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A

SOURCE OF DATA AND BASIC TABLES

It was mentioned in Chapter 1 that the data used in this study were derived from original tabulations of federal income tax returns. The Department of Commerce, in co-operation with the Temporary National Economic Committee, initiated these tabulations in 1938,1/ and they were compiled during 1939 and 1940 by the Income Tax Study, an undertaking of the Work Projects Administration sponsored by the Division of Tax Research of the United States Treasury Department. 2/

A group of 939 returns, representing approximately 200 small corporations in each of the five industries, was pulled from the 1926 files. The returns of the same companies were then pulled for each succeeding year through 1936, or, in the case of discontinuing companies, through the last year in which a return was filed. In this process companies that were involved in mergers or consolidations, companies whose returns, known to have been filed, were missing or not available, and companies whose financial statements were grossly inadequate, were eliminated from the sample.3/ In addition to this original 1926 drawing, a supplementary drawing, smaller in size but similar in other respects, was made from the 1930 returns and was then carried through the six succeeding years.

The Department of Commerce set up the following requirements for a company's inclusion in the sample:

1. The corporation must be a manufacturer of bread and cake; of men's and boys' suits, coats and overcoats; of household furniture; of brick, tile, cement blocks and cut stone products; or of machine tools, taps, dies, gauges and other accessories.

2. In 1926 (or 1930, for the supplementary drawing) the corporation must have had total assets aggregating

less than $250,000 (the depreciation reserve being considered a deduction from the land and plant account). Companies which subsequently grew above that size were not eliminated, however.

3. The corporation must have been in active operation in 1926 (or 1930, for inclusion in the supplementary drawing).

As a basis for the drawings 23 internal revenue collection districts were chosen 4/- slightly less than half the total number of collection districts in the United States. Their distribution was such that they included about half the corporate returns filed in each of five major regions, these regions representing an arbitrary division of the states for the purposes of this project.5/ In seeking eligible corporations among the selected districts' returns, letters of the alphabet were chosen at random, with the result that each district had a reasonably fair opportunity to contribute companies to the sample. It is justifiable to assume, therefore, that the geographic distribution of the sample companies gives some indication of the location of small incorporated enterprises in the industries treated. The number of companies in the 1926 and 1930 drawings, classified by industry, region, and asset size, is shown in Tables A-1 and A-2. Some idea of the size of the cities represented by the sample companies may be had from Table A-3, which classifies, according to this criterion, the companies in the 1926 drawing which continued through 1936.

The federal income tax returns submitted by corporations are confidential. Identification of particular companies is impossible from the present tabulations because they are on a sample basis, because the samples comprise comparatively small segments of all small manufacturing corporations in these five industries, and because the data for particular companies have been grouped and aggregated.

Since all active corporations are required to file a federal income tax return, those which ceased filing returns during the period studied may be assumed to have ceased existence as corporate entities. Most of them were probably failures, although a few may have changed to a non-corporate form of organisation or been liquidated at

Table A-1 - 1926 DRAWING OF CORPORATIONS IN FIVE INDUSTRIES
Distribution by Region and Asset Size a/

Region and Asset Size	Baking	Men's Clothing	Fur-niture	Stone-Clay	Machine Tool	Total
New England						
Less than $50,000	22	7	13	5	27	74
50,000 - 100,000	6	9	9	8	6	38
100,000 - 150,000	2	2	5	3	1	13
150,000 - 200,000	-	1	5	2	1	9
200,000 - 250,000	2	-	-	2	1	5
TOTAL	32	19	32	20	36	139
East						
Less than $50,000	33	54	23	9	17	136
50,000 - 100,000	12	28	9	8	4	61
100,000 - 150,000	4	16	7	5	1	33
150,000 - 200,000	2	8	7	1	4	22
200,000 - 250,000	1	9	4	2	-	16
TOTAL	52	115	50	25	26	268
Middle West						
Less than $50,000	30	26	16	28	64	164
50,000 - 100,000	17	6	15	27	29	94
100,000 - 150,000	6	12	14	11	11	54
150,000 - 200,000	6	4	15	9	9	43
200,000 - 250,000	4	2	5	9	5	25
250,000 and over b/	1	-	-	-	-	1
TOTAL	64	50	65	84	118	381
South						
Less than $50,000	13	2	5	19	1	40
50,000 - 100,000	5	1	8	11	-	25
100,000 - 150,000	-	1	7	3	-	11
150,000 - 200,000	1	-	8	5	-	14
200,000 - 250,000	3	-	5	-	-	8
TOTAL	22	4	33	38	1	98
West						
Less than $50,000	8	-	5	6	1	20
50,000 - 100,000	3	3	1	6	3	16
100,000 - 150,000	2	-	2	3	-	7
150,000 - 200,000	1	-	2	-	-	3
200,000 - 250,000	1	-	4	2	-	7
TOTAL	15	3	14	17	4	53
GRAND TOTAL	185	191	194	184	185	939

a/ Based on TNEC Monograph 15 (previously cited) Tables 6-A to 6-E in Appendix F.
b/ The 1926 drawing inadvertently included one company that exceeded the stipulated asset size.

the desire of the owners. The number of remaining and of discontinuing companies in each year of the period is shown in Table A-4.

For the purposes of tabulation the corporations were divided into three broad groups. The first consists of

Table A-2 - 1930 DRAWING OF CORPORATIONS IN FIVE INDUSTRIES
Distribution by Region and Asset Size a/

Region and Asset Size	Baking	Men's Clothing	Furniture	Stone-Clay	Machine Tool	Total
New England						
Less than $50,000	3	2	8	3	3	19
50,000 - 100,000	1	1	3	-	-	5
100,000 - 150,000	-	-	1	-	3	4
150,000 - 200,000	-	-	1	1	2	4
200,000 - 250,000	-	-	1	-	1	2
TOTAL	4	3	14	4	9	34
East						
Less than $50,000	4	37	6	1	3	51
50,000 - 100,000	1	16	4	1	-	22
100,000 - 150,000	1	10	1	-	-	12
150,000 - 200,000	1	4	1	-	1	7
200,000 - 250,000	-	4	-	-	-	4
TOTAL	7	71	12	2	4	96
Middle West						
Less than $50,000	7	3	7	7	7	31
50,000 - 100,000	4	-	5	4	5	18
100,000 - 150,000	2	-	-	5	3	10
150,000 - 200,000	4	-	3	2	2	11
200,000 - 250,000	-	1	3	1	1	6
TOTAL	17	4	18	19	18	76
South						
Less than $50,000	9	1	3	3	2	18
50,000 - 100,000	1	-	4	2	-	7
100,000 - 150,000	1	-	2	-	-	3
150,000 - 200,000	-	-	-	4	-	4
200,000 - 250,000	-	-	2	-	-	2
TOTAL	11	1	11	9	2	34
West						
Less than $50,000	5	-	-	5	-	10
50,000 - 100,000	1	-	1	-	2	4
100,000 - 150,000	1	-	1	2	-	4
150,000 - 200,000	-	-	-	-	-	-
200,000 - 250,000	-	-	1	3	-	4
TOTAL	7	-	3	10	2	22
GRAND TOTAL	46	79	58	44	35	262

a/ Based on TNEC Monograph 15 (previously cited) Tables 6-A to 6-E in Appendix F.

continuing companies - those which filed returns through 1936. This group is thus composed of two identical samples, one for each drawing. In Table A-4 the number of companies remaining in 1936 indicates, for each industry and each drawing, the number of companies contained in this group. 6/ The identical 1926-36 sample of continuing companies formed the basis of the analysis presented in Chapters 2 and 3 of this report; the identical 1930-36 sample of continuing companies was used infrequently, and then only as a check on the reliability of the 1926-36 sample.

The second broad group comprises all the corporations in both drawings which ceased filing returns by 1936 or before. In the compilations covering these discontinuances no distinction was made between the 1926 and the 1930 drawings. Thus the number of companies in this group, as indicated in Table A-4, is, for each industry, the sum of all the discontinuances in both drawings. This sample of discontinuing companies was not used directly in the present study; 7/ it was superseded by the third broad group of corporations, which was more convenient to analyze.

Table A-3 - 1926 DRAWING OF CORPORATIONS IN FIVE INDUSTRIES
Distribution of Continuing Companies, by Size of City a/

Population of City	Baking	Men's Clothing	Furniture	Stone-Clay	Machine Tool	Total
Less than 2,500	3	1	7	17	4	32
2,500 - 5,000	3	1	5	4	2	15
5,000 - 10,000	2	-	3	4	4	13
10,000 - 25,000	11	1	6	9	4	31
25,000 - 50,000	9	1	2	8	5	25
50,000 - 100,000	8	1	3	8	10	30
100,000 - 250,000	12	1	2	-	11	26
250,000 - 500,000	6	5	10	8	16	45
500,000 - 1,000,000	11	11	7	6	26	61
1,000,000 and over	16	24	21	6	36	103
TOTAL	81	46	66	70	118	381

a/ Based on unpublished tables prepared by the Income Tax Study, a WPA project sponsored by the Treasury Department; the tables are available in the Treasury Department's Source Book of Statistics of Income.

Table A-4 - 1926 AND 1930 DRAWINGS OF CORPORATIONS IN FIVE INDUSTRIES: Number of Companies Remaining and Number Discontinuing in Each Year, 1926-36 and 1930-36 a/

Sample and Year	Baking		Men's Clothing		Furniture		Stone-Clay		Machine Tool	
	Cos. Remaining	Cos. Discontin.	Cos. Remaining	Cos. Discontin.	Cos. Remaining	Cos. Discontin.	Cos. Remaining	Cos. Discontin.	Cos. Remaining	Cos. Discontin.
1926 Drawing										
1926	185	-	191	-	194	-	184	-	185	-
1927	168	17	171	20	176	18	175	9	175	10
1928	158	10	142	29	154	22	149	26	163	12
1929	147	11	125	17	136	18	135	14	159	4
1930	137	10	94	31	116	20	123	12	152	7
1931	125	12	84	10	103	13	111	12	146	6
1932 b/	110	15	70	14	92	12	99	12	142	4
1933 b/	104	6	64	6	84	8	89	10	136	6
1934 b/	97	7	54	10	74	10	83	6	129	7
1935 b/	88	9	52	2	70	4	79	4	123	6
1936 b/	81	7	46	6	66	4	70	9	118	5
1930 Drawing										
1930	46	-	79	-	58	-	44	-	35	-
1931	39	7	62	17	52	6	42	2	32	3
1932	34	5	49	13	40	12	41	1	30	2
1933	33	1	43	6	31	9	35	6	28	2
1934	33	0	32	11	29	2	34	1	27	1
1935	30	3	30	2	29	0	32	2	26	1
1936 b/	27	3	27	3	28	1	30	2	23	3

a/ Based on TNEC Monograph 15 (previously cited) Tables 6-A to 6-E in Appendix F.

b/ The discontinuances in these years make up the identical sample covering six years before discontinuance. See Appendix D, below.

This third group includes only those discontinuing enterprises which were in the sample six years or more.8/ In Table A-4 the figures for the companies in the first drawing that discontinued at some time during 1932-36, and those for the companies in the second drawing that discontinued in 1936, indicate the number of enterprises that were eligible for this group. These companies, identical for six years before disappearance, provided the basis for the analysis of portents of discontinuance, presented in Chapter 4. They are described further in Appendix D.

Several accounting characteristics of the sample companies should be mentioned. In the first place, most of them filed their federal income tax returns on a calendar-year basis. In the two identical samples of continuing enterprises, combined, about 10 percent of the companies in each industry filed 1936 returns for a 12-month period not ending December 31 (Table A-5). These so-called fiscal-year statements have been grouped with the returns of the calendar year most nearly corresponding. Thus "leading" returns (those covering a year ending between July 1 and December 31) have been grouped with those for the succeeding December 31; and "lagging" returns (ending between January 1 and June 30) have been grouped with those for the preceding December 31. These fiscal-year statements were so few, and were so largely concentrated in the months immediately before and after the calendar-year end, that they introduced no serious discrepancy into the tabulations.

Table A-5 - 1926 AND 1930 DRAWINGS OF CORPORATIONS IN FIVE INDUSTRIES: Accounting Periods Used by Continuing Companies, 1936 a/

Accounting Period	Baking	Men's Clothing	Furniture	Stone-Clay	Machine Tool
Calendar-year returns	95 cos.	63 cos.	86 cos.	96 cos.	125 cos.
Fiscal-year returns					
Leading b/	6	6	7	3	5
Lagging b/	6	2	4	3	8
Leading or lagging b/					
1 or 2 months	5	5	3	4	4
3 or 4 months	3	1	4	2	6
5 or 6 months	4	2	4	0	3
Not specified	1	2	1	0	3
TOTAL	108	73	98	102	141

a/ Based on TNEC Monograph 15 (previously cited) Table 7-9 in Appendix F. The present table pertains to all the companies in the identical 1926-36 and 1930-36 samples, and also to a few additional furniture and stone-clay companies for which 1936 data were available.

b/ "Leading" returns cover a 12-month period ending between July 1 and December 31, and are grouped with the succeeding December 31 returns. "Lagging" returns cover a 12-month period ending between January 1 and June 30, and are grouped with the preceding December 31 returns.

Second, the accrual method of accounting was followed by most of the companies in these samples, but a few stated that they kept their books on a cash basis. Among the continuing companies in the two identical samples, combined, the proportions using the cash basis were as follows in 1936: baking, 13 percent; men's clothing, 14 percent; furniture, 11 percent; stone-clay, 21 percent; machine tool, 13 percent.9/ This discrepancy, too, is not considered serious for purposes of the present survey, especially since some of the companies which reported the cash basis may actually have followed the accrual system, at least in part, without realizing it; others which stated that they used the accrual basis may not fully have accrued all items.

Finally, in preparing financial statements for income tax returns some of the corporations valued their ending inventory at cost, others at "lower of cost or market," and the remainder according to an unspecified method. On the basis of these three types of inventory statement the percentage distribution of the two identical samples of continuing companies was as follows, for 1936: 10/

	Cost	Lower of Cost or Market	Method Unspecified
Baking	52%	43%	5%
Men's clothing	20	69	11
Furniture	18	74	8
Stone-clay	53	41	6
Machine tool	30	52	18

In two of the industries, men's clothing and furniture, there was a strong preference for the lower-of-cost-or-market method. In two others, baking and stone-clay, the preference was slightly in favor of the cost method, perhaps because of the peculiar inventory situations in these industries. Inventory turnover is large in baking, and use of the lower-of-cost-or-market method would not give results significantly different from those obtained by valuing inventory at cost; therefore it is not surprising that more than half of the baking companies followed the easier cost method. The reason why the majority of stone-clay companies used that method is probably the preponderance of finished goods in such companies' inventory, and the fact that their raw material comes from their own clay deposits (making a market price nominal). Although a majority of the machine tool companies preferred the lower-of-cost-or-market method, nearly one-third stated that they valued their inventory at cost; this sizable proportion may be explained by the large work-in-process and finished-goods holdings of such companies, and by the fact that the common practice of manufacturing machine tools on order, rather than for stock, is a strong inducement to use the cost method.

In the supplementary Data Book (see footnote 2 to this appendix) Tables B-1 to B-5 present, for each of the five industries, percentage figures on basic balance sheet and income statement data for the companies that continued in existence during 1926-36, and Table B-6 presents the same data for the 1936-39 extension of the machine tool sample.11/ In Tables B-7 to B-9 are shown the mean ratios of accounts payable to total assets and of notes payable to total assets, for the same companies covered by B-1 to B-5. In Table B-7 the ratios are presented for all companies in the identical samples and also, separately, for those that reported either of these items. The other two tables cover all companies, whether or not they reported accounts payable or notes payable; but in B-8 the mean ratios are shown separately for the larger and the smaller companies in the samples, and in B-9 they are shown separately for the more profitable and the less profitable companies. The dividing line between larger and smaller companies was the median asset size of each sample over the entire 1926-36 period, and the dividing line between more profitable and less profitable companies was, for each sample, the 1926-36 median ratio of net income plus officers' compensation to net worth.

Frequent references have been made in this study to the importance of certain financial statement items as "sources and uses of funds." This term has a more or less technical meaning, and is fully discussed in the Data Book, along with tabulations covering basic sources and uses of funds statements (Tables B-10 to B-14), accounting revaluations (B-15 to B-19), realized capital gains and losses (B-20) and surplus donations (B-21), for each of the five industry samples making up the 1926-36 identical group of continuing small corporations. Basic data on the identical sample of discontinuing companies, discussed in Chapter 4, are presented in Tables B-22 to B-26 of the Data Book.