INFORMATION AS THE BODY OF THE STATEMENTS.

Table 48 gives the responses to Questions 11 and 11a.

Interestingly, there is considerable similarity between Tables 47 & 48. Again there is a slight majority of respondents (54.5%) who do not support the hypothesis. Therefore H₈ is not confirmed by the three respondent groups together. Corporate Officers and Financial Analysts responded 54.9% and 61.1% respectively against the hypothesis. Once more the Chartered Accountants responded with a small majority for the hypothesis (51.3%).

The overall differences between the three groups will be examined later. However, the relative lack of large differences between the groups in pairs is demonstrated by examining the Chi-square statistic which results when comparing the responses of Corporate Officers and Analysts to the dissenting Chartered Accountants. The statistics being, $\chi^2 = .61$, $\alpha = .39$ for Corporate Officers versus Chartered Accountants and $\chi^2 = 3.25$, $\alpha = .08$ for Analysts versus Chartered Accountants. These statistics indicate that the difference between Chartered Accountants and Analysts is larger, however the .08 level of significance is not particularly low. Therefore, on the surface, the

TABLE 48

RESPONSES DEALING WITH PERCEPTIONS OF
RELATIVE EFFICIENCY

	CORPORATE OFFICERS		CHARTERED FINANCIAL ACCOUNTANTS ANALYSTS				TOTAL	
	AMT	%	AMT	%	AMT	%	AMT	%
<u>Question 11</u>								
If data containing significant information could be disclosed in the body of the Financial Statements or in the Notes to Financial Statements, would you perceive footnote disclosure to be equally efficient (able to be read and understood with equal ease and time) in communicating the information?								
YES	51	45.1	60	51.3	37	38.9	148	45.5
NO	62	54.9	57	48.7	58	61.1	177	54.5
<u>Question 11a</u>								
If no, would footnotes be,								
LESS EFFICIENT	42	68.9	40	78.4	43	78.2	125	74.9
MORE EFFICIENT	19	31.1	11	21.6	12	21.8	42	25.1

NOTE: The replies to Question 11a total 167 or ten less than the 'no' replies to Question 11. This occurred because ten respondents who replied 'no' to Question 11 did not respond to Question 11a and non-responses were not included in the above table. Other similar situations were treated in a similar manner.

replies are different but confirming the differences statistically is another matter. This is similar to the situation described with regards to H_7 .

Therefore, by a narrow majority, the respondents did not confirm H_8 . Again the Chartered Accountants dissented by a narrow majority. As in H_6 there appears to be considerable uncertainty. The overall frequency however does not confirm Hypothesis 8.

The responses to Question 11a listed in Table 48 indicate that the respondents who did not agree that notes were relatively efficient, overwhelmingly agreed that notes are less efficient. As with Hypothesis 7, the numbers supporting Hypothesis 8, both for the groups and individually and together, are not greater than 50% of the total respondents. The percentages of those responding 'no' to Question 11, and less efficient to Question 11a being, 68.9% for the Corporate Officers, 78.4% for the Chartered Accountants, and 78.2% for the Financial Analysts; the overall percentage was 74.9. Therefore the conclusions with regards to Hypothesis 9 are the same as for Hypothesis 8. The overall majority of respondents do not perceive that Notes to Financial Statements are less efficient; however a large majority of respondents, who do not see notes as being equally efficient, do perceive notes as less efficient.

Research questions 2, 4, 6 and 8 of Table 9 address the issue raised in the Morton Thesis, namely "Is there disagreement among the respondent groups?". Table 49 provides the statistics relating to whether the respondent groups' replies to Questions 10, 10a, 11 and 11a are statistically independent.

TABLE 49

STATISTICS MEASURING THE SIMILARITY IN RESPONSES
OF THE GROUPS TO THE RELATIVE EFFECTIVENESS
AND EFFICIENCY OF NOTES TO FINANCIAL STATEMENTS

Contingency Table Respondents to:	^{2c}	Df.	Signif.	Contingency Coefficient
Effectiveness - Question 10	4.77	2	.09	.12
Question 10a	5.65	2	.06	.18
Efficiency - Question 11	3.23	2	.19	.10
Question 11a	1.87	2 ^o	.41	.11

The Contingency Coefficient was calculated to measure the strength of any association that might exist. Since I am not trying to prove or disprove that there are different perceptions among the respondent groups, which in turn would lead to communication problems, I have not stated a prior level of significance. This is consistent with my descriptive as opposed to normative objectives. As with the comparison of the responses to the relative significance of notes, I will use $\alpha = .01$. This means that for discussion purposes the statistical level of significance would have to be equal or less than .01 for me to reject the null hypothesis that there is no difference in the replies of the respondent groups. The reader can of course reach his or her own conclusions based on the statistics disclosed.

Within the guidelines described above, I would be unable to support the Morton findings. Table 49 indicates that none of the

pairs achieve a significance level equal or lower than .01. The table indicates that there appears to be less agreement with regards to Questions 10 and 10a. The difference being picked up in 10a can be attributed to spread between 80% of the Corporate Officers perceiving notes as being less effective and almost 90% in the case of the Analysts. The difference is one of degree, not of majority opinion. Question 10, on the other hand, does have the situation of the Chartered Accountants having a different majority opinion. The statistics in Table 49 however show the difference in the replies of the three groups as not sufficient to be statistically confirmed.

In summary the Canadian data do not support the Morton finding. My findings do not indicate statistically significant differences between the respondent groups. The Chartered Accountants, as might be expected, have less doubts about the relative effectiveness and efficiency of notes vis a vis the body of the statements. This difference will be discussed in the concluding chapter. However the differences of opinion are not strong enough to support the Morton thesis statistically.

This concludes the examination of the data relating to the perceived relative effectiveness and efficiency of Notes to Financial Statements. The findings are mixed but indicate a considerable degree of doubt expressed by the respondent groups as to the equality of the two formats of disclosure being compared. The implications of these findings will be held in abeyance until the final chapter. I will now proceed to the more general questions associated with producer/user perceptions of the notes.

6.3.5 General Questions

The first two research questions listed in Table 10 are:

RQ1) "Do preparers of Financial Statements, Chartered Accountants and Analysts see the historical trend of the usage of notes as it actually was?"

RQ2) "Do these three groups agree on the trend?"

Table 50 details the replies to Question 6 and 6a which ask the respondents whether they perceived a change in usage, and, if they did, whether usage has been increasing or decreasing. The replies were completely as expected. The replies agree with the actual change in usage, namely that the usage of notes is increasing, and the three groups replied in a similar manner.

The next research question was concerned with the desire of the respondent groups for increased intervention by some body regarding the usage of Notes to Financial Statements. This was followed by the question of similarity in replies. The questions being:

RQ3) "Do preparers of financial statements, Chartered Accountants and Analysts see the need for recommendations from a body such as the C.I.C.A. with regards to the content and format of notes?"

RQ4) "Do these three groups respond in the same manner to the above question?"

Table 51 provides the responses to Question 12 of the mail questionnaire which asked the respondents for their opinion on this matter. Two-thirds of the total respondents replied 'yes' to this question. Therefore a majority of the respondents indicated a desire for more direction regarding the usage of notes.

TABLE 50
 RESPONSES DEALING WITH PERCEPTIONS
 OF CHANGES IN AMOUNT OF USAGE
 OF NOTES

	Corporate Officers		Chartered Accountants		Financial Analysts		Total			
	Amt.	%	Amt.	%	Amt.	%	Amt.	%		
<u>Question 6:</u>										
Have you perceived a change in the amount of usage of Notes to Financial Statements?										
Yes	112	95.7	118	97.5	90	92.8	320	95.5		
No	5	4.3	3	2.5	7	7.2	15	4.5		
<u>Question 6a:</u>										
If yes,	Decreasing		1 .9		3 2.5		3 3.3		7 2.2	
	Increasing		109 99.1		115 97.5		87 96.7		311 97.8	

TABLE 51
 RESPONSE TO QUESTION REGARDING RESPONDENT
 DESIRE FOR INCREASED DIRECTION
 RE: USAGE OF NOTES

	Corporate Officers		Chartered Accountants		Financial Analysts		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
<u>Question 12:</u>								
Would you like to see an association, such as the C.I.C.A., make specific and more extensive recommendations on the form & content of Notes to Financial Statements?								
Yes	60	54.1	72	64.3	77	82.8	209	66.1
No	51	45.9	40	35.7	16	17.2	107	33.9

The table also indicates that all three of the groups gave a majority of yes's. However the level of intensity varied from a low of 54.1% for the Corporate Officers to a high of 82.8% for the Analysts. The Chartered Accountants being in the middle with 64.3% in favour of more intervention. The differences in the responses were sufficient, as the table also indicates, for the χ^2 statistic to be significant at the .0001 level. Therefore, although the three groups agree on the desire for more direction, their replies are statistically different. The differences being not in majority opinion but in the size of the majority.

This leads to the next question which asks whether responses to questions concerning the relative significance, effectiveness and efficiency is related to the reply given to Question 12, discussed above. Table 52 gives the statistics resulting from comparing the replies to questions 7 to 11a inclusive of the mail questionnaire to Question 12. The research question addressing this issue was listed in Table 10 as:

RQ5), "Is there a relationship between the perceptions of relative significance, effectiveness and efficiency and the perceived need for increased direction regarding the usage of Notes to Financial Statements?"

Table 52 shows an indication of association between Question 7 and 8 to Question 12: Questions 7 and 8 dealt with the respondents' perceptions of whether notes are equally significant and with the respondents' thoughts of the other respondents' perceptions of relative significance. The strength of the association between these

questions, as measured by the Contingency Coefficients are low, .13 and .15 respectively. Therefore I concluded that there is no strong statistical association between the replies concerning relative significance, effectiveness and efficiency and the desire for increase direction regarding the usage of notes.

TABLE 52

STATISTICS MEASURING THE ASSOCIATION BETWEEN RESPONSES DEALING WITH RELATIVE SIGNIFICANCE, EFFECTIVENESS AND EFFICIENCY AND RESPONSES TO THE DESIRE FOR INCREASED DIRECTION REGARDING USAGE OF NOTES

		χ^2	Df.	Signif.	Contingency Coefficient
Responses to Question 12 in relation					
To:	Question 7	4.57	1	.03	.13
	Question 7a	1.77	1	.18	.16
	Question 8	6.10	1	.01	.15
	Question 8a	.22	1	.64	.06
	Question 9	.02	1	.88	.02
	Question 9a	2.30	1	.13	.11
	Question 10	.36	1	.55	.04
	Question 10a	.55	1	.46	.08
	Question 11	2.70	1	.10	.10
	Question 11a	.08	1	.78	.04

The last three research questions to be examined deal with the producer/user perceptions of the major reasons for usage of notes. The first two are:

RQ6) "What reasons do preparers of financial statements, C.A.'s and analysts give for the usage of notes?"

RQ7) "Do these three groups give similar reasons?"

As was described in Chapter Four, the respondents were requested to list the major reasons for the usage of notes through the medium of an open-ended question. The methodological problem with open-ended questions is to classify the responses in a meaningful way without biasing the analysis.

The approach I took was to use the actual responses to develop the classification scheme. Eventually I arrived at the ten classifications described in Chapter Four. A total of 312 respondents gave one or more responses to this question. Five-hundred and ninety-three reasons were classified within the ten classifications.

Another important aspect about the replies is to recognize that the respondents were asked to give reasons for usage of notes, not reasons for increased usage. I specifically attempted to avoid indicating that I was interested in the usage of notes because of the apparent increasing popularity. I felt that my indicating this particular aspect would bias the responses. I wanted the respondents to make the assumption about the trends in usage themselves. As a result, the responses they gave are not directly comparable with my findings regarding the reasons for changes in quantities of notes.

The first classification of reasons used was 'To maintain uncluttered body of financial statements'. There is no doubt that this is a reason why notes are used. However, if there is an increasing amount of notes, this reason does not explain the increase. What is causing this reason to become more frequent, is it 'more information?', 'increasing trends to simplicity?', or even the 'increasing urges to be

neat?'. Therefore one must be careful in interpreting the responses for the reasons for usage, in order not to make the leap from 'usage' to 'increased usage'.

Table 53 lists the frequencies of the reasons within the classification scheme used. Again the responses are divided among the respondent groups. The first three classifications represent 60% of the total. All three of these reasons refer to real or perceived capacity constraints of the body of the statements. The first, representing 28% of the total replies, is 'to maintain the simplicity of the body of the financial statements'. It would seem therefore that the increasing quantity of notes represent data which, if disclosed in the body of the statements, would greatly complicate their format. It must be felt by the respondents that putting the data in the notes keeps the statements themselves uncluttered. The next two classifications received equal responses. The second classification was that 'some financial disclosure is not capable of being disclosed in the body of the statements'. Sixteen percent of the replies fell into this classification. This again indicates a capacity problem with the body of the financial statements. It is different from the first classification inasmuch as it relates more to the kind of data rather than the format of disclosure. The third reason, to expand or elaborate on data presently a part of the financial statements, also accounted for 16% of the reasons. This can be interpreted as a combination of the first two classifications. First, placing the explanations in the notes maintains the simple body of the statements yet, secondly, if the added disclosure is necessary, the original disclosure must have lacked essential explanation.

TABLE 53

PRODUCER/USER GROUPS PERCEPTIONS OF MAJOR REASONS FOR USAGE OF NOTES

Question 13 What do you perceive as the major reasons for usage of Notes to Financial Statements as opposed to disclosure in the body of the statements?	CORPORATE OFFICERS		CHARTERED ACCOUNTANTS		FINANCIAL ANALYSTS		TOTAL
	AMT.	%	AMT.	%	AMT.	%	AMT. %
<u>GENERAL CAPACITY CONSTRAINTS</u>							
1. To maintain uncluttered body of financial statements, simplicity of body of the statements.	70	32	59	27	37	23	166 28
2. Data in notes difficult if not impossible to be included in the body of the financial statements, ie: narrative, non-quantifiable, not part of present statements.	36	16	39	18	19	12	94 16
3. Expansion or elaboration of data presently part of financial statements.	30	14	37	17	27	17	94 16
<u>MORE SPECIFIC CAPACITY CONSTRAINTS</u>							
4. To provide additional or supplementary data.	11	5	6	3	6	4	23 4
5. To provide data for specialist or professional user.	7	3	5	2	13	8	25 4
6. To provide data not used by all readers of financial statements, but of interest to some users.	10	5	4	2	6	4	20 3
<u>RE: HYPOTHESES THREE & FOUR</u>							
7. To satisfy legal or quasi-legal disclosure requirements.	14	6	14	6	4	3	32 5
8. Complexity of reporting organizations or complexity of transactions.	6	3	3	1	0	0	9 2
<u>MISCELLANEOUS</u>							
9. Specific use identified, ie: Contingent liabilities	10	5	23	11	12	8	45 8
10. Other	23	11	28	13	34	22	85 14
	217	100	218	100	158	100	593 100

The balance of the reasons, none of which is relatively large with the exception of miscellaneous, is on the whole more specific. Classifications 4 through 6 again refer to providing more data, the differences from the first three classifications being their increased specificity, ie: 'supplementary data' - 4%, 'for specialist or professional' - 4% and 'for special interest groups' - 3%. Classifications 7 and 8 were allowed to remain even though their popularity was not extensive since they are the same as hypotheses 3 and 4. The two classifications similar to Hypotheses 3 and 4, 'to satisfy legal and quasi-legal disclosure requirements' received 5% and 'due to complexity' received 2% of responses. The last two classifications, 'specific uses' and 'miscellaneous' were named 8 and 14 percent of the time respectively. All of the reasons, when related to the previous findings of increased usage of notes, seem to indicate more data being disclosed which, for some cause, is not being disclosed via the format fo the body of the financial statements.

The second part of the analysis of respondent groups' perceived reasons for the usage dealt with possible differences in their replies. Three of the classifications examined produced χ^2 with statistical significance less than .05. The χ^2 resulting from examining the first classification, namely to maintain an uncluttered statement, was 10.85 with a .004 level of significance. The actual responses listed the Corporate Officers as providing this reason more frequently than average, 32% versus 28%, and an even greater spread compared to the 23% of the Analysts' responses. Therefore the respondent group difference was sufficient to result in the low χ^2 , indicating

statistically different responses. The second classification in this position was the fifth classification, 'to provide data for specialist or professional user'. The χ^2 statistic which examines the relationship between respondent groups was 7.69 with a .02 level of significance. Table 53 shows that the largest spread is between the C.A.s, 2%, and the Analysts, -8%. The last classification, 'miscellaneous', when analyzed, produced a χ^2 of 7.81 also at the .02 level of significance. The Analysts, as Table 53 indicates, are at one end of the extreme, once again. This indicates that the Analysts had a relatively larger quantity of different reasons which did not fall into the classification scheme.

The final general question in Table 10 was:

RQ8) "Do the reasons given by these three groups relate to the findings of the empirical study of actual usage found in this study?"

As was mentioned earlier, the respondents were giving perceived reasons for usage and not for change in the amount of usage. The major reasons given by the respondents relate to the capacity constraints of the body of the financial statements. Inasmuch as note usage is increasing at a relatively faster rate than the body of the statements, it would seem that this must be a result of a general increase in the amount of financial disclosure. This is consistent with relationships shown between increasing usage of notes and the increasing complexity of reporting firms and the legal and quasi-legal disclosure requirements. This will be discussed further in the final chapter, however, the reasons given by the respondents for usage appear

consistent with previous findings of this study; and therefore the response to RQ8 if 'yes'.

6.4 Summary and Conclusions

Besides testing the questionnaire, the interviews provided some preliminary data about user/producer perceptions of Notes to Financial Statements. The interviewees generally expressed the opinion that notes are the result of increasing quantities of financial information slanted towards the professional or specialist user.

The results of the mail questionnaire indicated that the respondent groups perceived notes as being equally or more significant than the body of the financial statements as far as they were concerned. They did not feel that other groups, who could be classified as non-specialist, perceived notes as being equally significant. In fact, they felt that these groups would perceive notes as being less significant.

Although the results were mixed, the respondents as a total perceived notes as not being equally as efficient and effective as the body of the financial statements for disclosing significant data. The Chartered Accountants as a group were an exception to this opinion. A majority of those who perceived notes as being not equally effective and efficient replied both in total and as individual groups that notes were relatively less effective and less efficient.

A majority of the respondents desired increased direction regarding the format and content of notes. Replies to the earlier questions, on a question to question basis, were not related to the

replies regarding increased direction. It is important to recognize that the interactive or cumulative effect was not measured.

The reasons given for the usage of notes appeared to be that the body of the statements had certain capacity constraints. It was also shown that the producer/user reasons for usage were consistent with my Hypotheses 3 and 4 which were aimed at an initial explanation of the reasons for increased usage of notes.

The respondents' replies were checked to determine if they exhibited differences among groups. I was unable to generally confirm that the respondent groups' perceptions differed in a statistically significant amount. This finding fails to confirm a U.S. finding, described in the Morton thesis which I reviewed. It seems that in Canada, at least, and as far as the questions I examined are concerned, large differences in the producer/user groups' perceptions of Notes to Financial Statements do not exist.

This concludes Chapter Six. The next chapter, the final of this thesis, will review all of the major findings listed in this chapter and the previous chapter. It will also further analyze and examine the implications that can be drawn. The final chapter will also suggest further research that appears warranted as a result of my findings.

CHAPTER SEVEN

SUMMARY AND CONCLUSIONS

7.1 Introduction

The original idea for this study resulted from my personal observation of Financial Statements. While actively preparing and using statements, I became aware that they were undergoing considerable change in form. Having become conscious of this, I reviewed a number of statements over time. There appeared to be a trend towards growth in size and complexity, partially as a result of the increasing usage of footnotes.

The growing usage of notes was only occasionally referred to in the literature. Most often the comments were negative. Concern was expressed that financial statements were becoming less understandable as a result of the growth in the number of notes and their increasing complexity. I was unable to locate a study which actually tested the basic hypothesis, that the usage of notes was increasing, and, more important, described and explained the assumed change. Thus I designed this study to test my observation about footnotes and to determine other change characteristics of Canadian Financial Statements over the last twenty years.

To fully understand what has happened to the Financial Statements, it is necessary to examine them within the proper context. The Annual Report, published by public corporations, is one of the most important means utilized to disclose financial information to parties outside the organization. The Financial Statements, contained within the report, have been, and continue to be, extensively criticized, extensively researched and the focus of extensive legal and quasi-legal action. Over the past decade there has been considerable amount of pressure from governments, professional organizations and others generally for changes in the kinds and quantities of financial data being disclosed.

At the same time, in my opinion, there have been additional sources of pressure which might affect financial disclosure. The public corporations producing these reports have been increasing in size and complexity themselves. Since the financial reports are a picture of the organization and its economic activities, they would be affected to some extent by the organizational change. There has also been a trend, perhaps less firmly established, to recognize an increase in the possible users of financial reports. The traditional purpose of financial statements was to report the results of stewardship to the owners. If the users of financial statements are assumed to be more than the owners, there might be a need to change the reports to reflect the needs of a greater variety of users. The range of suggested users runs from potential owners to the public generally. Parallel to this change has been a relatively recent re-examination of the uses of financial statements. One of the first questions that these studies

address is the identification of the 'users'. This was one of the problems which faced the authors of the Trueblood Report, entitled, "Report of the Study Group on the Objectives of Financial Statements". (A.I.C.P.A. 1973)

One reason why the change I was observing in the real world was not documented was that research regarding financial disclosure has predominantly focused on what should be disclosed or, what has been the effect of disclosure, as opposed to how the disclosure was made. There has been a relative lack of attention paid to the actual means or format used to disclose the data. In Chapter One I referred to five parts of the Annual Report as being different formats of disclosure: 1) Presidents' Letters and/or other qualitative statements by management, 2) Supplementary Financial Data Schedules, 3) Financial Statements (Balance Sheet, etc.), 4) Notes to Financial Statements and 5) Auditors' Reports. Even the texts used to teach Financial Accounting virtually ignore alternate formats of disclosure and concentrate almost exclusively on the tabular portion of the traditional Financial Statements. This occurs even though notes are considered to be an integral part of the financial statements.

On the whole, the tabular format of the financial statements has not changed dramatically. The one exception, which was also documented in my research, was the Statement of Source and Application of Funds. On the basis of my sample companies, it came into general use between 1965 and 1966. It was altered in the 1973 and 1974 period and was retitled the Statement of Change in Financial Position. The major alteration being, "to broaden the content of the funds statement to

embrace all the financing and investing activities of the enterprise and not just those affecting working capital or cash." (C.I.C.A. Handbook 1540.02)

My study was based on the premise that further major changes both in format and content have occurred. As a result of reviewing the literature and prior empirical studies, I concluded that there was a need for a definitive empirical examination of the usage of Notes to Financial Statements and Supplementary Financial Data Schedules, in Corporate Annual Reports in Canada. This was due to the almost complete deficiency of work in this area, both in the United States and Canada.

As the study progressed, I discovered that, in addition to documenting a change in the form of financial statements, I was also describing an extensive change in both the quantity and kind of data being disclosed. I found that the changes in content resulting from the increased usage of notes were a reflection of the changes in financial disclosure brought about, in part, I would suggest, by the environmental pressures described above.

A second part of this thesis consisted of an initial evaluative step. My preference would have been some form of objective measurement of notes with regards to their disclosure capabilities versus the traditional tabular section of the financial statements. As a compromise I settled for measuring the perceptions of important producer and user groups as to the capability of notes as a means of disclosure. The questionnaire used to solicit their perceptions focused on their opinions regarding the relative significance, effectiveness, and efficiency of notes versus the tabular portion of the financial

statements. Their replies were also compared to traditional accounting assumptions and actual recommendations of the Canadian Institute of Chartered Accountants, regarding the usage of notes.

Prior to reviewing the findings, the two main limitations of the study, which would affect the generality of the findings, should be re-considered in order that they be kept in mind. First, this study confined itself to public companies. The sample of companies chosen to be analyzed was selected from those listed on the Toronto Stock Exchange. The major limitation, which results from the above, is that the findings cannot be generalized to private company reporting. The T.S.E. listing was shown to be relatively comprehensive as far as Canadian public companies are concerned. The bias would be in the direction of larger companies. These large companies are perhaps more representative of stable blue chip type stocks. It might also be suggested that they are better regulated and thus are likely to be an upward biased group with respect to better financial reporting. However, their economic impact and influence on the Canadian economy makes them of particular interest.

The second major limitation that should be recalled is the response rate of the mail questionnaire. Although the response rate was subjectively judged on a comparative basis to be satisfactory, any amount of non-response would result in some non-response bias. This condition was not regarded as a great problem and is something that has to be lived with when a mail questionnaire is used to collect data.

7.2 Summary of Major Findings

Empirical Data: The first major finding coming out of my research is the data itself. One of the first problems I faced when I first became interested in this topic was the lack of data. It was not available in the form that would have permitted me to properly test even the basic hypothesis about the growth in the use of the two formats of disclosure that I wished to examine.

The longitudinal nature of the study, 20 years, combined with scientific sample selection from an important group of public companies results in my data being the most definitive description of the usage of these formats of disclosure in Canada. It is from this data base that I have established the nature of and trends in, the usage of Notes to Financial Statements and Supplementary Financial Data Schedules in Canada over the last twenty years. Because of the inter-relationship between Notes, S.F.D.S.s, and the Financial statements themselves, including the Auditors' Reports, my data really describes trends in financial disclosure beyond the particular formats I was studying. Therefore over and above the data I shall be referring to in the following review of my findings, is the more complete data base which is presented in the earlier chapters.

Historical Trends in the Usage of Notes: One of the first findings drawn from the data was the confirmation of Hypothesis 1, that the usage of Notes to Financial Statements has increased over the last twenty years. More important is the measurement and description of the change that was carried out in the study reported in Tables 12 through 17B. Notes have increased over the last twenty years in actual

numbers used, (mean - up to 3.4 times; median - up to 4 times), as a percentage of the total pages of notes and statements, (mean - up to 5.2 times; median - up to 13.4 times). Besides describing the extent of the change, these figures indicated that measuring notes usage by the number of notes, (used in previous studies), is the most conservative measure and it hides, to some extent, the dimension of the change in the usage of notes. The most descriptive measurement is that notes, as a percentage of notes and statements have increased, and therefore, not only has usage increased but it has increased relative to the body of the financial statements. In fact, by 1974, notes represented more than one-third of the audited section of annual corporate reports versus less than one-tenth in 1955.

An examination of the rate of growth in usage showed that it was not constant over the twenty year period examined. There were three periods; the first, 1955 to 1968 - a period of rapid growth, the second from 1968 to 1972 - slow or even decreasing usage and thirdly, 1972 to 1974 - a return to rapid growth. I am unable to explain these changes in the rate of growth at this time; they might however be of some interest for future research.

Description of Usage of Notes: An important part of the analysis involved a detailed examination of the content of notes. I accomplished this by two means; the use of a topic classification scheme and by analyzing to what statements and/or accounts notes were referenced. The relative usage of a particular note topic was identified by indicating how the various topics changed in relative importance over time, (Tables 18 and 19). It was found that over the total 20

year period; notes were most concerned with Balance Sheet items. One possible explanation of this is that it is very difficult for companies to adequately describe their organization without incorporating larger quantities of notes whose relative flexibility overcomes some of the limitations of the standard tabular portion of the Balance Sheet.

More recent years have seen items such as the Basis of Consolidation, Commitments to Pension Plans, Contingent Liabilities, Earnings per Share and the disclosure of Significant Accounting Policies grow in relative importance. All of this reflects current disclosure concerns often being resolved by legal or quasi-legal disclosure requirements. Therefore, I suggested that an examination of the topics demonstrates that the usage of notes is a good reflection of the environment, to the extent that they are a reaction by the disclosing organizations to perceived needs for changes in financial disclosure.

Among the other descriptive findings was the important discovery that new notes, when they appeared, were not just a format change but provided new information in the vast majority of cases. I defined new information as information not previously disclosed by the company in its financial statements. This coincides with my overall findings that notes have been an important means for absorbing changes in financial disclosure generally.

My data did not support one of the findings in the Chapin thesis (1965). There is no relationship between the extent of note usage and the size of the audit firm. There was also no evidence of a relationship between the extent of note usage and whether the firm reported a profit or a loss.

Even though a majority of firms use a print size for notes equal to the print size used in the tabular portion of the statements,

still forty percent of the companies used a smaller print size. This ratio has been relatively stable over the 20 year period I examined with no trends going either way. This, by the way, would also indicate that the measurement of notes as a percentage of notes and statements was on the conservative side.

Another relatively stable technical aspect of note usage was location. Approximately 65% of the cases placed their notes after the tabular portion of the statements, (Table 28). One indication of possible change in the future is the new note describing significant accounting policies. Some companies placed this note before the statements and the balance of the notes after. This, I suggest, might lead to a change in the location of notes in the future.

I also examined the extent and location of referencing of notes. Less than forty percent of the companies made a general reference to the existence of notes on the face of the statement. However, in excess of eighty-seven percent of the statements had some degree of specific referencing. The Balance Sheet was the most referenced statement, however there is a growing trend with all statements. I had suggested earlier that the predominance of note topics dealing with the Balance Sheet was an indication of the difficulties of describing the increasingly complex organizations at a point in time. The growing trend of specific referencing to the other statements would, in my opinion, indicate that these statements are beginning to manifest a similar problem in coping with their disclosure objectives.

Notes on the whole are not referred to in the Auditor's Report. The exception being when the auditor sees some necessity to refer to a specific note. For example, when a note describes a change

in accounting principles, the auditor would usually refer to this note since he expresses an opinion on accounting consistency. Over the period examined, twenty to twenty-five percent of auditors' reports contained some form of specific reference to a note or notes.

Overall my analysis described a situation where notes are increasing to the point of being a major segment of the audited portion of the corporate annual report. On the other hand, the physical characteristics of notes, (ie: location, print size, etc.), has remained relatively stable.

Historical Trends in the Usage of Supplementary Financial

Data Schedules: The usage of S.F.D.S.s has not demonstrated the same dynamic growth as the notes. The Canadian Institute of Chartered Accountants expresses some optimism for the increased usage, (measured by the number of companies using S.F.D.S.s), of what they refer to as a useful type of information. (C.I.C.A. 1975 pl4) My analysis confirms what they report, namely that there has been a slow increase in the number of companies using S.F.D.S.s, (approximately doubled over the 20 year period, Table 38). However, I found that the average usage per company has remained stable, (Table 39), over the same time period. I consider this more significant since it relates more closely to increasing usage of different and new S.F.D.S.s, as opposed to increasing numbers of companies using similar S.F.D.S.s. This contrasts with note usage which has increased both in number of companies using notes and in the amount of notes themselves.

Descriptions of Usage of S.F.D.S.s: My analysis included eight classifications of different types of S.F.D.S.s, however, two of these clearly dominated, the two were Financial Highlights and Historical Summaries. Their dominance increased over the time period examined to the point where they represented over 90% of the schedules versus 50% in 1955. Historical Summaries were showing continuing signs of slow growth whereas Financial Highlights reached its peak in usage in 1968, from which time they have declined slightly. I suggested that the relative strength of Statistical Summaries might be attributed to their usefulness for more technical analysis of the companies. It might also be argued that companies with positive historical growth would wish to display the trend.

S.F.D.S.s were covered by the Auditor's Report less than ten per-cent of the time during the twenty year period, (Table 42). I also found that the dichotomy between "other statements" and S.F.D.S.s was somewhat arbitrary. I speculated that the arbitrary split and the lack of official status for S.F.D.S.s was an indication of the "orphan" status of these supplementary schedules. I also suggested that the lack of official status of S.F.D.S.s might be attributed as a cause of the slow or even no growth situation.

I therefore concluded that the potential of S.F.D.S.s for disclosing financial information is not being taken advantage of. It seemed to me that this was an unfortunate situation to exist since these schedules' inherent flexibility makes them a useful format for experimenting with new types and forms of disclosure. One distinguishing feature which I felt was an indication of a lower status for these

formats of disclosure was the lack of auditor verification: This might be viewed as a lack of support by the legal and quasi-legal bodies who designate what disclosure requires auditors' certification.

I would suggest that one reason for the lack of increased auditor verification would be the desire of the auditors not to extend the present scope of their liability. There are at least two factors which make this attitude somewhat untenable. First, the notes which are verified often contain quite complex schedules which could just as easily be S.F.D.S.s. It would seem that the title or format should not change the extent of the problem associated with the verification. Secondly, the present S.F.D.S.s are usually summaries of audited financial statements. This combined with the requirement that the auditor has some responsibility to check the overall accurateness of the Annual Report make dichotomy between audited financial statements and unaudited S.F.D.S.s as artificial in the real world.

Explanation for Increasing Usage of Notes: Another area of findings resulted from testing Hypotheses 3 and 4. It was found that the usage of Notes to Financial Statements was associated with the legal and quasi-legal reporting requirements, and the increasing complexity of the reporting firms. Intervening factors, as was discussed earlier, make it exceedingly difficult, if not impossible, to prove cause with regards to the increasing usage of notes. Although a cause and effect relationship was not demonstrated, the relationships are an indication of the role notes have played in accommodating the changing disclosure requirements placed by society on public companies, who are themselves becoming increasingly complex.

Future Trends in the Usage of Notes and S.F.D.S.s: There appeared to be no reason to believe that the trends of usage of the two formats discussed, Notes and S.F.D.S.s, would change. I would suggest that the key factors that should be observed in predicting a change in usage would be, one: trends in financial disclosure generally, two: whether there was any indication of a change in the basic format of the tabular portion of the financial statements, and thirdly: the status of S.F.D.S.s.

With regards to the first factor, trends in disclosure generally, it would appear that the general push for more and different financial disclosure for a variety of reasons will continue. There is considerable pressure for corporations to report to more than the present shareholders or even potential shareholders. These increasing numbers of people or groups and the original perceived recipients of annual reports will be continually demanding financial information suitable to meet their needs. When this is combined with the attempts to produce decision models, referred to in the first chapter as fallout from our re-examination of the use of financial statements, there is every reason to believe that public companies in Canada will, either voluntarily or through legislation, be expanding their financial disclosure. The concept of expanding disclosure, for the above reasons among others, was advanced in a relatively recent book by an American Academic, Norton Bedford, entitled, "Extensions in Accounting Disclosure". (Bedford 1973)

A second factor which would cause a change in the trend would be the development of different and/or more flexible tabular

financial statements to arrest the growth of notes. I have suggested that notes have been important since they are presently being used to cope with the increasing and complex disclosure requirements. They should be recognized for their positive contribution as a safety valve needed to cope with the pressures of increased disclosure, that has occurred in the last twenty years. Their very flexibility, I suggested, was an important characteristic they possessed as opposed to the rigid (maybe due to regulation) tabular portion of the financial statements. I therefore concluded that those who expressed a negative attitude towards notes would recognize that removing notes would not necessarily improve financial disclosure but merely decrease disclosure unless an alternate format is developed.

This brings me to the future trends in the usage of S.F.D.S.s. For some reason the usage of S.F.D.S.s has not developed. It was suggested that their unofficial status in the annual report (not covered by auditor's opinion) might be one factor affecting their pace of growth in a period of generally increasing amounts of financial disclosure. At this time there is no indication of a change in attitude towards S.F.D.S.s. It would seem that this is unfortunate since they might provide another means of coping with the trends of increasing and different financial disclosure, especially in the case of complex quantitative data. Inclusion of greater quantities of S.F.D.S.s, covered by the auditor's report, might reduce the growth in the usage of notes as a means of financial disclosure. This is not to say that I prefer, or have reason to believe, one format is better than the other, merely, that a change in the growth of usage of one might affect the rate of growth of the other.

Evaluation of Note Usage and the C.I.C.A. Handbook: The next findings relate my preliminary attempt to evaluate the usage of Notes to Financial Statements. The focus of this evaluation was the recommendations of the Canadian Institute of Chartered Accountants, expressed in the C.I.C.A. Handbook.

It must be remembered that the C.I.C.A. Handbook which contains the recommendations of the Accounting Research Committee of the Canadian Institute of Chartered Accountants is regarded as the definitive statement of Generally Accepted Accounting Principles in Canada. This was given at least quasi-legal status in 1973 by the Provincial Securities Administrators when they issued a brief statement, known as National Policy Statement 27:

"Where the term 'generally accepted accounting principle' is used, either in securities legislation, regulations and companies' legislation and regulations, the securities administrators will regard pronouncements by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants, to the extent set out in the research recommendations in the C.I.C.A. Handbook, as 'generally accepted accounting principles'."

(Elliot 1974 p80)

The effect is that all public companies in Canada must abide by the Handbook or risk actions by the various provincial securities commissions, such as delisting. Besides its legal recognition, the Handbook is also the most comprehensive document of financial disclosure in Canada. Therefore, attitudes and recommendations of the C.I.C.A., especially as expressed in the Handbook, have an important impact on financial disclosure in Canada.

Findings Resulting From Pre-Mail Survey Interviews: The primary purpose of the interviews was to develop a better mail questionnaire. They also had a secondary use, namely to provide me with a 'real world' feel for my study. As a result, certain overall feelings as expressed by the interviewees, will be repeated here.

The interviewees generally agreed that notes reflect an increase in financial disclosure. It was also suggested, however, that these new disclosure items were directed towards the specialist or professional user. This view questions the traditional and recommended concept of the financial statements. For example, the C.I.C.A. states that notes are "an integral part", "useful for the purpose of clarification or further explanation of the items in the financial statements" but, "that they should not be used as a substitute for proper accounting treatment". (C.I.C.A. Handbook 1500.03-04)

If the utility of notes is a function of the user, those who do not use the notes are either using incomplete statements or the notes are not an integral part. It must be remembered that this is an opinion of some of the interviewees, not a tested hypothesis.

Producer/User Perceptions of Relative Significance of Notes:

I found, through the use of the mail questionnaire, that the preparers of financial statements, Chartered Accountants and Financial Analysts perceived notes as being equal to or more significant than the body of the financial statements. These same three groups expressed the opinion that less specialized groups, such as shareholders or the general public, do not perceive notes in the same manner. In fact, they felt that these less specialized groups perceived notes as being less significant.

If this is true, and it must be remembered again that these are opinions of the respondents, not a sampling of less specialized groups, it would suggest that these non-specialists might be missing an integral part of the financial statements, as was described in the previous section. This also suggests that the statements might be being prepared in a segmented manner. That is in distinct parts for distinct groups, as opposed to an integral whole, one part essential for the complete understanding of the other. This concept was expressed in the interviews and was referred to, as reported in Chapter Six, by one interviewee as 'staged reports'. The concept of a statement with multi-parts for different users would be a break from the traditional concept of a multipurpose statement. Further research in this area will be suggested in the next segment of this chapter.

Producer/User Perceptions of the Relative Effectiveness

and Efficiency of Notes: The C.I.C.A. Handbook, as an expression of current accounting principles, does not recommend one format of disclosure over another. It normally recommends that an item be disclosed, leaving it up to the organization as to whether the item be disclosed in the tabular portion of the financial statements or by way of a note. An example of an exception to this is the recent recommendation of the C.I.C.A. to disclose 'significant accounting policies'. In this case, the 'format' (note) and location are suggested. (C.I.C.A. Handbook 1505.11) Where an item is capable of being disclosed by either format, this stance is consistent with the concept of notes being an integral part of the statements. Besides questioning this concept as I did in the previous paragraph, I speculated that a further interpretation of

allowing alternate formats might be made. I suggested that the lack of direction as to the format either assumes that the C.I.C.A. considers the two competing formats, as being equally effective and efficient, or, the C.I.C.A. is unaware of the relative effectiveness or efficiency of the two formats. Based on the above, I feel that, if we are concerned about the ability of our financial reports to transmit essential data, this issue should be examined. It is also necessary to recognize that two situations could exist: 1) where the financial disclosure is capable of being disclosed in either format or 2) where the usage of notes for all intents and purposes is the only alternative.

The data that I collected showed that the perceptions of the three producer/user groups were somewhat mixed. In total a majority of the respondents replied that they did not perceive notes as being equally effective and efficient relative to the body of the statements. Also a majority of the respondents, perceiving this lack of equality, perceived notes as being less effective and less efficient. The Chartered Accountants, as a respondent group, were an exception. They gave a majority opinion that notes were equally effective and efficient. However, a majority of those C.A.s who dissented with the above perceived notes as being less effective and less efficient.

In order to interpret these results I will deal with the responses of the Chartered Accountants. I would speculate that their attitude is a reflection of their training, which is highly influenced by their own Handbook of disclosure recommendations. Their position is therefore predictable. Perhaps even more important in the interpretation of the results is the fact that the C.A.'s role in the

preparation and use of financial statements is not as direct as the companies' and the analysts'. The C.A. is the intermediary who verifies the financial statements prepared by the Corporate Officers and used by Financial Analysts. An indication which would support my view is the opinion expressed by one of my interviewees who was a C.A., but is now a Corporate Officer responsible for the preparation of his companies' financial statements. He stated that, as an auditor, he did not appreciate the usage of notes in the same way as he does now.

What follows from the above is that the opinion of the C.A.s in evaluating the effectiveness and efficiency of notes is somewhat diminished. This reduces the apparent ambivalence of the results and adds more weight to the perceptions of the Corporate Officers and the Financial Analysts. What these perceptions indicate therefore, (and it must be remembered that these are subjective perceptions, not objective evaluation), is that the apparent lack of concern regarding the format of disclosure by the C.I.C.A. should be re-evaluated.

If these opinions are proven to be correct, disclosure of C.I.C.A. recommendations by means of notes can occur under two circumstances. In situations where either note format or the tabular portion of financial statements can be used, those opting for note disclosure might be decreasing the effectiveness and efficiency of the Financial Statements. This choice can be the result of the organization perceiving notes as a means of reducing the visibility of required but undesirable disclosure. More positively, the organization may choose note disclosure because it is seen as more suitable in the particular circumstance facing the organization. Whatever the motive, the end result is dependent upon the unknown comparative communicative ability

of the two formats available. On the other hand, if there is no choice, we might be creating a growing situation where we are decreasing the effectiveness and efficiency of our Financial Statements. This results from the fact that notes as a percent of financial statements have been increasing steadily. Whatever the situation, continued avoidance of the issue of the effect of alternative means of disclosure is becoming less defensible as the importance of notes as a disclosure format increases.

The Desire for Increased Direction Regarding the Usage of Notes: An indication that increased intervention by an association, such as the C.I.C.A., would be acceptable was demonstrated by the respondent groups. It was found that a substantial majority of the respondents desired increased direction regarding the usage and format of notes. This finding reinforces the apparent concern of the three groups and also should be a positive reason for the C.I.C.A. to re-examine its present position regarding the usage of Notes to Financial Statements.

At the present time, the C.I.C.A. would be in a difficult, if not impossible, position to recommend either format, since little is known about the relative merits of either format. It would need to develop some basis of recommending under what conditions notes are better communicators than tabular or other forms.

Producer/User Perceptions of Reasons for the Usage of Notes:

It was found that the respondents perceived that notes are the result of capacity constraints of the body of the financial statements. It

appears that they perceive the tabular portion of the Financial Statements as not being able to disclose all that is needed or required.

Therefore, increasing quantities of notes would be related to increasing disclosure. Their perception of the reason for note usage is consistent with the association I established between increasing note usage and the increasing legal and quasi-legal disclosure requirements and the increasing complexity of the reporting organizations.

Differences in Producer/User Perceptions: I was unable to confirm that the respondent groups exhibited substantial differences in perceptions regarding notes. Differences were found to exist in a U.S. study, (Morton 1975). It was suggested in the U.S. study that differences in producer/user perceptions could contribute to making the notes a less effective format of financial disclosure. Although occasional minor differences were found, they were not sufficiently large to permit me to confirm the differences statistically. It would however appear that this issue is not closed, since there was a degree of difference, if not a statistically significant degree. A more precise measure might have changed this finding. Further monitoring might also disclose future changes in the differences between producer/user groups.

The above was a review of the major findings. I will in the next segment discuss the implications of the findings and recommendations flowing from them including direction for future research.

7.3 Implications and Recommendations

One of the first factors that must be reiterated is that my study has drawn a clear distinction between the tabular portion of

the financial statements and the notes. This in itself is contrary to traditional accounting theory, and is not the present position of the C.I.C.A. It is both a framework that I have used and an approach I would like to see taken in the future. Therefore my study and the following implications and suggestions for future research are concerned with financial disclosure being made by means of three formats: 1) the tabular body of the traditional Financial Statements, 2) Notes to Financial Statements and 3) Supplementary Financial Data Schedules.

Further, the implications and recommendations which I shall make are greatly influenced by three summary statements which are a distillation of the overall findings. First, Notes to Financial Statements have become, over the last twenty years, an increasingly important form of financial disclosure. They have certainly reached the point where they cannot be treated as a mere appendage, if, in reality, they ever could have been. Not only have they become physically large, now representing in excess of one-third of the audited portion of the annual reports, but are now increasingly important since they contain many of the changes in financial disclosure instituted during this period.

Secondly, traditional attitudes towards notes, as expressed by the C.I.C.A. in its Handbook for one, may no longer be appropriate since they do not reflect reality of financial statement preparation and use, at least as perceived by its key producers and users.

Thirdly, my findings showed that the usage of Supplementary Financial Data Schedules has leveled off. Also it appears the potential for innovative uses of these forms of disclosure are not being developed.

If anything, the usage of Supplementary Financial Data Schedules has stagnated.

The first implication of my findings is that the change in the relative importance of notes as a disclosure format might have had an effect on the data transmission capabilities of the financial statements. As a result, research should be instituted to determine the difference, positive or negative, in the change from the traditional tabular format with its relatively stable means of construction to the usage of an increasing quantity of notes, which are considerably more flexible and often qualitative. There has been very little research into the effect of alternative formats of financial disclosure. (Lusk 1973) There have been a few studies in the United States which attempted to measure the readability levels of Notes to Financial Statements. (Pashalian 1950, Soper and Dolphin 1964, Smith and Smith 1971) It was found that notes tended to be at a level of readability beyond the educational attainment of a majority of the U.S. population. I tested the readability levels of the qualitative segments of 45 Canadian Financial Statements and found the readability to be at a similarly high level. (Lanfranconi 1974) The notes were not capable of being measured relative to the alternate, namely the body of the Financial Statements. I also concluded in my study that the readability tests used, because of their availability, were largely designed for more general purposes and were not totally suitable for the specific purpose of financial reporting.

One exception was a study which examined whether the form of the annual report affects the investment selection decision. It was reported in a paper entitled, "Cognitive Aspects of Annual Reports".

(Lusk 1973) The findings he reported, which are of interest to this study, were: one, that the form of report, 'Hi-Analytic' (Complex) vs 'Lo-Analytic' (less complex), did influence the investment decision and two, that different user groups, ie: financial analysts vs graduate students, were affected differently. (Lusk 1973 p200) Inasmuch as the complexity of the statement was judged to be a function of its format, the findings relate to this study. It was an exploratory type of study but still, I believe, a further reason which leads me to conclude that there is some urgency to the need to investigate the effect of the recent format change on the data transmission capabilities of the Financial Statements.

When the format of the financial statements was mainly the tabular portion or the content of notes minor, this issue was not as important. With the importance of notes, in both quantity and content, now clearly established by this study the effect of format alternatives for financial data transmission should also be investigated.

The next implication of my findings is that the C.I.C.A. should review its recommendation that notes are an integral part of the financial statements and that the data they contain are equally significant as the tabular portion. My data indicates that the main weakness of this recommendation pertains to the possibility that notes may be treated differently by different user groups. The important producer/user groups, who can be classed as specialists, perceive notes as more useful for them and not as significant to non-specialists. The first step would be to evaluate the reality of their assumptions. If they are correct, the integrity of the financial statements, as it now is conceived, is questionable. If the tabular portion of statements is

incomplete without notes, their data transmission capabilities might be impaired if some portion of the users do not give them equal recognition. Also, if the preparers of the statements operate in the real world under the assumptions they put forward and they are putting increasing quantities of new disclosure in the notes, they would be creating a dichotomy which may not be desirable, at least in the viewpoint of the C.I.C.A. Either the recommendation must be reinforced or the relationship of notes to the statements should be reconstructed. In any case, continued avoidance of this issue appears unjustified in light of the recognition that perhaps, while we are increasing the quantities of financial disclosure, we might be reducing the recipients of this new data to specialists. This statement should be taken to mean that I am opposed to this possible trend but that we should not labour under false assumptions as who are the potential recipients of the information.

A similar type of implication flows from the producer/user groups' perceptions that notes are less effective and less efficient. I recommend that increased research be carried out which is directed at determining the effect different formats of disclosure has on the data transmission capabilities of financial statements and what effect this might have on the uses made of the data. At the present time we are in the dark and in some ways must continue to merely recommend disclosure without considering how the data should be disclosed. If the respondents to my questionnaire are correct in their perceptions of the relative effectiveness and efficiency of notes, then it follows that, even if we are disclosing more data, we are at the same time

creating a less effective and efficient reporting package. The basic problem, as I see it, is that we do not know one way or the other.

Another implication of my findings is the need to deal more realistically with financial reporting as it now exists. This means that we must recognize that many of the recent changes in disclosure have been carried out by increased usage of notes. Evidence would also indicate that there is no reason to expect this trend to discontinue, at least in the near future. Notes have become an important format of disclosure and we must prepare to live with them and improve them. It would seem therefore that increased efforts must be made to utilize them as effectively and efficiently as possible.

We should work to insure that the best forms of presentation, which maximize their communicative function, be developed and used. This would include changing our teaching of the preparation and use of financial statements in order to coincide with the reality of present day disclosure methods. We must explicitly teach the preparation of footnotes just as we now teach the preparation and use of Balance Sheets, Income Statements, Statement of Change in Financial Position, etc. Continuing to place insufficient emphasis on notes will mean that we are ignoring at least one-third of the audited financial statements. This also means that we should upgrade the status of notes since their position as mere appendages is no longer a valid description of their purpose and use.

The last recommendation is related to the observed stagnation in the growth of usage of Supplementary Financial Data Schedules.

This present condition is unfortunate since they, like notes, have an element of flexibility which would be useful as a means of

accommodating future disclosure requirements. The reasons for their lack of use and development should be further investigated. I suggest that their lack of official status, as indicated by the lack of auditor certification, might partially explain their retarded development. It might even be that their usage is to some degree discouraged by auditors who wish to limit their perceived risk in being associated with a quasi-statement which is 'unaudited'.

One of the more interesting characteristics of notes is their flexibility, which I suggested was of great benefit in accommodating changes in disclosure. If the status of S.F.D.S.s was changed, their comparative flexibility versus the standardized format of the body of the statements might permit the accommodation of new forms of disclosure. They would also permit a unique opportunity to test the usefulness of new statements. This is especially important since my findings also suggested that the traditional tabular portion of the financial statements are hard pressed or unable to keep pace with new disclosure requirements.

7.4 Conclusions

This study has supplied evidence to confirm that significant change in Corporate Disclosure has occurred over the last twenty years in Canada. It has demonstrated that a major portion of this change is reflected in usage of Notes to Financial Statements. They represent both a change in format, and a change in content. Evolution towards increased usage has been associated with the increasing legal and quasi-legal disclosure requirements, and the increasing complexity

of the reporting firms. The very flexibility of notes, versus the structured format of the tabular portion of the Financial Statements, has permitted the reporting organizations to provide additional disclosure beyond the restricted capacities of the tabular portion itself.

Therefore, the negative criticisms, referred to earlier, concerning the increasing usage of notes, should be tempered by the realization that a reduction in note usage might merely result in a step backwards, unless alternate forms of disclosure are found. We should recognize this reality and take positive action by increasing our research into the effects of alternative formats of disclosure, rather than restricting our concerns to content and allowing format to be a discretionary variable. We should elevate our attitudes towards notes from one of treating them as merely an appendage to the Financial Statements. This is reflected in our present teaching, and research in accounting. We should correct this deficiency. I believe I have contributed an initial step in this direction, and have pointed to areas where further progress can and should be made.

APPENDIX "A"
LIST OF SAMPLE COMPANIES

LIST OF SAMPLE COMPANIES

	<u>Code</u>
Abitibi Paper Company Ltd.	1
Anglo Canadian Telephone Company	2
Auto Electric Service Company Limited	3
Bank of Nova Scotia	4
Bell Canada	5
T. G. Bright & Co. Limited	6
British Columbia Telephone Company	7
Burns Foods Limited	8
Canada Machinery Corporation Limited	9
Canada Southern Petroleum Limited	10
Canadian General Securities Limited	11
Canadian Pacific Limited	12
Canadian Utilities Limited	13
Central Patricia Gold Mines Limited	14
Chimo Gold Mines Limited	15
Cochrane Dunlop Hardware Limited	16
The Conigas Mines, Limited	17
Conwest Exploration Company Limited	18
The Craig Bit Company Limited	19
Crows Nest Industries Limited	20
Dominion Dairies Limited	21
Dominion Stores Limited	22
East Malartic Mines Limited	23
Electrohôme Limited	24
Ford Motor Company of Canada	25
Giant Yellowknife Mines Limited	26
Grafton Group Limited	27
Gulf Oil Canada	28
Hollinger Mines Limited	29
The Hughes Owens Company (Limited)	30
Industrial Acceptance Corporation	31
Inglis Limited	32
Kerr Addison Mines Limited	33
Lakeshore Mines Limited	34
Lawson & Jones Limited	35
MacMillan Bloedel Limited	36
Maple Leaf Gardens Limited	37
McIntyre Mines Limited	38
The Mexican Light and Power Company Limited	39
Moore Corporation Limited	40
National Petroleum Corporation Limited	41
New Calumet Mines Limited	42
Nickle Rim Mines Ltd.	43
North Canadian Oils Limited	44
Pamour Porcupine Mines Limited	45
Photo-Engravers & Electrotypers Ltd.	46
Prairie Oil Royalties Company Ltd.	47
Radiore Uranium Mines Limited	48
Royal Bank of Canada	49

LIST OF SAMPLE COMPANIES (CONT'D)

Scurry Rainbow Oil Limited	50
Sigma Mines (Quebec) Limited	51
Simpsons Limited	52
The Steel Company of Canada Limited	53
Southam Press Limited	54
Sullivan Mining Group Ltd.	55
Thompson Lundmark Gold Mines Ltd.	56
Trans Mountain Pipelines Company Ltd.	57
United Asbestos Corporation Limited	58
Weststeel-Rosco Limited	59
Willroy Mines Limited	60

APPENDIX "B"

1. Statement Analysis Form One
2. Coding Sheet SA1
3. Statement Analysis Form Two
4. Coding Sheet SA2
5. Note Topic Reclassification (SA2-Q6)

September, 1975

STATEMENT ANALYSIS FORM ONE

Company Information

	<u>COL.</u>	<u>CODE</u>
1. Name of Company _____	1-2	_____
2. Charter _____	3-4	_____
3. Statement Date Day ___ Month ___ Year <u>U</u>	5-6	_____
4. Sequence _____	7-8	_____
5. Consolidated Yes ___ No ___	9	_____
6. If yes, how many _____	10-11	_____
7. Sales/Revenue (Gross) _____ Mil \$	12-15	_____
8. Assets (Gross) _____ Mil \$	16-19	_____
9. Profit/Loss P _____	20	_____

Statements

10. Balance Sheet Y ___ N ___	21	_____
11. Income Statement Y ___ N ___	22	_____
12. Statement of R/E Y ___ N ___	23	_____
13. Statement of S/A Y ___ N ___	24	_____
14. Statement of I/S + R/E Y ___ N ___	25	_____
15. Other _____ Y ___ N ___	26	_____

16. Comparative Y ___ N ___	27	_____

Notes

17. Quantity _____	28-29	_____
18. Total Pages Statements & Notes (audited) _____	30-31	_____
19. Total Pages Statements _____	32-35	_____
20. Total Pages Notes _____	36-39	_____
21. Print Size of Notes <u>→</u> Statement _____	40	_____
22. #Number of Words _____	41-44	_____
23. Notes are located: Before Statements _____		
After Statements _____		
Other _____	45	_____
24. General Notice of Accompanying Notes Y ___ N ___	46	_____

STATEMENT ANALYSIS FORM ONE (CONT'D)

	<u>COL.</u>	<u>CODE</u>
25. Direct Reference to Notes Y ___ N ___	47	___
26. Statements with Direct Reference B/S ___ T/S ___ R/E ___ S/A ___ I/S + R/E ___ O ___	48-53	-----

Supplementary Financial Data Schedules

27. Are there any? Y ___ N ___	54	___
28. Number of Schedules ___	55	___
29. Number of Schedules audited ___	56	___
30. Number of Schedules not audited ___	57	___
31. Name _____ _____ _____ _____ _____ _____ _____ _____ _____		

58-65 -----

32. Number of Pages _____	66-68	-----
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Auditor's Report

33. Any Reference to Notes? Y ___ N ___	69	___
34. Any Reference to S.F.D.S.s? Y ___ N ___	70	___
35. Name of Auditor _____	71-72	___

CODING SHEET

STATEMENT ANALYSIS FORM ONE

<u>QUES.</u>	<u>COL.</u>	<u>DESCRIPTION</u>	<u>CODE</u>
1	1-2	Company Name	01 - 60*
2	3-4	Charter	01 - 14**
3	5-6	Statement Date	55 - 74
4	7-8	Sequence	01 - 12
5	9	Consolidated Y/N/Not Known	0/1/2
6	10-11	How Many Cons./Not Known	00 to 98/99
7	12-15	Sales/Revenue/Not Known	0001 to 9998/9999
8	16-19	Assets/Not Known	0001 to 9998/9999
9	20	Profit/Loss/Not Known	0/1/2
<u>Statements</u>			
10	21	B/S Y/N	0/1
11	22	I/S Y/N	0/1
12	23	R/E Y/N	0/1
13	24	S/A Y/N	0/1
14	25	I/S + R/E Y/N	0/1
15	26	Other Y/N	0/1
16	27	Comparative Y/N	0/1
<u>Notes</u>			
17	28-29	Quantity	00 to 99
18	30-31	Total Pages - Audited	00 to 99
19	32-35	Total Pages - Statements	00.0 to 99.9
20	36-39	Total Pages - Notes	00.0 to 99.9
21	40	Print Size of Notes < = > Sts/None	0/1/2/3
22	41-44	Number of Words/None	0000 to 9998/9999
23	45	Location of Notes Before/After/Other/None	0/1/2/3
24	46	General Notice Y/N/None	0/1/2
25	47	Direct Ref Y/N/None	0/1/2
26	48	B/S Y/N/ N/A, No Notes	0/1/2
26	49	I/S Y/N/ N/A	0/1/2
26	50	R/E Y/N/ N/A	0/1/2

CODING SHEET (SA1)

<u>QUES.</u>	<u>COL.</u>	<u>DESCRIPTION</u>	<u>CODE</u>
26	51	S/A Y/N/ N/A	0/1/2
26	52	I/S + R/E Y/N/ N/A	0/1/2
26	53	Other Y/N/ N/A	0/1/2

Supplementary Financial Data Schedules

27	54	Are there any? Y/N	0/1
28	55	No. of Schedules/ N/A	0 to 8/9
29	56	No. S.F.D.S.s Audited/ N/A	0 to 8/9
30	57	No. S.F.D.S.s not Audited/ N/A	0 to 8/9
31	58	Highlights Y/N/ N/A	0/1/2
31	59	Stat/Hist Y/N/ N/A	0/1/2
31	60	S/A Y/N/ N/A	0/1/2
31	61	Asset Y/N/ N/A	0/1/2
31	62	Liability Y/N/ N/A	0/1/2
31	63	Income Y/N/ N/A	0/1/2
31	64	Expense Y/N/ N/A	0/1/2
31	65	Other Y/N/ N/A	0/1/2
31			
31			
32	66-68	Number of Pages	0.0 to 9.9

Auditor's Report

33	69	Any Ref. Notes Y/N/ N/A	0/1/2
34	70	Any Ref. S.F.D.S.s Y/N/ N/A	0/1/2
35	71-2	Name of Auditor	00 to 99***

NOTES

* See Appendix "A"

** Charter:	Canada	01	Alberta	05
	Ont.	02	Sask.	06
	Que.	03		
	B.C.	04		

CODING SHEET (SAL)

*** Auditors:

Price Waterhouse & Co.	01
Clarkson Gordon & Co.	02
Peat Marwick Mitchell & Co.	03
Touche Ross & Co.	04
Riddell Stead & Co.	05
McDonald Currie & Co. / Coopers Lybrand	06
Thorne Gunn Helliwell & Christenson	07
Deloitte Plender Haskin & Sells	08
Arthur Andersen & Co.	09
Soberman, Isenbaum, Colomby & Nisker	10
Campbell, Lawless & Punchard	11
P & W & C & G	12
P & W & P M M	13
C & G & P M M	14
Thorne, Mulholland, Hanson & McPherson	15
A. D. Downie	16
Petit, Hill & Bertram	17
Arthur A. Crawley & Co.	18
Snyder Craig & Co.	19
Loftus A. Allen & Co.	20
McCull & Turner	21
Welch, Hinton & Welch	22
Harvey Morrison & Co.	23
Gunn Roberts & Co.	24
Thorne Riddell	25
Edwards, Morgan & Co.	26
Stevenson, Blakely & Hunt	27
Winspear, Higgins, Stevenson & Doone	28
Fred Page Higgins & Co.	29
Henry, Barber, Mapp & Mapp	30
Manuel Resa	31
Mario Suarez del Peal	32

CODING SHEET (SA1)

*** Auditors: (Cont'd)

Collins & Homes	33
Ennis & Jalinke	34
Allen, Miles, Fox & Johnston	35
Gilbert A. Doe & Co. (Shaughnesy)	36
Gardner & Co.	37
McDonald Nicholson & Co.	38
Gardner MacDonald & Co.	39
McIntosh Ross & Co.	40
Ross Newborne & Co.	41
Ampleford, Broadhead & Co.	42
Eddis & Assoc.	43
Collins, Love, Eddis, Valiquette & Co.	44
P M M + T R	45
P W + T R	46
T R + D P H S	47
D P H S + P W	48
Maheu Noël Anderson, Valiquette (Anderson & Valiquette)	49
Rogério Casals	50

} Royal Bank of Canada

CODING SHEET
STATEMENT ANALYSIS FORM TWO

<u>QUES.</u>	<u>COL.</u>	<u>DESCRIPTION</u>	<u>CODE</u>
<u>Company Information</u>			
1.	1-2	Company	01 to 60*
2.	3-4	Charter	01 to 06**
3	5-6	Statement Date	55 to 74**
4	7-8	Sequence	01 to 12
<u>Note Analysis</u>			
5	9-10	Note Number	01 to 25
6	11-12	Topic	01 to 99***
7	13-15	Number of Words/over max.	005 to 995/996
8	16	Note - New/Old/Not Known	0/1/2
9	17	New Info/Old Info/Both/Not Known	0/1/2/3
10	18 19+20	Change in Accounting Method Y/N	0/1
11	21	Refers to B/S Y/N/No Stat.	0/1/9
12	22	Refers to I/S Y/N/No Stat.	0/1/9
13	23	Refers to R/E Y/N/No Stat.	0/1/9
14	24	Refers to I/S R/E Y/N/No Stat.	0/1/9
15	25	Refers to S/A Y/N/No Stat.	0/1/9
16	26	Refers to Other Y/N/No Stat.	0/1/9
17	27	Direct Reference Indfc. Y/N	0/1
18		1. See Coding**** / N/A	01 to 70/99
		2. See Coding**** / N/A	01 to 70/99
		3. See Coding**** / N/A	01 to 70/99
		4. See Coding**** / N/A	01 to 70/99
		5. See Coding**** / N/A	01 to 70/99
		6. See Coding**** / N/A	01 to 70/99
		7. See Coding**** / N/A	01 to 70/99
		8. See Coding**** / N/A	01 to 70/99

CODING SHEET (SA2)

NOTES

* Company: See Appendix "A"

** Charter:		<u>CODE</u>
	Canada	01
	Ontario	02
	Quebec	03
	B.C.	04
	Alberta	05
	Sask.	06

*** Note Topic Coding (57 Values)

Accounts Receivables - details, description, inter co. accounts	01
Inventories - details	02
Inventories - valuation	03
Inventories - details & valuation	04
Investments - non-consolidated subs, details, method of accounting for, valuation, etc.	05
Investments - other, details, method of accounting for, valuation	06
Fixed assets - details	07
Fixed assets - valuation, method of accounting for	08
Fixed assets - appraisal	09
Fixed assets - details, valuation, approved method of accounting for	10
Fixed assets - acquisition, sale, construction & method of accounting for	11
Depreciation Depletion - policy	12
Depreciation Depletion - charge	13
Depreciation Depletion - policy and charge	14
Amortization - policy, amount	15
Other assets	16
Short term liabilities - details, inter-corporate	30
Long term debt - details	31
Long term debt - description, covenants, security, sinking funds	32

CODING SHEET. (SA2)

*** Note Topic Coding (Cont'd)

Long term debt - details, description, covenants, security, sinking funds	33
Other liabilities	34
Assets pledged / Liabilities secured	35
Capital stock - details - classes	36
Capital stock - changes, authorized, issued, splits	37
Capital stock - share options, warrants	38
Capital stock - details, changes, classes - share options	39
Capital stock - changes - share options	40
Capital stock - premiums, contributed surplus, etc.	41
Capital stock - redemptions, capital surplus	42
Retained earnings	43
Other shareholders' equity items	44
Minority interest	45
Other general liab/SE	46
Revenues - operating	50
Expenses - operating	51
Directors' remunerations	52
Expenses operating & directors' remunerations	53
Other income - details explanation, etc.	54
Extraordinary items - details, explanation	55
Basis of accounting for taxes	56
Earning/Loss per share details	57
Earnings losses per share - accounting calculation	58
Earnings/losses per share - details - accounting calculation	59
Other (P/L items)	60
Commitments - fixed assets, ie: construction	70
Commitments - leases	71
Commitments - pension liability - funding	72
Commitments - other	73

CODING SHEET (SA2)

*** Note Topic Coding (Cont'd)

Commitments - multiple	74
Contingent liabilities	75
Basis of Financial Statements / Principles of consolidation	80
Translation foreign currency / Accounting for unrealized gains/losses - translation	81
Principles of consolidation / Translation of foreign currency	82
Acquisition / Amalgamation	83
Accounting for consolidation excesses	84
Changes in accounting practices, classification or presentations	90
Subsequent events	91
Significant accounting policies	92
Miscellaneous	99

**** Reference Coding - Questions 13 (18-25)

<u>BALANCE SHEET</u>	01
Current assets	02
Cash	03
Accounts receivable	04
Investments temporary	05
Inventories	06
Other	07
Non-current assets	08
Investments - subs	09
Investments - other	10
Fixed assets	11
Accumulated depr'n	12
Net fixed assets	13
Deferred charges	14

CODING SHEET (SA2)

**** Reference Coding (Cont'd)

Intangible assets (goodwill, excess PP, over BV)	15
Accumulated amortization	16
Other	17
Current liabilities	18
Long term liabilities	19
Accumulated tax allocation	20
Minority interest	21
Shareholders' equity	22
Capital stock	23
Retained earnings	24
Other	25
Other	26
Note to B/S (ie: commitments - contingencies)	27
<u>INCOME STATEMENT</u>	30
Revenue	31
Expenses	32
Depreciation	33
Amortization	34
Interest	35
Directors' Remunerations	36
Pension expense	37
Other revenue (ie: investments)	38
Extraordinary items	39
Taxes (Current & deferred)	40
Final figure	41
Earnings / Loss per share	42
Other expenses	43
Prior period adjustments	44
Misc. Income / Expense	45
<u>RETAINED EARNINGS (Deficit)</u>	50

CODING SHEET (SA2)

**** Reference Coding (Cont'd)

<u>SOURCE AND APPLICATION OF FUNDS</u>	60
(Changes in Financial Position)	
Source	61
Application	62

OTHER STATEMENTS 70

NOTE TOPIC RECLASSIFICATION

<u>ORIGINAL CODE</u>	<u>NEW CODE</u>	<u>NEW TOPIC TITLE</u>
01	01	Accounts Receivable
02, 03, 04	02	Inventories - Details & Valuation
05	03	Investments - No Consol. Subs.
06	04	Investments - other
07, 08, 09, 10, 11	05	Fixed Assets - Details, Valuation, etc.
12, 13, 14, 15	06	Depr'n, Depletion, Amort-Amt., Policy
16	07	Other Assets
30	08	Short Term Liabilities
31, 32, 33, 34, 35	09	Long Term Debt - Details, Descript., etc.
36, 37, 38, 39, 40, 41, 42	10	Capital Stock
43	11	Retained Earnings
44	12	Other Shareholders Equity Items
45, 46	13	Minority Interest, Other Liab, S/E Items
50	14	Operating Revenue
51	15	Operating Expenses
52, 53	16	Director Remuneration
54	17	Other Income
55	18	Extraordinary Items
56	19	Basis of Accounting for Taxes
58, 59	20	E. P. S.
60	21	Other P/L Items
70, 71, 73, 74	22	Commitments - F/A, Leases, etc.
72	23	Commitment - Pensions
75	24	Contingent Liability
80, 81, 82, 83, 84	25	Basis of Consolidation for currency Trans.
90	26	Changes in Accounting Practice
91	27	Subsequent Events
92	28	Significant Acctg. Policies
99	30	Misc.

APPENDIX "C"

MAIL QUESTIONNAIRES	-	English
		French
REMINDER NOTICES	-	English
		French



The University of Western Ontario, London, Canada

School of Business Administration

August 11, 1975

Dear Sir or Madam:

I would very much appreciate your assistance in a research study I am doing at The University of Western Ontario. I am a Ph.D. Student in the School of Business Administration. Your assistance involves the completion of the enclosed questionnaire and returning it to me at your earliest convenience in the enclosed, self-addressed, postage paid envelope.

My study is concerned with the format used to disclose financial information by Public Corporations in Canada. The study entails an extensive empirical examination of the format and perceptions of it. The enclosed questionnaire is an integral part of the data gathering. The purpose of the questionnaire is to collect data which will be used to measure the perceptions of usage of Notes to Financial Statements by three groups of persons who produce and use Financial Reports. The three groups are:

- 1) Individuals within public companies who are responsible for the preparation of the statements,
- 2) Chartered Accountants in public practice and
- 3) Financial Analysts.

Your name and/or company was chosen randomly from various public directories. Your replies will remain confidential and the data will be used in the aggregate. Should you wish, you may omit questions 2, 3 and 4 which identify the respondent. However, should you be interested in receiving a brief outline of the results of this survey, complete the section at the end of the questionnaire.

Thank you in advance for participating in my research study. If you have any questions, feel free to contact me by mail or by phone, (519) 679-6057.

Yours very truly,

Claude P. Lanfranconi
Ph.D. Candidate

**MAIL QUESTIONNAIRE
PERCEPTIONS OF PRODUCERS AND USERS
OF FINANCIAL STATEMENTS**

PLEASE READ CAREFULLY

QUESTIONNAIRE INSTRUCTIONS

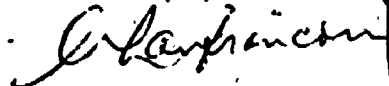
1. If this questionnaire is addressed to you as a Corporate Officer (see Question 1) and you are not the person who is mainly responsible for the preparation of your company's Annual Financial Statements, please forward the questionnaire to the appropriate individual in your company.
2. Questions 2, 3 and 4 may be answered or omitted at your option.
3. Question 5 should be answered to the nearest year and should only include the extent of your experience as a member of the group, to which the questionnaire is directed, (eg: preparer, or public C.A. or analyst).
4. Questions 6 through 11 inclusive should be answered by checking the appropriate box.
5. Respond to Question 12 briefly by concentrating on major perceived reasons.

DEFINITIONS

Notes to Financial Statements or Footnotes are used interchangeably in this questionnaire. By these terms I mean those explanatory notes that are appended to the Financial Statements and are covered by the Auditors' Report. They normally follow the Financial Statements in the Corporate Annual Report.

Body of the Financial Statements is used in this questionnaire to mean the Financial Statements themselves, separate from the above-mentioned notes. They are also covered by the Auditors' Report. (Traditionally the Balance Sheet, Profit and Loss Statement, Statement of Retained Earnings and Funds Statements.)

Thank you,



C.P. Lanfranco

August, 1975

MAIL QUESTIONNAIRE
PERCEPTIONS OF PRODUCERS AND USERS
OF FINANCIAL STATEMENTS

General

Col. Code

- 1. Respondent Group
Corporate Officer Public C.A. Analyst 1
- 2. Name of Company _____
- 3. Name of Individual _____
- 4. Position of Individual _____
- 5. Number of years involved in the preparation/use/audit of published Financial Statements _____ years

May be left blank
if individual wishes
anonymity

2-3

Notes to Financial Statements

- 6. Have you perceived a change in the amount of usage of Notes to Financial Statements? Yes No 4
- 6a. If yes, decreasing increasing N/A 5
- 7. Do you perceive Notes to Financial Statements as having the same significance as if the information or explanations were set forth in the body of the statements themselves? Yes No 6
- 7a. If no, do you perceive them as
less significant , more significant , N/A 7
- 8. Do you think the other respondent groups (eg. Corporate Officer or C.A. or Analyst) see Notes to Financial Statements as having the same significance as if the information or explanations were set out in the body of the statements themselves? Yes No 8

Col. Code

- 8a. If no, do you think they perceive them as
less significant more significant N/A 9
9. Do you think other people generally (eg. shareholders, general public) see Notes to Financial Statements as having the same significance as if the information or explanations were set out in the body of the statements themselves? Yes No 10
- 9a. If no, do you think they perceive them as
less significant more significant N/A 11
10. If data containing significant information could be disclosed in the body of the Financial Statements or in the Notes to Financial Statements, would you perceive Footnote disclosure to be equally effective (able to achieve desired objective) in communicating the information? Yes No 12
- 10a. If no, would Footnotes be
less effective more effective N/A 13
11. If data containing significant information could be disclosed in the body of the Financial Statements or in the Notes to Financial Statements, would you perceive Footnote disclosure to be as equally efficient (able to be read and understood with equal ease and time) in communicating the information?
Yes No 14

Col. Code

11a. If no, would Footnotes be
less efficient , more efficient , N/A 15

12. Would you like to see an association, such as the Canadian
Institute of Chartered Accountants, make specific and
more extensive recommendations on the form and
content of Notes to Financial Statements?
Yes No 16

13. What do you perceive as the major reasons for usage of
Notes to Financial Statements as opposed to disclosure
in the body of the statements?

17-27

Thank-you for your assistance, please return the Questionnaire in the self-
addressed, postage paid envelope.

C.P. Lanfranconi

I would like to receive a brief summary of the results of this survey.

Yes No

If yes,

Name _____

Address _____



The University of Western Ontario, London, Canada

La Faculté d'Administration

Le 11 Août 1975

Madame, Mademoiselle, Monsieur:

Je viens vous demander de m'assister dans un projet de recherche que je fais présentement à l'université Western en Ontario. Je suis un étudiant au programme de doctorat offert par la faculté d'administration de cette université. Vous m'aideriez beaucoup en complétant le questionnaire ci-joint et en me le renvoyant, dès qu'il vous conviendra, dans la lettre pré-adressée et dûment affranchie que vous trouverez également incluse.

Je concentre mon étude sur le format utilisé par les corporations publiques du Canada pour diffuser les informations financières. Cette étude implique un examen empirique étendu du format et des perceptions sur le dit format. Le questionnaire ci-inclus, se veut être une partie intégrale de l'accumulation des données. Son but est de rassembler des données qui seront utilisées pour mesurer quelles sont les perceptions sur l'utilisation des notes pour les états financiers de trois groupes d'individus qui produisent et utilisent ces états financiers. Ces trois groupes sont formés par

- 1) les individus à l'intérieur des compagnies publiques qui sont responsables de la préparation des états financiers
- 2) les comptables agréés qui ont une pratique et
- 3) les analystes financiers.

Votre nom et/ou votre compagnie a été choisi au hasard parmi une variété d'annuaires publics. Vos réponses demeureront confidentielles et les données seront utilisées dans l'ensemble. Si vous le désirez, vous pouvez omettre les questions 2, 3 et 4 qui identifient le répondant. Toutefois, si vous êtes intéressé à recevoir un bref résumé des résultats de cette étude, veuillez compléter la section qui se trouve à la fin du questionnaire.

Je vous remercie à l'avance de votre participation dans ce projet de recherche. Si vous avez des questions, n'hésitez pas à me contacter soit par lettre ou par téléphone, (519) 679-6057.

Bien à vous,

C. Lanfranconi
 Claude P. Lanfranconi
 Candidat au Doctorat

QUESTIONNAIRE À POSTER
LES PERCEPTIONS DES PRODUCTEURS ET DES UTILISATEURS
DES ÉTATS FINANCIERS

A LIRE ATTENTIVEMENT

INSTRUCTIONS POUR LE QUESTIONNAIRE

1. *Si ce questionnaire vous est adressé en qualité d'officier d'une corporation et que vous n'êtes pas la personne directement responsable de la préparation des états financiers annuels de votre compagnie, veuillez transmettre ce questionnaire à l'individu concerné dans votre compagnie.*
2. *Les questions 2, 3 et 4 peuvent être répondues ou omises à votre gré.*
3. *La question 5 devrait être répondue en fonction de l'année la plus rapprochée et ne devrait inclure que l'étendue de votre expérience en qualité de membre du groupe auquel le questionnaire est adressé, (ex: préparateur, C.A. public ou analyste).*
4. *Les questions 6 à 11 inclusivement devraient être répondues en cochant la case appropriée.*
5. *Répondez à la question 12 brièvement en concentrant sur les raisons majeures.*

DEFINITIONS

Les notes aux états financiers ou les références sont utilisées de façon interchangeable dans ce questionnaire. J'entend par ces termes les notes explicatives qui sont annexées aux états financiers et qui sont couvertes par le rapport des auditeurs. "Normalement", elles sont suite aux états financiers dans le rapport annuel de la corporation.

Le corps des états financiers se rapportent, dans ce questionnaire, aux états financiers eux-mêmes excluant ainsi les notes ci-haut mentionnées. Ces états sont également couverts dans le rapport des auditeurs. (Traditionnellement, le bilan, l'état de profit et perte, l'état des bénéfices réinvestis et l'état de source et emploi).

Merci,

C. Lanfranc
 Claude P. Lanfranc

AOÛT 1975

QUESTIONNAIRE À POSTER
LES PERCEPTIONS DES PRODUCTEURS ET DES UTILISATEURS
DES ÉTATS FINANCIERS

GÉNÉRAL

Col. Code

- 1. *Groupe Répondant.*
officier de corporation *C.A. public* *analyste* 1 _____
- 2. *Nom de la compagnie* _____
- 3. *Nom de la personne* _____
- 4. *Poste détenu par celle ci* _____
- 5. *Nombre d'années impliquées dans la préparation/ l'utilisation/ l'audit d'états financiers publiés.* _____ *années* 2-3 _____

Cette section peut être omise si vous désirez conserver l'anonymat

NOTES AUX ÉTATS FINANCIERS

- 6. *Avez-vous perçu un changement dans la fréquence de l'utilisation des notes aux états financiers?* oui non 4 _____
- 6a. *Si oui, cette fréquence est*
décroissante *croissante* *ne s'applique pas* 5 _____
- 7. *Percevez-vous les notes aux états financiers comme ayant la même signification que si l'information ou les explications étaient incluses dans le corps même des états?*
oui non 6 _____
- 7a. *Si non, les percevez-vous comme étant*
moins significatives *plus significatives*
ne s'applique pas 7 _____
- 8. *Pensez-vous que les autres groupes répondants (ex. Officier de corporation, C.A. public, analyste) perçoivent les notes aux états financiers comme ayant la même signification que si l'information ou les explications étaient incluses dans le corps même des états?*
oui non 8 _____

Col. Code

8a. Si non, pensez-vous qu'elles les perçoivent comme étant

moins significatives plus significatives
ne s'applique pas

9 —

9. Pensez-vous que d'autres personnes généralement (ex. les actionnaires, le grand public) perçoivent les notes aux états financiers comme ayant la même signification que si l'information ou les explications étaient incluses dans le corps même des états?

oui non

10 —

9a. Si non, pensez-vous qu'elles les perçoivent comme étant

moins significatives plus significatives
ne s'applique pas

11 —

10. Si les données contenant de l'information significative pouvaient être insérées dans le corps des états financiers ou dans les notes aux états financiers, percevriez-vous d'utilisation de références comme étant aussi efficace (capable d'atteindre l'objectif visé) pour communiquer l'information?

oui non

12 —

10a. Si non, les références seraient-elles

moins efficaces plus efficaces
ne s'applique pas

13 —

Col. Code

11. Si les données contenant de l'information significative pouvaient être insérées dans le corps des états financiers ou dans les notes aux états financiers, percevriez-vous l'utilisation des références comme étant aussi efficace (capable d'être lue et comprise avec autant d'aise et dans le même laps de temps) pour communiquer l'information?

oui non

14 —

11a. Si non, les références seraient - elles moins efficaces plus efficaces ne s'applique pas

15 —

12. Attribuez-vous qu'une association telle l'Institut Canadien des Comptables Agréés fasse des recommandations spécifiques et plus étendues sur la forme et le contenu des notes aux états financiers?

oui non

16 —

13. Quelles sont, selon vous, les raisons majeures qui mènent à l'utilisation des notes aux états financiers et qui s'opposent à leur insertion dans le corps même des états financiers?

17-27

Merçi de votre aide, auriez-vous l'obligeance de retourner ce questionnaire dans l'enveloppe pré-adressée et affranchie.

C.P. Lanfranco

J'aimerais recevoir un bref résumé des résultats de cette étude

oui

non

Si oui,

Nom _____

Adresse _____



The University of Western Ontario, London, Canada

School of Business Administration

September 8, 1975

Dear Sir or Madam,

Re: Mail Questionnaire: Perceptions of Producers
and Users of Financial Statements.

I would like to remind you if you have not already completed and returned the above captioned questionnaire, mailed to you in August, that your response is both needed and would be greatly appreciated.

A satisfactory response 'rate' in a mail questionnaire is essential for the data to be of maximum use, as you are no doubt aware. Therefore if you have not responded yet, I would hope this reminder would encourage you to complete and forward the questionnaire to me.

Thank-you if you have already responded and thank-you in advance if you will now be responding.

Yours very truly,

Claude P. Lanfranconi

Ph.D. Candidate

4

4

OF/DE



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A



The University of Western Ontario, London, Canada

School of Business Administration

Le 9 septembre 1975.

Madame, Mademoiselle, Monsieur,

Re: Le questionnaire à poster, adressé à ceux qui
préparent et/ou utilisent les états financiers

J'aimerais rappeler à ceux qui n'ont pas encore complété et retourné le questionnaire, ci-haut mentionné, expédié au cours du mois d'août dernier, que votre réponse m'est nécessaire et serait grandement appréciée.

Vous savez, sans nul doute, qu'un "taux" satisfaisant de réponses est essentiel pour que les données tirées d'un questionnaire à poster soient utilisées au maximum. Ainsi, si vous n'avez pas encore répondu, j'espère que ce petit memo vous encouragera à compléter et à m'envoyer le questionnaire.

Merci à tous ceux qui ont déjà répondu, et je remercie à l'avance tous ceux qui répondront.

Bien à vous,

C. Lanfranco

Claude P. Lanfranco

Candidat au programme de doctorat

APPENDIX "D"

DEVELOPMENT OF CLASSIFICATION SCHEME

- Note Topic
- Note Referencing

USAGE OF NOTES TO FINANCIAL STATEMENTS

- By Topic
- By Referencing

Development of a Classification Scheme

Table 54 examines the response to Question 6 of SA2 (Topic). The first problem faced was to develop a classification scheme. The other theses were not useful as a source of a classification scheme since they examined usage of notes in general terms. For example, Chapin attempted to classify notes in four classes, "Detailing", "Additive", "Explanatory", and "Miscellaneous". (Chapin 1965) This was not suitable for my study both in terms of accumulating specific descriptive data for the above research questions and to respond to questions seeking to provide reasons for the change in usage.

The Canadian Institute of Chartered Accountants, in its biennial publication, Financial Reporting in Canada, uses a more detailed classification scheme. There were two problems with it as far as satisfying my needs were concerned: Firstly, the scheme attempts to classify notes in a manner consistent with the Institute's own research recommendations. To do this they use three overall classifications; they are:

- 1) "Financial Data - Data not included in the statements in order to simplify the structure of the statements or because clarification is necessary due to uncertainty as to the amounts involved."
- 2) "Accounting Information - explanations of accounting principles involved and changes therein, and existence of commitments, all of which are required to interpret the statements properly."
- 3) "Extraneous matters - information and explanations not directly affecting the financial statements but which may

be essential to proper understanding of the future prospects of the company."

(C.I.C.A., 1973 p185)

Among the problems with the C.I.C.A. schemes is that the classifications are not mutually exclusive: A note, for example, could be providing both (1) detail and (2) information with regards to accounting principles. A particular example would be fixed assets. A note may provide both details (breakdowns, etc.) and also a method of valuation, (ie: cost, appraisal, etc.) The second problem is the subjective element of the scheme. The scheme assumes a normative purpose for a particular note being allocated to a classification: for example, "Data not included in the statements in order to simplify the structure", "classification is necessary due to uncertainty as to the amounts involved", "explanations . . . which are required to interpret the statements properly", etc. In using this scheme it would require that the person classifying the notes assumes the Financial Statement's preparer's reason for using a note in a particular circumstance. Besides the lack of objectivity, it lacks completeness as the results of my mail survey will indicate. Some reasons for usage given by preparers of Financial Statements are not covered by this scheme, even if you were able to interpret reasons for usage from notes themselves. The major thrust of this thesis is an objective empirical study of usage. The lack of objectivity of the C.I.C.A. scheme acted as a major drawback to its use.

The second problem is interrelated with the first. Within these overall classifications are specific classifications. The problem with the specific classifications is that they also overlap. For example, under "Financial Data" is "current charge for depreciation" and under "Accounting

Information" is "Basis for providing for depreciation". It is not unusual for a note to be both; as a result, a note would have to be placed under both headings. The C.I.C.A. classification is used to classify companies who use a particular kind of note, therefore the data they publish indicates whether a company falls within a particular classification. Whereas the intention of this study is to classify the notes.

For the above reasons a more objective and descriptive classification of notes was used. The simplest approach was taken; namely, classify the notes by their topics and avoid the problem of identifying "types" of information, ie: Financial Data. It was found that notes have different types, of information, depreciation amount (Financial Data) and depreciation policy (Accounting information), but for the most part one topic, ie: Depreciation. Therefore this direct approach was taken, developing the topic headings from the actual data. The initial classification scheme that resulted is described in Appendix "C", the coding for SA2. The result was 57 separate topics. These in turn were recoded into similar groups and resulted in the 29 values used in Table 54. Appendix "C" also contains a description of the recoding.

Results

Table 54 lists the frequencies and associated percentages of notes using the classification scheme discussed above. As is indicated in the top left hand corner of the Table, the top number in each cell is the count (frequency), the number below the row percentage, followed by the column percentage and the total percentage. The row percentage indicates the relative frequency of the usage of the particular note in any particular year. This permits you to observe the relative dominance

TABLE 54

USAGE OF NOTES TO FINANCIAL STATEMENTS
BY TOPIC.

280

1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	Accounts	Inventories	Invest.	Investment	Fixed Ass't	Dep'n &	ROW TOTAL
		Receiv.	Det: & Val	N. Consol.	Other	Det: & Val	Depletion	
		1.00	2.00	3.00	4.00	5.00	6.00	
55.00	I	1	1	11	7	7	3	134
	I	.7	.7	8.2	5.2	9.2	2.2	3.1
	I	4.3	1.0	7.6	2.1	3.1	2.1	
	I	.0	.0	.3	.2	.2	.1	
60.00	I	1	1	10	16	7	9	202
	I	.5	.5	5.0	7.9	3.5	4.5	4
	I	4.3	1.0	6.9	4.7	3.1	6.3	
	I	.0	.0	.2	.4	.2	.2	
65.00	I	2	5	16	20	13	14	284
	I	.7	1.8	5.6	7.0	4.6	4.9	6.6
	I	8.7	5.0	11.1	5.9	5.8	9.8	
	I	.0	.1	.4	.5	.3	.3	
66.00	I	3	7	17	18	15	11	321
	I	.9	2.2	5.3	5.6	4.7	3.4	7.5
	I	13.0	7.0	11.8	5.3	6.7	7.7	
	I	.1	.2	.4	.4	.3	.3	
67.00	I	2	8	17	23	14	14	357
	I	.6	2.2	4.8	6.4	3.9	3.9	8.3
	I	8.7	8.0	11.8	6.8	6.3	9.8	
	I	.0	.2	.4	.5	.3	.3	
68.00	I	3	9	16	28	21	16	382
	I	.8	2.4	4.2	7.3	5.5	4.2	8.9
	I	13.0	9.0	11.1	8.3	9.4	11.2	
	I	.1	.2	.4	.7	.5	.4	
69.00	I	1	9	13	34	18	16	391
	I	.3	2.3	3.3	8.7	4.6	4.1	9.1
	I	4.3	9.0	9.0	10.1	8.1	11.2	
	I	.0	.2	.3	.8	.4	.4	
70.00	I	1	10	13	39	20	17	409
	I	.2	2.4	3.2	9.5	4.9	4.2	9.5
	I	4.3	10.0	9.0	11.5	9.0	11.9	
	I	.0	.2	.3	.9	.5	.4	
71.00	I	2	12	9	35	25	18	451
	I	.4	2.7	2.0	7.8	5.5	4.0	10.5
	I	8.7	12.0	6.3	10.4	11.2	12.6	
	I	.0	.3	.2	.8	.6	.4	
72.00	I	2	12	10	42	25	12	447
	I	.4	2.7	2.2	9.4	5.6	2.7	10.4
	I	8.7	12.0	6.9	12.4	11.2	8.4	
	I	.0	.3	.2	1.0	.6	.3	
73.00	I	1	11	4	39	28	9	453
	I	.2	2.4	.9	8.6	6.2	2.0	10.5
	I	4.3	11.0	2.8	11.5	12.6	6.3	
	I	.0	.3	.1	.9	.7	.2	
74.00	I	4	15	8	37	30	4	474
	I	.8	3.2	1.7	7.8	6.3	.8	11.0
	I	17.4	15.0	5.6	10.9	15.5	2.8	
	I	.1	.3	.2	.9	.7	.1	
COLUMN TOTAL		23	100	144	338	223	143	4005
		.5	2.3	3.3	7.9	5.2	3.3	100.0

TABLE 54 (Cont'd)

Date	COUNT ROW PCT COL PCT TOT PCT	I					Other		ROW TOTAL
		Other Assets	Short term Liab.	L.T.D. Details	Capital Stock	Retained Earnings	Sharehold's Items		
		7.00	8.00	9.00	10.00	11.00	12.00		
55.00		3	1	13	20	1	3	134	
		2.2	.7	9.7	14.9	.7	2.2	3.1	
		2.3	2.3	3.3	4.7	2.2	9.7		
		.1	.0	.3	.5	.0	.1		
60.00		2	3	24	28	4	5	202	
		1.0	1.5	11.9	13.9	2.0	2.5	4.7	
		1.5	6.8	6.2	6.6	8.9	16.1		
		.0	.1	.6	.7	.1	.3		
65.00		.8	4	29	29	5	2	284	
		2.8	1.4	10.2	10.2	1.8	.7	6.6	
		5.9	9.1	7.4	6.9	11.1	6.5		
		.2	.1	.7	.7	.1	.0		
66.00		12	5	35	37	4	2	321	
		3.7	1.6	10.9	11.5	1.2	.6	7.5	
		8.9	11.4	9.0	8.7	8.9	6.5		
		.3	.1	.8	.9	.1	.0		
67.00		10	4	33	37	4	3	357	
		2.8	1.1	9.2	10.4	1.1	.8	8.3	
		7.4	9.1	8.5	8.7	8.9	9.7		
		.2	.1	.8	.9	.1	.1		
68.00		12	4	33	37	5	4	382	
		3.1	1.0	8.6	9.7	1.3	1.0	8.9	
		8.9	9.1	8.5	8.7	11.1	12.9		
		.3	.1	.8	.9	.1	.1		
69.00		8		40	34	5	3	391	
		2.0	1.0	10.2	8.7	1.3	.8	9.1	
		5.9	9.1	10.3	8.0	11.1	9.7		
		.2	.1	.9	.8	.1	.1		
70.00		10	4	36	34	4	3	409	
		2.4	1.0	8.8	8.3	1.0	.7	9.5	
		7.4	9.1	9.2	8.0	8.9	9.7		
		.2	.1	.8	.8	.1	.1		
71.00		14	5	40	39	4	2	451	
		3.1	1.1	8.9	8.6	.9	.4	10.5	
		10.4	11.4	10.3	9.2	8.9	6.5		
		.3	.1	.9	.9	.1	.0		
72.00		14	3	36	40	3	1	447	
		3.1	.7	8.1	8.9	.7	.2	10.4	
		10.4	6.8	9.2	9.5	6.7	3.2		
		.3	.1	.8	.9	.1	.0		
73.00		22	2	35	42	3	2	453	
		4.9	.4	7.7	9.3	.7	.4	10.5	
		16.3	4.5	9.0	9.9	6.7	6.5		
		.5	.0	.8	1.0	.1	.0		
74.00		20	5	36	46	3	1	474	
		4.2	1.1	7.6	9.7	.6	.2	11.0	
		14.8	11.4	9.2	10.9	6.7	3.2		
		.5	.1	.8	1.1	.1	.0		
COLUMN TOTAL		135 3.1	44 1.0	390 9.1	423 9.8	45 1.0	31 .7	4305 100.0	

TABLE 54 (Cont'd)

Date	COUNT	Minority	Operating	Operating	Director	Other	Extraord.	ROW
	ROW PCT	Interest	Revenue	Expenses	Remuneration	Income	Items	
	COL PCT							
	TOT PCT	13.00	14.00	15.00	16.00	17.00	18.00	
55.00	2	2	2	2	7	1	0	134
	1.5	1.5	1.5	1.5	5.2	.7	0.0	3.1
	3.3	4.8	3.3	1.7	2.8	0.0	0.0	
	0	0	0	2	0	0.0	0.0	
60.00	2	3	2	8	0	1	202	
	1.0	1.5	1.0	4.0	0.0	.5	4.7	
	9.3	7.1	3.3	2.0	0.0	4.8		
	0	.1	0	.2	0.0	0		
65.00	3	4	2	21	1	0	284	
	1.1	1.4	.7	7.4		0.0	6.6	
	4.9	9.5	3.3	5.2	2.8	0.0		
	.1	.1	0	.5	0	0.0		
66.00	5	5	4	23	1	0	321	
	1.6	1.6	1.2	7.2	.3	0.0	7.5	
	8.2	11.9	6.7	5.7	2.8	0.0		
	.1	.1	.1	.5	0	0.0		
67.00	5	4	5	34	1	0	357	
	1.4	1.1	1.4	9.5	.3	0.0	8.3	
	8.2	9.5	8.3	8.4	2.8	0.0		
	.1	.1	.1	.8	0	0.0		
68.00	4	4	4	35	3	1	382	
	1.0	1.0	1.0	9.8	.8	.3	8.9	
	6.6	9.5	6.7	8.5	8.3	4.8		
	.1	.1	.1	.8	.1	0		
69.00	4	4	5	37	5	2	391	
	1.0	1.0	1.3	9.5	1.3	.5	9.1	
	6.6	9.5	8.3	9.1	13.9	9.5		
	.1	.1	.1	.9	.1	0		
70.00	3	4	6	44	5	2	409	
	.7	1.0	1.5	10.8	1.2	.5	9.5	
	4.9	9.5	10.0	10.8	13.9	9.5		
	.1	.1	.1	1.0	.1	0		
71.00	6	5	8	50	6	3	451	
	1.3	1.1	1.8	11.1	1.3	.7	15.5	
	9.8	11.9	13.3	12.3	16.7	14.3		
	.1	.1	.2	1.2	.1	.1		
72.00	6	5	8	51	6	2	447	
	1.3	1.1	1.8	11.4	1.3	.4	10.4	
	9.8	11.9	13.3	12.6	16.7	9.5		
	.1	.1	.2	1.2	.1	0		
73.00	9	1	5	50	4	4	453	
	2.0	.2	1.1	11.0	.9	.9	10.5	
	14.8	2.4	8.3	12.3	11.1	19.0		
	.2	0	.1	1.2	.1	.1		
74.00	12	1	9	46	3	6	474	
	2.5	.2	1.9	9.7	.6	1.3	11.0	
	19.7	2.4	15.0	11.3	8.3	28.6		
	.3	0	.2	1.1	.1	.1		
COLUMN TOTAL		61	42	60	406	36	22	4305
		1.4	1.0	1.4	9.4	.8	.5	100.0

TABLE 54 (Cont'd)

Date	COUNT	I	I	E.P.S.	Other P/I	Commit'ts	Commit't	Contingent	ROW
	ROW PCT	I	I	I	I	I	I	I	TOTAL
	COL PCT	I	I	I	I	I	I	I	
	TOT PCT	19.00	20.00	21.00	22.00	23.00	24.00		
		I	I	I	I	I	I	I	
55.00	9	0	4	12	2	4		134	
	6.7	0.0	3.0	9.0	1.5	3.0		3.1	
	2.5	0.0	14.8	5.4	1.1	4.0			
	.2	0.0	.1	.3	.0	.1			
60.00	20	0	3	17	2	7		202	
	9.9	0.0	1.5	8.4	1.0	3.5		4.7	
	5.6	0.0	11.1	7.7	1.1	6.9			
	.5	0.0	.1	.4	.0	.2			
65.00	31	0	1	18	7	4		284	
	10.9	0.0	.4	6.3	2.5	1.4		6.6	
	8.7	0.0	3.7	8.1	3.8	4.0			
	.7	0.0	.0	.4	.2	.1			
66.00	32	0	2	16	12	6		321	
	10.0	0.0	.6	5.0	3.7	1.9		7.5	
	8.9	0.0	7.4	7.2	6.5	5.9			
	.7	0.0	.0	.4	.3	.1			
67.00	34	0	2	18	17	7		357	
	9.5	0.0	.6	5.0	4.8	2.0		8.3	
	9.5	0.0	7.4	8.1	9.2	6.9			
	.8	0.0	.0	.4	.4	.2			
68.00	32	0	1	18	21	11		382	
	8.4	0.0	.3	4.7	5.5	2.9		8.9	
	8.9	0.0	3.7	8.1	11.4	10.9			
	.7	0.0	.0	.4	.5	.3			
69.00	34	0	2	18	20	10		391	
	8.7	0.0	.5	5.4	5.1	2.6		9.1	
	9.5	0.0	7.4	9.5	10.8	9.9			
	.8	0.0	.0	.5	.5	.2			
70.00	35	6	1	20	19	10		409	
	8.6	1.5	.2	4.9	4.6	2.4		9.5	
	9.8	20.7	3.7	9.0	10.3	9.9			
	.8	.1	.0	.5	.4	.2			
71.00	37	6	2	19	21	11		451	
	8.2	1.3	.4	4.2	4.7	2.4		10.5	
	10.3	20.7	7.4	8.6	11.4	10.9			
	.9	.1	.0	.4	.5	.3			
72.00	34	4	3	20	20	11		447	
	7.6	.9	.7	4.5	4.5	2.5		10.4	
	9.5	13.8	11.1	9.0	10.8	10.9			
	.8	.1	.1	.5	.5	.3			
73.00	33	6	4	18	23	10		453	
	7.3	1.3	.9	4.0	5.1	2.2		10.5	
	9.2	20.7	14.8	8.1	12.4	9.9			
	.8	.1	.1	.4	.5	.2			
74.00	27	7	2	24	21	10		474	
	5.7	1.5	.4	5.1	4.4	2.1		11.0	
	7.5	24.1	7.4	10.9	11.4	9.9			
	.6	.2	.0	.6	.5	.2			
COLUMN TOTAL	358	29	27	221	185	101		4305	
	8.3	.7	.6	5.1	4.3	2.3		100.0	

TABLE 54 (Cont'd)

Date	COUNT ROW PCT COL PCT TOT PCT	Basis of Changes in Subsequent Signif.								ROW TOTAL
		I Consol. I Curr. Trans.	Acctg. Practice	Events	Acctg. Pol's	Misc.				
		25.00	26.00	27.00	28.00	30.00				
55.00	1	7	4	3	0	4			134	
	I	5.2	3.0	2.2	0.0	3.0			3.1	
	I	2.3	4.7	4.5	0.0	.8				
	I	.2	.1	.1	0.0	.1				
60.00	1	15	0	0	3	9			202	
	I	7.4	0.0	0.0	1.5	4.5			4.7	
	I	4.8	0.0	0.0	2.6	6.4				
	I	.3	0.0	0.0	.1	.2				
65.00	1	18	6	3	5	13			284	
	I	6.3	2.1	1.1	1.8	4.6			6.6	
	I	5.8	7.0	4.5	4.3	9.2				
	I	.4	.1	.1	.1	.3				
66.00	1	21	4	8	6	10			321	
	I	6.5	1.2	2.5	1.9	3.1			7.5	
	I	6.8	4.7	12.1	5.2	7.1				
	I	.5	.1	.2	.1	.2				
67.00	1	27	7	7	6	14			357	
	I	7.6	2.0	2.0	1.7	3.9			8.3	
	I	8.7	8.1	10.6	5.2	9.9				
	I	.6	.2	.2	.1	.3				
68.00	1	28	7	8	6	11			382	
	I	7.3	1.8	2.1	1.6	2.9			8.9	
	I	9.0	8.1	12.1	5.2	7.8				
	I	.7	.2	.2	.1	.3				
69.00	1	32	11	5	5	9			391	
	I	8.2	2.8	1.3	1.3	2.3			9.1	
	I	10.3	12.8	7.6	4.3	6.4				
	I	.7	.3	.1	.1	.2				
70.00	1	32	8	6	5	12			409	
	I	7.8	2.0	1.5	1.2	2.9			9.5	
	I	10.3	9.3	9.1	4.3	8.5				
	I	.7	.2	.1	.1	.3				
71.00	1	38	12	4	5	13			451	
	I	8.4	2.7	.9	1.4	2.9			10.5	
	I	12.3	14.0	6.1	4.3	9.2				
	I	.9	.3	.1	.1	.3				
72.00	1	37	10	4	11	15			447	
	I	8.3	2.2	.9	2.5	3.4			10.4	
	I	11.9	11.6	6.1	9.5	10.6				
	I	.9	.2	.1	.3	.3				
73.00	1	37	8	9	21	13			453	
	I	8.2	1.8	2.0	4.6	2.9			10.5	
	I	11.9	9.3	13.6	18.1	9.2				
	I	.9	.2	.2	.5	.3				
74.00	1	18	9	9	43	13			474	
	I	3.8	1.9	1.9	9.1	3.8			11.0	
	I	5.8	10.5	13.6	37.1	12.8				
	I	.4	.2	.2	.10	.4				
COLUMN TOTAL	I	310 7.2	86 2.0	66 1.5	116 2.7	141 3.3			4305 100.0	

(or lack of dominance) of a topic in any year. For example, in 1955, notes dealing with capital stock had the highest relative frequency, 14.9 percent, (Total notes observed in 1955 = 134, number dealing with capital stock = 20, therefore $\frac{20}{134} = 14.9\%$). The column percentage gives the relative frequency of the usage of a particular note, relative to its usage over the twelve periods. There were 20 instances of usage, dealing with capital stock in 1955, representing 4.7% of the usage of this note over the twelve periods, ($\frac{20}{423} = 4.7\%$). The .5 in the same cell is the percentage of usage of this note in this year over total notes examined, ($\frac{20}{4305} = .5\%$). The row total is the sum of all notes in a particular year, ie: 134 notes in 1955 represent 3.1% of notes examined, ($\frac{134}{4305} = 3.1\%$). The column total is the total of the usage of a particular note over the twelve periods examined, ie: 423 notes dealt with capital stock over the twelve periods, representing 9.8% of all notes examined, ($\frac{423}{4305} = 9.8\%$). As a result, the usage of a particular topic can be compared to 1) usage of other topics in a particular year or 2) its usage over time.

Whereas Table 54 is a direct method of examining the usage of the 4305 notes by topic, Table 55 is more indirect. Of the 4305 notes, 3014 were directly referenced one or more times to the Financial Statements. Table 56 lists the number of notes which were referenced and the number of times referenced. As the table indicates, notes were referenced from one time, up to three situations where notes were referenced eight times.

TABLE 5
 USAGE OF NOTES - BY REFERENCING
 1955 to 1974

Date	COUNT ROW PCT COL PCT TOT PCT	Balance	Current	Accts.	Temporary	Inventor's	Other	ROW TOTAL
		Sheet	Assets	Receivable	Invest's			
		1	2	4	5	6	7	
55.00		1	0	1	1	1	1	119
		0.8	0.0	0.8	0.8	0.8	0.8	2.7
		3.8	0.0	2.6	2.2	0.9	2.0	
		0.0	0.0	0.0	0.0	0.0	0.0	
60.00		5	0	4	4	1	1	206
		2.4	0.0	1.9	1.9	0.5	0.5	4.7
		19.2	0.0	10.3	8.9	0.9	2.0	
		0.1	0.0	0.1	0.1	0.0	0.0	
65.00		2	0	2	4	6	3	264
		0.8	0.0	0.8	1.5	2.3	1.1	6.0
		7.7	0.0	5.1	8.9	5.5	5.9	
		0.0	0.0	0.0	0.1	0.1	0.1	
66.00		2	0	3	5	7	5	317
		.6	0.0	0.9	1.6	2.2	1.6	7.2
		7.7	0.0	7.7	11.1	6.4	9.8	
		0.0	0.0	0.1	0.1	0.2	0.1	
67.00		2	0	2	4	8	6	355
		0.7	0.0	0.6	1.1	2.3	1.7	8.2
		7.7	0.0	5.1	8.9	7.3	11.8	
		0.0	0.0	0.0	0.1	0.7	0.1	
68.00		1	1	5	4	10	4	392
		0.3	0.3	1.3	1.0	2.6	1.0	9.0
		3.8	20.0	12.8	8.9	9.2	7.8	
		0.0	0.0	0.1	0.1	0.2	0.2	
69.00		1	0	3	2	9	6	399
		0.8	0.0	0.8	0.5	2.3	1.5	9.2
		3.8	0.0	7.7	4.4	8.3	11.8	
		0.0	0.0	0.1	0.0	0.2	0.1	
70.00		2	1	3	5	9	6	396
		0.5	0.3	0.8	1.3	2.3	1.5	9.1
		7.7	20.0	7.7	11.1	8.3	11.8	
		0.0	0.0	0.1	0.1	0.12	0.1	
71.00		3	1	4	4	11	4	464
		0.6	0.2	0.9	0.9	2.4	0.9	10.7
		11.5	20.0	10.3	8.9	10.1	8.8	
		0.0	0.0	0.1	0.1	0.3	0.1	
72.00		4	1	5	2	10	4	453
		0.9	0.2	1.1	0.4	2.2	0.9	10.4
		15.4	20.0	12.8	4.4	9.2	7.8	
		0.1	0.0	0.1	0.0	0.2	0.1	
73.00		2	1	2	4	15	4	481
		0.4	0.2	0.4	0.8	3.1	0.8	11.0
		7.7	20.0	5.1	4.4	13.8	7.8	
		0.0	0.0	0.0	0.0	0.3	0.1	
74.00		1	0	5	6	22	7	508
		0.2	0.0	1.0	1.2	4.3	1.4	11.7
		3.8	0.0	12.8	13.3	20.2	13.7	
		0.0	0.0	0.1	0.1	0.5	0.2	
COLUMN TOTAL		26 .6	5 .1	39 19	45 1.0	109 2.5	51 1.2	4354 100.0

Date	COUNT	Investment	Investment	Fixed	Accumulat'd	Net	Def'd	ROW-TOTAL
	ROW PCT	Subs.	Other	Assets	Depr'n	F/A	Charges	
TOT PCT	9	10	11	12	13	14		
55.00	9	5	7	1	0	3	119	
	7.6	4.2	5.9	0.8	0.0	2.3	2.7	
	5.9	1.4	2.4	4.3	0.0	3.9		
	0.2	0.1	0.2	0.0	0.0	0.1		
60.00	8	15	12	1	1	1	206	
	3.9	7.3	5.8	0.5	0.5	0.5	4.7	
	5.2	4.2	4.2	4.3	9.1	1.3		
	0.2	0.3	0.3	0.0	0.0	0.0		
65.00	13	18	16	3	1	4	264	
	4.9	6.8	6.0	1.1	4	1.5	6.0	
	8.5	5.0	5.4	13.0	9.1	5.2		
	0.3	0.4	0.4	0.1	0.0	0.1		
66.00	18	19	20	2	0	6	317	
	5.7	6.0	6.3	0.6	0.0	1.9	7.2	
	11.8	5.3	6.8	8.7	0.0	7.8		
	0.4	0.4	0.5	0.0	0.0	0.1		
67.00	16	28	20	3	0	5	355	
	4.5	7.9	5.6	0.8	0.0	1.4	8.2	
	10.5	7.8	6.8	13.0	0.0	6.5		
	0.4	0.6	0.5	0.1	0.0	0.1		
68.00	15	31	30	1	0	6	392	
	3.8	7.9	7.7	0.3	0.0	1.5	9.0	
	9.8	8.7	10.2	4.3	0.0	7.8		
	0.3	0.7	0.7	0.0	0.0	0.1		
69.00	18	31	29	2	0	9	399	
	4.5	7.8	7.3	0.5	0.0	2.3	9.2	
	11.8	8.7	10.0	8.7	0.0	11.7		
	0.4	0.7	0.7	0.0	0.0	0.2		
70.00	11	38	24	2	1	8	396	
	2.8	9.6	6.0	0.5	0.3	2.0	9.1	
	7.2	10.6	8.1	8.7	9.1	10.4		
	0.3	0.9	0.6	0.0	0.0	0.2		
71.00	12	37	34	2	1	8	464	
	2.6	8.0	7.3	0.4	0.2	1.7	10.7	
	7.8	10.4	11.5	8.7	9.1	10.4		
	0.3	0.8	0.8	0.0	0.0	0.2		
72.00	16	46	32	3	2	9	453	
	3.5	10.2	7.0	0.7	0.4	2.0	10.4	
	10.5	12.9	10.8	13.0	18.2	11.7		
	0.4	1.1	0.7	0.1	0.0	0.2		
73.00	9	44	35	1	2	8	481	
	1.9	9.1	7.3	0.2	0.4	1.7	11.0	
	5.9	12.3	11.9	4.3	18.2	10.4		
	0.2	1.0	0.8	0.0	0.0	0.2		
74.00	8	45	36	2	3	10	508	
	1.6	8.9	7.1	0.4	0.6	2.0	11.7	
	5.2	12.6	12.2	8.7	27.3	13.0		
	0.2	1.0	0.8	0.0	0.1	0.2		
COLUMN TOTAL	153	357	295	23	11	77	4354	
	3.5	8.2	6.8	.5	.3	1.8	100.0	

TABLE 55 (Cont'd)

COUNT	ROW PCT	COL PCT	TOT PCT	Date	I	I	I	I	I	I	I	ROW
					Intangible Assets	Accum. Amortiza.	Other	Current Liability	Long Term Debt	Accum. Tax Allocation	TOTAL	
					15	16	17	18	19	20		
					1	0	1	6	5	3		119
					0.8	0.0	0.8	5.0	4.2	2.5		2.7
					2.9	0.0	0.8	3.1	1.4	1.7		
					0.0	0.0	0.0	0.1	0.1	0.1		
	60.00				0	1	5	9	20	9		206
					0.0	0.5	2.4	4.4	3.7	4.4		4.7
					0.0	16.7	4.1	4.6	5.5	5.5		
					0.0	0.0	0.1	0.2	0.5	0.2		
	65.00				1	1	5	10	23	17		264
					0.4	0.4	1.9	3.8	8.7	6.4		6.0
					2.9	16.7	4.1	5.1	6.3	9.7		
					0.0	0.0	0.1	0.2	0.5	0.4		
	66.00				2	0	5	11	37	20		317
					0.6	0.0	1.6	3.5	11.7	6.3		7.2
					5.7	0.0	4.1	5.6	10.1	11.4		
					0.0	0.0	0.1	0.3	0.8	0.5		
	67.00				4	1	6	19	28	20		355
					1.1	0.3	1.7	5.4	7.9	5.6		8.2
					11.4	16.7	5.0	9.7	7.7	11.4		
					0.1	0.0	0.1	0.4	0.6	0.5		
	68.00				3	1	11	18	30	20		392
					0.8	0.3	2.2	4.6	7.7	5.1		9.0
					8.6	16.7	9.1	9.2	8.2	11.4		
					0.1	0.0	0.3	0.4	0.7	0.5		
	69.00				2	1	6	22	37	20		399
					0.5	0.3	1.5	5.5	9.3	5.0		9.2
					5.0	16.7	5.0	11.2	10.1	11.4		
					0.0	0.0	0.1	0.5	0.8	0.5		
	70.00				1	0	10	24	38	16		396
					0.3	0.0	2.5	6.0	9.6	4.0		9.4
					2.9	0.0	8.3	12.2	10.4	9.1		
					0.0	0.0	0.2	0.6	0.9	0.4		
	71.00				3	0	14	22	39	15		464
					0.6	0.0	3.0	4.7	8.4	3.2		10.7
					8.6	0.0	11.6	11.2	10.7	8.5		
					0.1	0.0	0.3	0.5	0.9	0.3		
	72.00				6	0	17	21	34	15		453
					1.3	0.0	3.8	4.6	7.5	2.0		10.4
					17.1	0.0	14.0	10.7	9.3	5.1		
					0.1	0.0	0.4	0.5	0.8	0.2		
	73.00				8	0	22	14	38	12		481
					1.7	0.0	4.6	2.9	7.9	2.5		11.0
					22.9	0.0	18.1	7.1	10.4	6.8		
					0.2	0.0	0.5	0.3	0.9	0.3		
	74.00				4	1	19	20	36	15		508
					0.8	0.2	3.7	3.9	7.1	3.0		11.7
					11.4	16.7	15.7	10.2	9.9	8.5		
					0.1	0.0	0.4	0.5	0.8	0.3		
COLUMN TOTAL					35.8	6.1	121.2	196.5	365.4	176.0		4354.0
							2.8	4.5	8.4	4.0		100.0

TABLE 55 (Cont'd)

Date	COUNT	Minority	Shareholder	Contrib'd	Retained	Other	Other	ROW
	ROW PCT	Interest	Equity	Surplus	Earnings	Shareh'r Eq.		TOTAL
	COL PCT	21	22	23	24	25	26	
	TOT PCT							
55.00		0	2	15	2	8	4	119
		0.0	1.7	12.6	1.7	6.7	3.4	2.7
		0.0	9.1	3.8	2.6	12.9	5.8	
		0.0	0.0	0.3	0.0	0.2	0.1	
60.00		0	4	24	2	9	3	206
		0.0	1.9	11.7	1.0	4.4	1.5	4.7
		0.0	18.2	6.1	2.6	14.5	4.3	
		0.0	0.1	0.6	0.0	0.2	0.1	
65.00		0	0	28	6	4	5	264
		0.0	0.0	10.6	2.3	1.5	1.9	6.0
		0.0	0.0	7.2	8.0	6.5	7.2	
		0.0	0.0	0.6	0.1	0.1	0.1	
66.00		2	2	35	4	3	4	317
		0.6	0.6	11.0	1.3	0.9	1.3	7.2
		6.0	9.1	9.0	5.3	4.8	5.8	
		0.0	0.0	0.8	0.1	0.1	0.1	
67.00		5	1	33	6	7	3	355
		1.4	0.3	9.3	1.7	2.0	0.8	8.2
		15.2	4.5	8.4	8.0	11.3	4.3	
		0.1	0.0	0.8	0.1	0.2	0.1	
68.00		2	1	37	9	5	5	392
		0.5	0.3	9.4	2.3	1.3	1.3	9.0
		6.0	4.5	9.5	12.0	8.1	7.2	
		0.0	0.0	0.8	0.2	0.1	0.1	
69.00		4	1	32	9	5	5	399
		1.0	0.3	8.0	2.3	1.3	1.3	9.2
		12.1	4.5	8.2	12.0	8.1	7.2	
		0.1	0.0	0.7	0.2	0.1	0.1	
70.00		0	1	33	9	4	7	396
		0.0	0.3	8.3	2.3	1.0	1.8	9.1
		0.0	4.5	8.4	12.0	6.5	10.1	
		0.0	0.0	0.8	0.2	0.1	0.2	
71.00		2	2	37	11	9	8	464
		0.4	0.4	8.0	2.4	1.0	1.7	10.7
		6.0	9.1	9.5	14.7	8.1	11.6	
		0.0	0.0	0.8	0.3	0.1	0.2	
72.00		4	2	38	8	4	9	453
		0.9	0.4	8.4	1.8	0.9	2.0	10.4
		12.1	9.1	9.7	10.7	6.5	13.0	
		0.1	0.1	0.9	0.2	0.1	0.2	
73.00		3	2	3.9	5	6	8	481
		0.6	0.4	8.1	1.0	1.2	1.7	11.0
		9.1	9.1	10.1	6.7	9.9	11.6	
		0.1	0.0	0.9	0.1	0.1	0.2	
74.00		11	4	40	4	2	8	508
		2.2	0.8	7.9	0.8	0.4	1.6	11.7
		33.3	18.2	10.2	5.3	3.2	11.6	
		0.3	0.1	0.9	0.1	0.0	0.2	
COLUMN TOTAL		33	22	391	75	62	69	4354
		.8	.5	9.0	1.7	1.4	1.6	100.0

TABLE 55 (Cont'd)

Date	COUNT ROW PCT COL PCT TOT PCT	I Note		Income Statement	Revenue	Expenses	Depr'n	Abortization	ROW TOTAL
		Balance	Sh.						
		27	30	31	32	33	34		
55.00		1	1	1	1	1	1	1	119
		0.8	0.8	0.8	0.8	4.2	1.7	0.8	2.7
		0.7	3.3	1.7	2.9	2.1	2.4		
		0.0	0.0	0.0	0.1	0.0	0.0		
60.00		3	4	4	4	5	1		206
		1.5	1.9	1.9	1.9	2.4	0.5		4.7
		2.2	13.3	6.9	7.3	5.3	2.4		
		0.1	0.1	0.1	0.1	0.1	0.0		
65.00		6	3	6	9	8	2		264
		2.3	1.1	2.3	3.4	3.0	0.8		6.0
		4.4	10.0	10.3	5.1	8.4	4.8		
		0.1	0.1	0.1	0.2	0.2	0.0		
66.00		6	3	9	12	7	3		317
		1.9	0.9	2.8	3.8	2.2	0.9		7.2
		4.4	10.0	15.5	6.9	7.4	7.3		
		0.1	0.1	0.2	0.3	0.2	0.1		
67.00		7	1	8	17	9	4		355
		2.0	0.3	2.3	4.8	2.5	1.1		8.2
		5.1	3.3	13.8	9.7	9.5	9.5		
		0.2	0.0	0.2	0.4	0.2	0.1		
68.00		15	1	5	17	6	5		392
		3.8	0.3	1.3	4.2	1.5	1.3		9.0
		11.0	3.3	8.6	9.7	6.3	11.9		
		0.3	0.0	0.1	0.4	0.1	0.1		
69.00		17	1	4	17	9	5		399
		4.3	0.3	1.0	4.3	2.3	1.3		9.2
		12.5	3.3	6.9	9.7	9.5	11.9		
		0.4	0.0	0.1	0.4	0.2	0.1		
70.00		14	3	5	15	9	3		396
		3.5	0.8	1.3	3.8	2.3	0.8		9.1
		10.3	10.0	8.6	8.6	9.5	7.1		
		0.3	0.1	0.1	0.3	0.2	0.1		
71.00		16	3	5	22	17	6		464
		3.4	0.6	1.0	4.7	3.7	1.3		10.7
		11.8	10.0	8.6	12.6	17.9	14.3		
		0.4	0.1	0.1	0.5	0.4	0.1		
72.00		17	5	5	17	13	3		453
		3.8	1.4	1.1	3.8	2.9	0.7		10.4
		12.5	16.7	8.6	9.7	13.7	7.1		
		0.4	0.1	0.1	0.4	0.3	0.1		
73.00		17	3	2	17	5	5		481
		3.5	0.6	0.4	3.5	1.0	1.0		11.0
		12.5	10.0	3.4	9.7	5.3	11.9		
		0.4	0.1	0.0	0.4	0.1	0.1		
74.00		17	2	4	23	5	4		508
		3.3	0.4	0.8	4.5	1.0	0.8		11.7
		12.5	6.7	6.9	13.1	5.3	9.5		
		0.4	0.0	0.1	0.5	0.1	0.1		
COLUMN TOTAL		136	30	58	175	95	42		4354
		3.1	.7	1.3	4.0	2.2	1.0		100.0

TABLE 55 (Cont'd)

Date	COUNT	Interest		Director	Pension	Other	Extra	Taxes	ROW TOTAL					
	ROW PCT	COL PCT	TOT PCT	35	36	37	38	39		40				
55.00	I	2	I	0	I	0	I	0	I	6	I	119		
	I	1.7	I	0.0	I	0.0	I	0.8	I	5.0	I	2.7		
	I	20.0	I	0.0	I	0.0	I	0.0	I	2.7	I			
	I	0.0	I	0.0	I	0.0	I	0.0	I	0.0	I			
60.00	I	2	I	0	I	0	I	1	I	14	I	206		
	I	1.0	I	0.0	I	0.0	I	1.0	I	6.8	I	4.7		
	I	20.0	I	0.0	I	0.0	I	1.4	I	6.3	I			
	I	0.0	I	0.0	I	0.0	I	0.0	I	0.3	I			
65.00	I	1	I	1	I	0	I	8	I	20	I	264		
	I	0.4	I	0.4	I	0.0	I	3.0	I	7.6	I	6.0		
	I	10.0	I	20.0	I	0.0	I	5.8	I	9.0	I			
	I	0.0	I	0.0	I	0.0	I	0.2	I	0.5	I			
66.00	I	1	I	1	I	1	I	5	I	23	I	317		
	I	0.3	I	0.3	I	0.3	I	1.6	I	7.3	I	7.2		
	I	10.0	I	20.0	I	7.1	I	3.6	I	10.3	I			
	I	0.0	I	0.0	I	0.0	I	0.1	I	0.5	I			
67.00	I	1	I	1	I	1	I	9	I	22	I	355		
	I	0.3	I	0.3	I	0.3	I	2.5	I	6.2	I	8.2		
	I	10.0	I	20.0	I	7.1	I	6.5	I	9.9	I			
	I	0.0	I	0.0	I	0.0	I	0.2	I	0.5	I			
68.00	I	1	I	1	I	2	I	11	I	22	I	392		
	I	0.3	I	0.3	I	0.5	I	2.8	I	5.6	I	9.0		
	I	10.0	I	20.0	I	14.3	I	7.9	I	9.9	I			
	I	0.0	I	0.0	I	0.0	I	0.3	I	0.5	I			
69.00	I	0	I	1	I	2	I	12	I	25	I	399		
	I	0.0	I	0.3	I	0.5	I	3.0	I	6.3	I	9.2		
	I	0.0	I	20.0	I	14.3	I	8.6	I	11.2	I			
	I	0.0	I	0.0	I	0.0	I	0.3	I	0.6	I			
70.00	I	1	I	0	I	2	I	16	I	22	I	396		
	I	0.3	I	0.0	I	0.5	I	4.0	I	5.6	I	9.1		
	I	10.0	I	0.0	I	14.3	I	11.5	I	9.9	I			
	I	0.0	I	0.0	I	0.0	I	0.4	I	0.5	I			
71.00	I	1	I	0	I	2	I	14	I	20	I	464		
	I	0.2	I	0.0	I	0.4	I	3.0	I	4.3	I	10.7		
	I	10.0	I	0.0	I	14.3	I	10.1	I	9.0	I			
	I	0.0	I	0.0	I	0.0	I	0.3	I	0.5	I			
72.00	I	0	I	0	I	2	I	13	I	15	I	453		
	I	0.0	I	0.0	I	0.4	I	2.9	I	3.3	I	10.4		
	I	0.0	I	0.0	I	14.3	I	9.4	I	6.7	I			
	I	0.0	I	0.0	I	0.0	I	0.3	I	0.3	I			
73.00	I	0	I	0	I	1	I	24	I	12	I	481		
	I	0.0	I	0.0	I	0.2	I	5.0	I	2.5	I	11.0		
	I	0.0	I	0.0	I	7.1	I	17.3	I	5.4	I			
	I	0.0	I	0.0	I	0.0	I	0.6	I	0.3	I			
74.00	I	0	I	0	I	1	I	24	I	22	I	508		
	I	0.0	I	0.0	I	0.2	I	4.7	I	4.3	I	11.7		
	I	0.0	I	0.0	I	7.1	I	17.3	I	9.9	I			
	I	0.0	I	0.0	I	0.0	I	0.6	I	0.5	I			
COL MN TOTAL		10		5		14		139		64		223		4354
		.2		.1		.3		3.2		1.5		5.1		100.0

TABLE 55 (Cont'd)

Date	COUNT ROW PCT COL PCT TOT PCT	I Final Figure		E.P.S.		Other Expenses		Prior Per. Adj.		Misc. Inc. & Exp.		Retained Earnings Statement		ROW TOTAL
		I 41	I	I 42	I	I 43	I 44	I 45	I	I 50	I			
55.00		1		0		3		0		0		12		119
		0.8		0.0		2.5		0.0		0.0		10.1		2.7
		1.3		0.0		7.7		0.0		0.0		6.3		
		0.0		0.0		0.1		0.0		0.0		0.3		
60.00		0		0		1		0		0		15		206
		0.0		0.0		0.5		0.0		0.0		7.3		4.7
		0.0		0.0		2.6		0.0		0.0		7.9		
		0.0		0.0		0.0		0.0		0.0		0.3		
65.00		2		0		2		0		0		13		264
		0.8		0.0		0.8		0.0		0.0		4.9		6.0
		2.7		0.0		5.1		0.0		0.0		6.8		
		0.0		0.0		0.0		0.0		0.0		0.3		
66.00		4		0		2		0		0		11		317
		1.3		0.0		0.6		0.0		0.0		3.5		7.2
		5.3		0.0		5.1		0.0		0.0		5.8		
		0.1		0.0		0.0		0.0		0.0		0.3		
67.00		9		1		2		0		1		15		355
		2.5		0.3		0.6		0.0		0.3		4.2		8.2
		12.0		2.3		5.1		0.0		33.3		7.9		
		0.2		0.0		0.0		0.0		0.0		0.3		
68.00		5		1		1		1		0		17		392
		1.3		0.3		0.3		0.3		0.0		4.3		9.0
		6.7		2.3		2.6		14.3		0.0		8.9		
		0.1		0.0		0.0		0.0		0.0		0.4		
69.00		7		0		2		1		0		16		399
		1.8		0.0		0.5		0.3		0.0		4.0		9.2
		9.3		0.0		5.1		14.3		0.0		8.4		
		0.2		0.0		0.0		0.0		0.0		0.4		
70.00		8		4		5		2		1		12		396
		2.0		1.0		1.3		0.5		0.3		3.0		9.1
		10.7		9.1		12.8		28.6		33.3		6.3		
		0.2		0.1		0.1		0.0		0.0		0.3		
71.00		10		9		5		1		1		20		464
		2.2		1.9		1.0		0.2		0.2		4.3		10.7
		13.3		20.5		12.8		14.3		33.3		10.5		
		0.2		0.2		0.1		0.0		0.0		0.5		
72.00		9		8		4		1		0		18		453
		2.0		1.8		0.9		0.2		0.0		4.0		10.4
		12.0		18.2		10.3		14.3		0.0		9.5		
		0.2		0.2		0.1		0.0		0.0		0.4		
73.00		15		11		5		1		0		18		481
		3.1		2.3		1.0		0.2		0.0		3.7		11.0
		20.0		25.0		12.8		14.3		0.0		9.5		
		0.3		0.3		0.1		0.0		0.0		0.4		
74.00		5		10		7		0		0		23		508
		1.0		2.0		1.4		0.0		0.0		4.5		11.7
		6.7		22.7		17.9		0.0		0.0		12.1		
		0.1		0.2		0.2		0.0		0.0		0.5		
COLUMN TOTAL		75		44		39		7		3		190		4354
		1.7		1.0		.9		.2		.7		4.4		100.0

TABLE 55 (Cont'd)

Date	COUNT ROW PCT COL PCT TOT PCT	Source &				ROW TOTAL
		Source & Application 60	Source & App. + 61	Source & App. - 62	Other 70	
55.00	0	0	0	0	6	119
	0.0	0.0	0.0	0.0	5.0	2.7
	0.0	0.0	0.0	0.0	4.6	
	0.0	0.0	0.0	0.0	0.1	
60.00	0	0	0	0	11	206
	0.0	0.0	0.0	0.0	5.3	4.7
	0.0	0.0	0.0	0.0	8.2	
	0.0	0.0	0.0	0.0	0.3	
65.00	2	0	0	0	9	264
	0.8	0.0	0.0	0.0	3.4	6.0
	11.1	0.0	0.0	0.0	6.7	
	0.0	0.0	0.0	0.0	0.2	
66.00	1	4	1	11	11	317
	0.3	1.3	0.3	3.5	3.5	7.2
	5.6	5.3	2.9	8.2	8.2	
	0.0	0.1	0.0	0.3	0.3	
67.00	1	2	4	13	13	355
	0.3	0.6	1.1	3.7	3.7	8.2
	5.6	2.6	11.4	9.7	9.7	
	0.0	0.0	0.1	0.3	0.3	
68.00	1	10	5	13	13	392
	0.3	2.6	1.3	3.3	3.3	9.0
	5.6	13.2	14.3	9.7	9.7	
	0.0	0.2	0.1	0.3	0.3	
69.00	0	2	4	13	13	399
	0.0	0.5	1.0	3.3	3.3	9.2
	0.0	2.6	11.4	9.7	9.7	
	0.0	0.0	0.1	0.3	0.3	
70.00	3	6	1	3	3	396
	0.8	1.5	0.3	0.8	0.8	9.1
	16.7	7.9	2.9	2.2	2.2	
	0.1	0.1	0.0	0.1	0.1	
71.00	3	17	2	4	4	464
	0.6	3.7	0.4	0.9	0.9	10.7
	16.7	22.4	5.7	3.0	3.0	
	0.1	0.4	0.0	0.1	0.1	
72.00	3	14	6	5	5	453
	0.7	3.1	1.3	1.1	1.1	10.4
	16.7	18.4	17.1	3.7	3.7	
	0.1	0.3	0.1	0.1	0.1	
73.00	3	16	8	21	21	481
	0.6	3.3	1.7	4.4	4.4	11.0
	16.7	21.1	22.9	15.7	15.7	
	0.1	0.4	0.2	0.5	0.5	
74.00	1	5	4	2	2	508
	0.2	1.0	0.8	4.9	4.9	11.7
	5.6	6.6	11.4	18.7	18.7	
	0.0	0.1	0.1	0.6	0.6	
COLUMN TOTAL	18	76	35	134	3.0	4354
	.4	1.7	.8	3.0		100.0

TABLE 56
FREQUENCY OF NOTE REFERENCING

2167	Notes referenced 1 times =	2167
545	Notes referenced 2 times =	1090
191	Notes referenced 3 times =	573
64	Notes referenced 4 times =	256
25	Notes referenced 5 times =	125
14	Notes referenced 6 times =	84
5	Notes referenced 7 times =	35
<u>3</u>	Notes referenced 8 times =	<u>24</u>
<u>3014</u>	Totals	<u>4354</u>

The purpose for using referencing is to examine the usage of notes by another means, not to examine the technical aspect of referencing. Examining a note itself is one way of determining usage, a second is to examine to what account or statement is a note referenced. A major benefit derived from examining referencing is to check the validity of the classification scheme I used in preparing Table 54. My classification of note usage should describe usage of notes consistent with the statement preparer's own actual usage of notes, as is indicated by the account or statement he refers it to. Differences should be explainable or the classification scheme that I used would not be acceptable.

Table 56 also indicates that a total of 4354 references were tabulated. This is the total in the lower right hand of Table 55. The

classifications used are listed in Appendix "C" coding of Question 13 of SA2. The classification scheme utilized the statement and the more regularly used account classifications in the case of the Balance Sheet and the Income Statement.

The second method of describing usage of notes provides data by itself as well as in comparison with Table 54. It lacks some completeness since certain highly used notes are relatively rarely referenced. For example, Table 54 indicates that 9.4% of notes dealt with director's remuneration, however Table 55 indicates that Director's Remuneration, as an account in the Income Statement, was referenced only 5 times or approximately .1% of the referencing examined. This is somewhat understated inasmuch as some of the notes detailing director's remuneration would be referenced to other accounts, ie: Operating Expenditures. This, however, would not make up the differences. Therefore, the two means of describing usage are not totally comparable. Differences however, should be explainable and will be in the discussion of the findings in Chapter Five.

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