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A study of annual reports to stockholders of industrial corporations

Henry Addison Dalton

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A STUDY OF ANNUAL REPORTS TO STOCKHOLDERS
OF INDUSTRIAL CORPORATIONS

BY

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Approved:
F. Byers Miller

PREFACE

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"The first conventional annual report appears to have been issued in 1858 by the Borden Company. AT&T started making reports in 1885, Monsanto in 1902. But the attitude of many companies in those days is epitomized by one that in 1866 wrote the New York Stock Exchange that it 'made no reports, and published no statements, and has not done anything of the kind for the last five years.'

"During the eighties, the ICC ordered the railroads to make annual reports. Although railroad reports were complete and highly detailed, they were often set up like timetables and were hard to read. . . . Only in recent years have a few railroads like the C&O modernized their reports. . . .

"By 1895 the Stock Exchange began recommending the practice of making annual reports, and five years later requested companies applying for listing to publish them.

At first only a few complied. But in 1902 the first really modern report was issued by Judge Elbert H. Gary, of U. S. Steel. It was voluminous, detailed, and profusely illustrated, and it revealed so much of U. S. Steel's affairs that the Directors were practically scandalized. In subsequent years U. S. Steel has reported its affairs but less fully. For the first time in 1939 it used slick paper and simple language. Half of the 1942 report informally related the role U. S. Steel is playing in the war, the expansion of steel making facilities, shipbuilding, and relations with labor. The other half is a clear, detailed account of fiscal operations.

"During the expanding days of the twenties, many companies found that attractive reports were valuable weapons in the hands of security salesmen. Now that regulations about selling stocks and bonds are more stringent, some companies take the precaution of setting their lawyer to work on the title pages. . . ." (Notes are included stating that the report is merely for information of the stockholders and is not intended to solicit proxies or sales of securities.)

"The greatest change in preparing reports came during the depression."¹ This change consisted of a trend towards simplification of financial statements and use of employee reports. In recent years improvement in annual reports has been significant, but spotty. Some have kept up with the times, and are improving yearly, while others follow the same form used ten years ago. The picture of this field today is a myriad and interesting one.

¹ "Annual Reports -- No Longer Dry", Fortune, 29:62, February, 1944.

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CHAPTER I

INTRODUCTION

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INTRODUCTION

PURPOSE

The purpose of this study is to present a critical analysis of the current annual report of the industrial corporation, and from this analysis to draw certain conclusions as to the features most desirable for inclusion in the annual report, and to indicate the trends currently prevalent.

DEFINITION

Annual reports of industrial corporations are published in a multitude of varied forms, and each type represents a different definition for the term "annual report." In the narrow sense, prevalent in past years and still in evidence to some extent today, it consists of the financial statements of the corporation -- the balance sheet and income statement -- along with the auditor's certificate.

The broad definition is well illustrated by the extensive report issued by General Motors, in which Chairman Alfred P. Sloan, Jr. remarked in 1946: "The purpose of the annual report is to record for the information of the stockholders the more important transactions of the business and such economic events of the year as have been consequential in influencing its course."

For the purposes of this study, the annual report will be taken up in its broader aspects as evidenced by the modern annual report. Such a report usually consists of the financial statements, plus a written review of the highlights of the company's operations -- together with various supplementary material designed to facilitate understanding of such operations.

JUSTIFICATION

Corporate annual reports are reaching a larger portion of the American population each year. In view of the trend towards wider ownership of corporations, along with a movement towards distribution of annual reports to individuals outside the stockholding group, the importance of a corporation publishing an effective annual report is increasing in great proportions.

The trend towards wider distribution of stock has been a steady one. In 1933 a study revealed that "the dispersion of ownership has gone to tremendous lengths among the largest companies and progressed to a considerable extent among the medium-sized. It is clear that the dispersion is a continuing process."¹

Examination of the trend in number of stockholders of a few of the larger corporations through 1946 reveals that in most cases the trend is continued. Such companies as American Home Products, DuPont, General Motors, and Standard Oil of New Jersey have shown a steady increase in number of stockholders. (See Table I.)

Furthermore this dispersion of ownership is disseminating stock ownership among all classes of the population. Berle and Means made a comprehensive survey of this phase, and noted the following: "The income tax returns show not only the present distribution of ownership among economic groups but the changes which have occurred in the last decade. Since the start of the record

¹ Berle, Adolph A., Jr., and Gardiner C. Means, The Modern Corporation and Private Property, p. 52.

TABLE I
GROWTH IN NUMBER OF STOCKHOLDERS*

Year	AHP	duPont	GM	StdOil (NJ)
1937	7,600	73,000	365,000	123,000
1938	8,700	77,000	390,000	126,000
1939	8,900	77,000	385,000	132,000
1940	8,700	79,000	400,000	139,000
1941	9,700	82,000	410,000	143,000
1942	9,900	85,000	412,000	148,000
1943	9,900	86,000	415,000	150,000
1944	9,900	87,000	420,000	156,000
1945	10,000	88,000	425,000	160,000
1946	12,000	88,000	430,000	164,000

* Figures for this table are taken from the 1946 annual reports of the corporations. Those for the American Home Products Company are rounded off to the nearest hundred, and those for the other companies to the nearest thousand.

in 1916, it appears that there has been a major shift in the ownership of industry from people of large incomes to those of moderate means.²"

The accompanying table comparing Berle and Means' figures of 1929 with Treasury Department figures for 1942, shows the extent to which this trend is continuing.

TABLE II -- DISTRIBUTION OF DIVIDENDS AMONG VARIOUS INCOME GROUPS

<u>SIZE OF TAXABLE INCOME</u>	<u>PERCENT OF ALL DIVIDENDS RECEIVED BY GROUP</u>	
	<u>1929</u>	<u>1942</u>
Over \$1,000,000	5.74%	1.17%
\$100,000 to \$1,000,000	19.02%	10.89%
\$25,000 to \$100,000	23.97%	24.03%
\$5,000 to \$25,000	24.88%	32.73%
Under \$5,000 (estimated)	26.28%	31.18%

The table illustrates clearly the movement of the bulk of corporate dividends towards the lower income group.

²ibid., p. 59.

In drawing conclusions from their study, Berle and Means say: "the modern corporation may be regarded not simply as one form of social organization but potentially (if not yet actually), as the dominant institution of the modern world."³

No one reading the daily newspapers and hearing the current radio newscasts can have escaped the fact that the dominant factor in our economy today is labor relations. It seems apparent from the current labor unrest that unless some remedy can be found to facilitate settlement of the "differences of opinion" between management and labor, the present trend -- and it seems to have reached the stages of a trend at least -- towards stronger government controls, and possible socialization of industry, will gain momentum.

This is not the only factor tending toward added control of industry. "The failure of the stockholders of the nation to show active interest in the companies they own is a form of absentee ownership which may lead in the end to failure of free and private enterprise. History

³

Ibid., p. 356.

shows that lack of interest by private ownership has generally led to stricter public or governmental regulation and even to threat of government ownership."⁴

Considering the corporate annual report as an informative and educational instrument rather than a propaganda release, it can play an important part in creating interest and resisting this movement. One writer urges better annual reports on the basis of one simple conclusion: "Stockholders are people and voters -- and can be articulate. They should be treated as such."⁵

The annual report is a medium of unusual strength. "Top executives are learning that the annual report receives a vastly different and higher degree of reception by a reader than other pieces of commercial printed matter."⁶

⁴ Silbermann, Joachim, "Making Annual Reports Attractive," The Commercial and Financial Chronicle, 164:3348, December 26, 1946.

⁵ Marsh, William Barton, "For Better Annual Reports," Forbes, 55:15, January 1, 1945.

⁶ Gries, Joseph C., "The Annual Report Grows Up," Industrial Marketing, 31:33, November, 1946.

A vice-president of Caterpillar Tractor emphasizes the need for intelligible annual reports as follows:

"More of the people are forming opinions on things economic and political, and they have to have more information in more understandable form if the opinions are to be well founded. And unless the opinions are reasonably well founded we shall suffer the consequences; for it is the essence of our particular form of government that, right or wrong, the will of the majority shall prevail."⁷

Corporate annual reports are on the road to improvement, but there is still a good ways to go along that road. The responsibility for this need lies clearly with corporate management. "Corporate reports to stockholders must be reformed. . . . The rights of stockholders, bondholders and creditors to accurate and complete information should be recognized. Steps should be taken to make such information available. For years, investment bankers have urged greater accuracy, completeness, and frequency in corporate reports. Accountants stand ready

⁷ Blackie, W., "Financial Statements for Corporate Annual Reports," Journal of Accountancy, 83:207, March, 1947

to supply the need. The decision for a change in policy rests with corporate managers."⁸

LEGAL REQUIREMENTS

The Securities and Exchange Commission has failed to promulgate any regulations concerning annual reports of an industrial corporation to its stockholders.

The New York Stock Exchange, however, has incorporated in its agreement contract with listed corporations several rules pertaining to annual reports to stockholders. Even these are very elementary and cover only a few basic phases of the report.

The content of this section of the contract includes the following major requirements:

- (1) The corporation must publish an annual report for its stockholders at least fifteen days before the stockholder meeting, and this report must include a balance sheet and surplus and income statement.
- (2) Proper accounting procedure must be observed in producing consolidated balance sheets (various details outlined).
- (3) All statements must be audited by certified public accountants and a copy of the certificate must be included with the annual report.

⁸ Hoagland, Henry E., Corporation Finance, p. 279.

- (4) Any substantial change in accounting methods must be mentioned in the next report to stockholders.

PREVIOUS WRITINGS

The subject of corporate annual reports has not been dealt with comprehensively in book form. While various volumes have devoted as much as one or several chapters to the problem, none have been written exclusively on the subject.

The National Association of Manufacturers sponsored a compilation of excerpts from annual reports in 1938, but this was merely a series of illustrations accompanied by a running comment designed to give the volume sequence, and cannot be classified as a study. As stated in the opening pages, under the heading, "How To Use This Book": "By design, editorial matter has been restricted to a minimum, and actual examples of approaches to various phases of the annual report have been used almost exclusively."⁹

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Selvage, James P. and Morris M. Lee, Making the Annual Report Speak for Industry, p. xii.

The bulk of the literature on the subject of corporate annual reports is found in current issues of financial and business periodicals, which carry articles on various phases from time to time. Writers in this field are numerous but two men stand out as the main contributors: Joachim Silbermann and Weston Smith.

Mr. Silbermann is a partner of the firm PICK-S of New York City, which specializes in the production of corporate annual reports for client firms. His articles -- advocating a "modern" annual report -- have been published in a number of trade journals and business magazines.

Mr. Smith is vice-president and business editor of Financial World magazine and originated the judging of corporate annual reports which his publication has sponsored each year since 1940. It is generally recognized that this contest has meant a great deal in increasing management's interest in producing a modern annual report.

This annual survey covered some 3,500 reports for 1946, and from this number 1,750 were picked for review by a board of independent experts. The reports are rated on a 100% basis with editorial, financial and statistical

content accounting for 60% and format, typography and illustrations for 40%. Any report scoring as high as 90% is classed as modern and receives a "Highest Merit" citation. Those scoring less than 90% are compared with the company's report of ten years past and if improvement is shown receive a "Honorable Mention" certificate. Corporations are divided into some eighty classifications according to their types of business and a winning report is selected for each class. These leaders in each industry receive a bronze trophy which has been labeled "the Oscar of Industry."

SURVEY

In order to gain a knowledge of the type of annual report being published currently -- as well as the trends in recent years -- a survey was made covering the annual reports of fifty representative industrial corporations for the years 1937 through 1946. While in some cases various back year reports were out of print, the majority covered the complete ten-year span.

Reports of the following companies were considered:

Allegheny Ludlum Steel Corporation
Allis-Chalmers Manufacturing Company
American Cyanamid Company

American Home Products Company
American Optical Company
The American Tobacco Company
ATF Incorporated
Bethlehem Steel Incorporated
Bristol-Myers Company
Caterpillar Tractor Company
Chrysler Corporation
Colgate-Palmolive-Peet Company
The Diamond Match Company
E. I. duPont deNemours & Company
Farnsworth Television and Radio Corporation
Federated Department Stores, Incorporated
The Firestone Tire and Rubber Company
General Electric Company
General Mills, Inc.
General Motors Corporation
The General Tire and Rubber Company
The B. F. Goodrich Company
The Goodyear Tire and Rubber Company
International Harvester Company
Jewel Tea Company, Inc.
LaPlant-Choate Manufacturing Company, Inc.
Libbey-Owens-Ford Glass Company
Liggett and Myers Tobacco Company
Loew's Incorporated
P. Lorillard Company
Nash-Kelvinator Corporation
Owens-Illinois Glass Company
Packard Motor Car Company
Pepperell Manufacturing Company
Philco Corporation
Phillip Morris and Co., Ltd., Incorporated
Radio Corporation of America
Radio-Keith-Orpheum Corporation
Remington Rand Inc.
Republic Steel Corporation
R. J. Reynolds Tobacco Company
Shell Union Oil Corporation
Socony-Vacuum Oil Company, Inc.
Standard Oil Company (New Jersey)
The Studebaker Corporation
The Texas Company

Union Carbide and Carbon Corporation
United States Rubber Company
United States Steel Corporation
The Youngstown Sheet and Tube Company

A fully comprehensive survey was beyond the scope of this study, so reports were selected from a number of industrial fields, concentrating on the companies whose reports have been rated as meritorious by various writers. In addition a number of corporations were chosen at random to give added coverage.

It seemed that through the selection of a majority of reports of recognized merit, the survey would reveal the features most desirable for inclusion in a well-developed annual report.

PROCEDURE

In addition to relying on the literature on the subject of corporate reports to stockholders, it was deemed advisable to refer to several volumes on the subjects of report writing and corporate procedure, in order to include information of this basic nature in its logical place in the study.

Annual reports must be considered both as to what information should be included, and as to the most effective

way of presenting that information. The next three chapters are devoted to the content of the report. The second chapter takes up the financial statements, the third the review of operations and what it should cover, and the fourth supplementary material.

The fifth chapter deals with format and distribution, outlining the most desirable ways of presenting the data. The final chapter summarizes the conclusions of the study.

LIMITATIONS

This study of corporate annual reports has been limited to those of industrial corporations. Through government regulation, public utilities and railroads have come to use somewhat standardized accounting practices, and thus have tended to present comparable financial records in their reports.

In the field of industrials, regulation has not had a similar effect, because it has not been as strict. Thus this study has been limited to the field where the least uniformity is found, but where it is most needed.

The annual report is considered from the viewpoint of the average, widely-held corporation, where there are a good number of stockholders interested in the corporate activities. Naturally there is less need for an elaborate

report in the case of a corporation where the ownership lies in the hands of comparatively few people.

CHAPTER II

FINANCIAL STATEMENTS

The financial statements comprise the heart of the annual report to stockholders. While the trend in modernization of annual reports has placed more emphasis on other aspects of the report, the statements remain as the foundation of the report and one of the basic subjects to be considered in developing effective reports.

The statement that "good management finds its best reflection in satisfactory financial statements"¹ is a truth that might well be kept in mind.

Financial statements found in various corporate annual reports vary necessarily due to the diverse methods of accounting prevalent in the industrial field. In the same industry, one can find fixed assets -- such as plants

¹Jordan, David F., Jordan on Investments, p. 391.

and machinery -- carried at both realizable value and cost. Other diversities are numerous. This is a basic fault that will take time to remedy however. Other shortcomings can be dealt with now.

Industrial financial statements are fairly consistent in one phase, and that is -- they fail to give enough detail to allow the reader to make a valid analysis of the company's position and operations.

The American Management Association made a survey of hundreds of annual reports in 1946, and set up ten criteria for good annual reports. The great need for improvement in the financial statements is evidenced by the fact that four of the ten required items (numbers 4, 5, 6, and 7) refer directly to these statements. The complete list follows:²

- (1) Completeness, interest and clarity of explanation.
- (2) Illumination of economic concepts important in the relationships of the company to its various "publics."
- (3) The effect of changes of the purchasing power of the dollar on financial statements.
- (4) Proper presentation of profits.
- (5) Detailed explanation of the nature and

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"AMA Studies Annual Reports to Set Basis for Best Presentation," Iron Age, 158:189, November 14, 1946.

- data of accounting.
- (6) Use of the best methods of presenting the major items of the balance sheet and income statement.
 - (7) Use of new accounting aids in presentation.
 - (8) Attention to employees interest and company relations to them.
 - (9) Improvement of stockholder relations.
 - (10) Proper preparation, printing and distribution.

PROFIT AND LOSS STATEMENT

The profit and loss statement (or income statement -- as it is sometimes called) is designed to show the income from sales during the period, various expenses entailed in manufacturing or procuring the product, selling and other expenses, other income, and leaving the net profit or loss.

As pointed out by one writer: "Adequate specification is therefore imperative for the income account, as affording the most up-to-date indication of the efficiency of management. It is no chronicle of past events, as the balance sheet may be, no recital of bygone success or error. Income accounts are down-right news. They ought to be pithy, nothing else."³

³ Ripley, William Z., Main Street and Wall Street, p. 185,

Yet in many statements, the distance between sales and operating profit is covered in one giant stride. The reader is given no clue as to what expenses take up what portion of the sales income. The following example is typical:

Sales, less trade and cash discounts, returns and allowances	\$25,000,000.00
Cost of sales, selling, general and administrative expenses	<u>21,000,000.00</u>
Operating profit	4,000,000.00

Some of the more detailed reports will separate sales from returns and allowances, and cost of sales from selling, general and administrative expense. Even this treatment is entirely inadequate from the viewpoint of the analyst, who will want to know the separate amounts expended for each of the classifications of expenses -- selling, general and administrative.

Cost of sales itself deserves a degree of breakdown before the profit and loss statement is fully adequate. To date, depreciation is the item segregated most often, but even this is sometimes omitted. When depreciation is the only item segregated it is usually indicated by a

note at the bottom of the statement similar to the following:

- Provision for depreciation amounted to \$3,000,000.00

Cost of sales -- for the average manufacturing company -- should be broken down into its major component parts, such as wages to employees, cost of raw materials, depreciation, etc. It will be noted that the popularity of graphs used to show disbursement of the sales income dollar (as discussed in Chapter IV) has meant a step towards more detail in this field. However this detail is sometimes given in proportions of a dollar while the total figures are not even listed in the statements or elsewhere in the report.

While the profit and loss statement should contain at least the details outlined above, it should not be broken down into a maze of items such as would make it unduly complicated. However there seems no chance of undue detail under current policies of industrials.

BALANCE SHEET

The balance sheet is a list of the assets and liabilities of the corporation and the owner's equity in the business. Criticism of balance sheets included in

corporate annual reports has been centered on the same line of thought as criticism of the profit and loss statement -- not enough detail.

Many of the details considered desirable are best presented as notes to the statement, referred to by a parenthetical number alongside the account name on the balance sheet. Details which might clutter up the statement itself and make it less readable can be listed in a series of notes. It is the usual practice to place a statement in bold face type at the bottom of the balance sheet to the effect that the notes (on a following page) are an integral part of the statement.

One account which is often considered as requiring some breakdown is the inventory account. A few companies make use of a note to divide the inventory account into raw material, goods in process, and finished product, and this treatment seems adequate.

Property accounts are usually quoted as a lump sum, and some writers consider this inadequate also. Some breakdown as to the composition of this account -- such as the amount invested in offices and the amount in plants -- may be given in the note section if appropriate.

Investment accounts do not appear to any great extent in industrial balance sheets, but should there be a considerable sum in such an account, the reader should be informed of the nature of the investment.

A recent survey of a representative group of financial analysts concerning their conception of the most pertinent needs of statements in annual reports revealed that they wanted more detail as to depreciation policy and reserves as far as the balance sheet is concerned.⁴

The depreciation policy of the company ties in with both the balance sheet and the profit and loss statement, since the depreciation expense is a cost of goods manufactured, while the depreciation reserve determines the net carrying value of the asset on the balance sheet.

A note to the balance sheet, setting forth the company's policy in computing the amount of depreciation allocated to each period, would seem an adequate method of dealing with this subject.

The Texas Company, which presents a better-than-average set of statements in its annual report, includes

⁴ Carlson, Ruth I., "Corporate Reports Inadequate," Trusts and Estates, 83:219, September, 1946.

the following note with its statements, explaining one phase of its depreciation policy:

Since January 1, 1934, the Company has followed the policy of (1) Capitalizing intangible development costs applicable to producing wells completed after that date; (2) Amortizing such costs at the rate of 8% per annum, except as to wells located in Illinois, Indiana, and Kentucky, which are fully amortized as incurred; (3) Charging to operating costs, upon abandonment of wells, the balance of intangible development costs applicable thereto and previously capitalized; and (4) Charging to operating costs the intangible development costs applicable to dry holes.

The basis for establishing reserves should also be included in a note to the statements. In the case of a reserve for bad debts, the relation of the amount provided in respect to the amount of accounts receivable should be explained. Special reserves for contingencies should likewise be clearly annotated.

SURPLUS STATEMENTS

The surplus statement shows the balance in surplus at the beginning of the period and any additions or withdrawals during the period. Many corporations now make use of a combined profit and loss statement and surplus account, carrying the net profit directly to earned surplus, deducting dividends, and giving the year-end earned surplus balance.

While the use of the combined profit and loss and surplus statement does not seem objectionable in itself, it may lead to the practice of omitting an accounting for changes in the capital surplus account. Such was the result in the 1946 report of General Electric, in which no accounting was given for the change in capital surplus.

A few companies still neglect to distinguish between earned surplus and capital surplus. Finney distinguishes between the two as follows: earned surplus includes operating profits and extraneous profits, such as those derived from sales of fixed assets and investment securities; capital surplus includes amount paid in by stockholders and subscribers (in excess of amount credited to the stock account), donations by outsiders including gifts of assets and forgiveness of indebtedness, and increases in asset values disclosed by appraisal, but not realized by disposal of the assets.⁵

The New York Stock Exchange has recognized these deficiencies in surplus treatment, and has included the

⁵ Finney, H. A., Principles of Accounting -- Intermediate, pp. 127-8.

following recommendations in a letter to listed corporations: that surplus be designated as capital surplus and earned surplus, and that changes in either capital or earned surplus should be indicated by adjustments.

COMPARATIVE STATEMENTS

The increasing number of corporations to publish comparative statements -- statements where figures for one or more past years are given along side those of the current year -- has been significant.

The use of comparative statements has been strongly recommended by the American Institute of Accountants, as follows:⁶

The increasing use of comparative statements in the annual reports of companies is a step in the right direction. The practice enhances the significance of the reports, and brings out more clearly the nature and trends of current changes affecting the enterprise.

While the inclusion of the figures of the previous year alongside those of the current year, which is the prevalent practice, is a help to the reader, it still

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Committee of Accounting Procedure of the American Institute of Accountants, "Comparative Statements," Accounting Research Bulletin #6.

appears to be a very hobbled step in the right direction. A two year comparison is certainly a wobbly foundation for any conclusions, much less the interpretation of significant trends.

Several companies have adopted the commendable practice of including comparative statements for a number of years in their annual reports. Notable examples are Caterpillar Tractor (fifteen years), International Harvester (seven years), and Jewel Tea Company (five years). Quite a few other companies give tables of excerpts from their statements for a series of years.

The number of years for which comparative statements are desirable depends greatly on the economic trends of the times. In the present inflationary trend comparative statements which do not cover one or more pre-war years are of little value. Thus seven years appears to be a minimum span at the present.

In the use of comparative statements, the company must not be reluctant to adjust past balance sheets and income statements for later changes of a substantial nature, such as renegotiated war contracts. Such treatment is necessary to make the statements truly comparable.

SIMPLIFIED STATEMENTS

Quite a few corporations have adopted the use of simplified statements -- in addition to the usual financial statements -- in recent years. The companies following this trend no doubt agree with the following: "A statement that is perfectly clear and tells all that needs to be told to an expert accountant, may tell but little to the ordinary business man or woman from whose ranks the stockholders of the present day large corporation are so largely recruited."⁷

The use of a simplified statement -- one which translates accounting terms into everyday language and leaves out the minor details -- meets a definite need. It serves to give the average reader a clearer idea of the company's financial condition and the results of its current operations.

The need for a simplified form for financial statements is felt even more today with the movement towards wider distribution of annual reports. It has been pointed out that while such terms as assets, liabilities and

⁷ Conyngton, Thomas and R. J. Bennett, Corporation Procedure, p. 985.

reserves may not have much meaning for the average employee, he is sure to understand the meaning of "what we owe."⁸

Often accounting terms have peculiarly unrelated connotations for the professional accountant and the average citizen. One writer points out that for purposes of clarification, the terms "profits" and "surplus" might better be called "earnings" and "amount reinvested in business."⁹

Such explanatory titles help dispel the idea that profits are something achieved as an excess return, and that surplus is an amount which the company has set aside which is over and above the needs of the business. As one corporate executive points out:

. . . . despite its special accounting connotation to the initiated few, "surplus" inevitably conveyed to the general reader the idea of too much, more than enough, a lot of corn in a lot of bins, left-over war matériel.¹⁰

⁸ Saunders, Alta Gwinn and Chester Reid Anderson, Business Reports, p. 309.

⁹ Knowlton, Don, "The Semantics of Financial Reports," Trusts and Estates, 82:546, June, 1946.

¹⁰ Blackie, W., "Financial Statements for Corporate Annual Reports," Journal of Accountancy, 83:191, March, 1947.

When two sets of statements are used, it seems to be the custom to place the simplified statements near the front of the report and the regular ones at the back. This sequence seems logical and appropriate.

In view of the present status of accounting terminology (which will be discussed more fully in the next section) it seems desirable to include a simplified set of statements in addition to the regular statements in the annual report. This is especially advisable if the corporation gives the fairly well detailed statements in regular form.

ACCOUNTING TERMINOLOGY

It is to be hoped that in years to come, accounting terminology will become more uniform, and also that it will be aligned with current usage of the terms. When this stage has been reached the need for simplified statement will have expired.

The authors of corporate annual reports have made some definite contributions in the development of more understandable financial statements. One of the outstanding reports in this respect has been that of the Caterpillar Tractor Company, which has drawn considerable

comment from both accountants and financiers. Their statements go into the usual detail, but titles of accounts which the company feels are misleading are given new headings.

As explained by W. Blackie, vice-president of the corporation, the company's idea through recent years has been to make their statements readily comprehensible to a varied group of readers.

Beginning with the titles, the statements are entirely original, being labeled "Results of Operations and Summary of Profit Employed in the Business" (see Figure 1) and "Financial Position" (see Figure 2).

As the company points out, their system is another step towards variance rather than uniformity, but it is hoped that through such innovations a better and uniform system may evolve.

The use of clearer terms rather than over-simplification seems to be a very appropriate method of making the financial results readily understandable to all readers. The recipients of annual reports -- being normal human beings -- will not be complimented by over-animated.

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Blackie, loc. cit.

FIGURE 1 - CATERPILLAR TRACTOR COMPANY

RESULTS OF OPERATIONS AND SUMMARY OF PROFIT EMPLOYED IN THE BUSINESS

Calendar year 1946

Sales		\$128,437,494
Costs:		
Inventories brought forward from previous year	\$ 32,086,876	
Add: Costs incurred during year:		
Materials, supplies, services purchased, etc.	\$78,309,077	
Wages, salaries, company contributions for group insurance, retirement plan, unemployment insurance and old age benefits	52,183,569	
Portion of cost of buildings, machinery and equipment allocated to operations (depreciation) . . .	1,388,035	
Interest (net)	(54,130)	
Federal income tax after deducting \$808,681 computed under "carry-back" provisions of Internal Revenue Code	<u>2,466,675</u>	
		<u>134,293,226</u>
		\$166,380,102
Deduct: Inventories carried forward to next year		<u>44,054,199</u>
Costs allocated to year		<u>122,325,903</u>
Profit for year		\$ 6,111,591
Add: Profit employed in the business at beginning of year		<u>40,115,474</u>
		\$ 46,227,065
Deduct: Dividends of \$3 per share paid in cash during year		<u>5,646,720</u>
Profit employed in the business at end of year		<u>\$ 40,580,345</u>

FIGURE 2 - CATERPILLAR TRACTOR COMPANY

FINANCIAL POSITION

December 31, 1946

Current assets:

Stated on basis of realizable values:

Cash	\$ 6,000,822
United States Treasury Notes -- Tax Series G	10,790,232
Receivables, less estimated bad debts	<u>16,036,096</u>
	\$32,827,150

Stated on basis of cost or market, whichever lower:

Inventories	<u>44,054,199</u>	\$76,881,349
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Deduct: Current liabilities:

Payables	\$13,961,943
Federal income tax	\$4,365,468
Deduct: United States Treasury Notes -- Tax Series G	<u>(4,365,468)</u>
	<u>13,961,943</u>

Net current assets (statement 5) \$62,919,406

Insurance, taxes, etc. -- cost allocable to future operations (statement 6) 128,206

Land, buildings, machinery and equipment -- cost not allocated to operations (statement 6) 20,677,509

Patents, trade-marks and other intangibles -- stated at nominal amount 1

\$83,725,122

Deduct: Ten-year 2% debentures due 1956 20,000,000

Net assets \$63,725,122

Derived from:

Capital stock, common -- stated capital (statement 7) \$23,144,777

Profit employed in the business (statement 7) 40,580,345

\$63,725,122

statements which convey the idea that the corporation holds a dwarfed idea of the mentality of its public. The use of non-technical terms can be accomplished without giving the statement the hollow-sounding ring of a syndicated comic-strip.

SUMMARY

The financial statements of the corporation are the heart of the annual report, and should be given careful attention in its preparation.

The profit and loss statement should be in sufficient detail to allow an intelligent analysis. This will mean breaking down the costs of manufacturing or procuring of goods into component parts, and listing general, administrative, and selling expenses separately at least.

The balance sheet should likewise give all essential details, many of which can best be listed as notes to the financial statements. Details of inventories, investments and property accounts are desirable. Also depreciation policies and the bases for reserves set up should be explained.

The surplus statement may be combined with the profit and loss statement if so desired, but in such cases there

should be a separate statement showing any changes in capital surplus. In all cases the surplus account should be divided between capital and earned surplus.

Comparative statements are highly desirable, and a listing of comparative figures for a period of seven years as a minimum is recommended.

For the statement which meets a varied list of recipients, the use of simplified statements seems desirable. In such cases the regular statements should also be included, usually at the end of the report -- the simplified sheets appearing near the front.

Corporate executives could well be alert to advantageous developments in accounting terminology which may make financial statements more universally understandable in years to come.

CHAPTER III

REVIEW OF OPERATIONS

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REVIEW OF OPERATIONS

A review of the company's operations for the period covered by the report is practically a universal feature of corporate annual reports, but the content as well as the methods of presentation vary over a great range.

QUALITIES OF A GOOD REPORT

The standards of a good business report may be applied advantageously to the annual report of industrial corporations as a guide in preparation of the review of operations. One authority outlines the following principles for report writing:

The information included should be pertinent, cover the subjects adequately, and be timely and accurate; the report should be as complete and concise as is consistent with reasonable completeness.

¹ Davis, R. C., Industrial Organization and Management, p.129.

FORM OF PRESENTATION

The annual report of industrial corporations in 1946 followed the general form of having the review of operations presented completely as a letter from top management, usually signed by the president, and less frequently by both the president and the chairman of the board.

With the move toward elaboration on the review, and the tendency to break the text down under various subject titles, the difficulty of maintaining the letter format is evident. Several corporations have met this difficulty by using a brief letter of transmittal, signed as above, at the beginning of the report, and having the review follow this. In the letter of transmittal the management expresses any ideas they wish to emphasize especially.

The main objection to taking the review out of its letter form is that it may tend to remove the brand of authenticity given by the signatures of the top officials. However it would seem that this objection could be overruled by having the president and/or chairman indicate clearly in the letter of transmittal that the information following was "their report" and not just a bit of fiction drawn up by the public relation department.

Beginning with its 1941 report, when it abandoned its two sheet form, the American Optical Company has employed a method of presentation which seems to hold a great deal of merit. In that annual report for 1941 there appeared a general letter from the president, followed by a letter on "Operations and Management" by the vice-president and general manager, a treatise of "Sales" by the vice-president and general sales manager, and a letter on "Finances and Inventories" signed by the Treasurer.

American Optical's 1946 Annual Report has been cut down to two letters, one concerning the "Review of Operations for 1946" by the president and the other a "Financial Review of 1946" by the vice-president and treasurer. While a small corporation would hardly need such a form, this type of presentation should appeal to the larger companies who wish to go into operations in more detail and have officers directly in charge of various fields of operations.

As this is a fairly recent development and has not been largely adopted, its effectiveness cannot be determined. Basically it boils down to a matter of whose signature bears the most weight with the reader, since the executive most cognizant of the various fields of operations would

undoubtedly formulate the portion of the review dealing with his specialty.

ADDRESSEES FOR THE REPORT

In line with the increased distribution of annual reports, a good number of corporations are varying from the time honored "To the Stockholders of XYZ Corporation" opening. In 1946 Caterpillar Tractor Company addressed its report "To Stockholders and Employees" and General Mills "To Our Stockholders and Employees." Others avoid the letter form of opening and use an introductory paragraph. The International Harvester Company Annual Report for 1946 is preceded by the following paragraph in italics:

The Board of Directors presents with its approval the management's report for the fiscal year ended October 31, 1946, together with other information on developments since that date. This report is intended both for the stockholders and employees, as well as customers and all others who have an interest in the business of the International Harvester Company.

SUBJECTS REVIEWED

The subjects to be treated in a company's annual report may be divided into two classifications: those general subjects which should be included in a comprehensive

report for any type of industrial corporation, and those which are peculiar to a certain company or industry due to the nature of its business. As an example of the latter, the annual report of an automobile manufacturer would need to treat the subject of adequacy of production by its suppliers, since this industry is peculiarly dependent upon these companies.

Only the general subjects will be dealt with in this study, but any corporation -- in preparing its own report -- should be careful to give due consideration to any such relationships in its own field. It is also noteworthy that the importance of various subjects which will be discussed below varies from company to company, so this factor will govern the extent to which any one company emphasizes a subject.

LABOR

Perhaps one of the most pertinent subjects of the time is employee-management relations, and a larger number of corporations are recognizing this fact and giving it complete coverage in their annual reports. However there remains a good number of corporations that ignore this problem which is undoubtedly an important one in the mind of the stockholder.

Allis-Chalmers Manufacturing Company, one of the corporations hardest hit by strikes in 1946, gives a straight-forward treatment, taking it up first in its review under the heading "strike story." General Motors takes cognizance of their labor problem with a page entitled "The General Motors Strike."

Due to the financial implication, many companies made mention of portal-to-portal suits, the majority opining that they did not expect the liability for such pay to be authorized. This was often the full extent of labor presentation.

Corporations who do not let the shareholders know what employee benefits have been instituted in their plants miss an opportunity of creating good will. A brief explanation of these benefits should suffice.

Furthermore a concise analysis of the prevailing system of labor-management bargaining would give the stockholder a better understanding of the labor picture. This is a subject in which the company can remove the mysterious shroud which so often clouds the public view of collective bargaining, and may produce unsympathetic sentiments.

FINANCE

Another subject of utmost importance is the financial aspect of the company's operations for the year, and its financial standing at the present. The review can expand on the results shown dollar-wise in the financial statements, and elaborate on the significance of of seemingly good or bad trends.

A report of the significance of corporate revenues must be explained in terms of quantity, quality, and price of the company's services. . . . the corporation report should facilitate that inspection.²

For example, it might be to the advantage of management to point out to stockholders, employees and the general public that current sales figures -- while showing a marked dollar increase -- may be the result to some extent of increased prices of company products. In this connection it may be pointed out that net profits have not increased in proportion to the increase in sales, due to increasing costs of marketing and manufacture.

Such an explanation -- written in clearly understandable terms--should help company relations with the three

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"Profit from Public Service," Trusts and Estates, 81: 353, November, 1945.

groups mentioned as follows.

First, it should preclude any unjustifiable optimism on the part of the stockholder, based on the increased sales figures. This should serve to justify to the stockholder the creation of a suitable reserve for decline in value of inventory. Creating such a reserve is certainly a common-sense move when one is made to realize that when current high prices do begin to fall the corporation is bound to have on hand a fairly large amount of goods purchased at high prices, which goods will go into finished products which will necessarily sell at lower prices.

Secondly, it should enable the employees to understand that increased sales (in terms of dollars) do not result directly in increased funds available for higher wages. This would tend to tone down a possible strike grievance.

Third, it would wean the public away from the idea that present day inflated sales figures mean enormous profits, and encourage a better attitude towards corporate enterprise.

Another possibility which the corporation might consider in its review of financial operations is

indicating the nature of the amount appearing as "profit" in the bottom of the profit and loss statement. It has been argued that while legally it is "profit" that goes to the stockholder, it is an economic reality that dividends are a necessary expense of doing business, in the sense that they repay those who invest capital for their risk, management and interest. The cases of a true profit occurring are rare.³

In the above treatise the author refers to true profit as the layman often defines profit -- that is, an excess of income over expense which is not subject to claims by anyone in the business for services rendered or other reasons. It might be likened to the profit of a partnership where this profit is the amount left over after each partner is paid interest on his invested capital and a salary.

STOCKHOLDERS

By showing the classification of owners of its stock, a company may be able to wipe out the idea which many of its employees, the general public, and even some of its own stockholders may have, that the company is

³Ibid., p. 356.

owned by a small group of people, and that these few are mainly in the "leisure class." A simple compilation of the holders of the corporation stock -- as to men, women, institutions, etc. -- serves this purpose very well.

Several of the larger corporations follow this method, and an example of this treatment, as used by the United States Steel, is given below:

TABLE III

STOCKHOLDERS OF UNITED STATES STEEL CORPORATION AND SHARES HELD

Stockholders by Classes as of December 31, 1946

	<u>Total Holders (net)</u>	<u>Shares</u>
Charitable, educational, etc.	1,408	152,221
Insurance Companies	193	382,801
Other Companies	1,789	397,261
Fiduciaries	13,115	889,846
Individuals - women	100,735	3,444,995
Individuals - men	92,470	3,737,506
Individuals - joint accounts	17,128	518,505
Brokers and others	1,632	2,782,928
Total	<u>228,470</u>	<u>12,306,063</u>

*Report itself shows breakdown for preferred and common stocks but only totals are shown here for purposes of illustrations.)

Some companies handle the subject effectively by indicating that no one individual holder owns more than a

certain percentage of the total amount of shares outstanding. The company may go a step further along this line and give the percentage holdings of various classes in the body of the report. A great many annual reports do not even give the number of stockholders of the corporation anywhere in the report.

Research

Research activities comprise another subject which should be commented on in the annual report.

Company research and product development are subjects treated comprehensively in many annual reports. Their importance in relation to the contribution of American industry to national progress and social improvement cannot be over emphasized.⁴

And the company cannot treat the topic adequately by dismissing it with a sentence to the effect that the company spent so-many millions on research in the past year. Rather it should point out benefits derived from past research and the possibilities of future development.

⁴ Selvage, James P. and Morris M. Lee, Making the Annual Report Speak for Industry, p. 23.

In general the company might point out that research is perhaps the employees' most effective form of job insurance. It enables his company to produce products that find better public acceptance, and what helps the company to grow tends to preserve and strengthen the employee's job.

When the stockholder and employee can see that money expended in research activities serves to protect the job and the investment, each will look more favorably on such expenditures. Likewise when readers take note of advances fostered by the corporate research program, they become instilled with a certain amount of goodwill.

In addition to a section on the subject in the body of its report in 1946, General Mills gives added emphasis to the research phase by printing the following paragraph -- with a picture of a young laboratory worker in the background -- on the back cover:

RESEARCH is the key to the future. In General Mills laboratories highly-trained scientists and technicians combine painstaking fundamental investigation with industrial research to open the road to new and improved products for consumers. . . . and broader opportunities for employees.

Products

Along with the treatment of research, it is logical that the review of operations should take up the products of the company. Many corporations have recognized the value of social justification which they may gain through pointing out their development of better products, the introduction of new ones, and the higher standard of living afforded by development of more efficient methods of operation and resultant lower prices.

An example of this principle may be found in the 1946 report of the Texas Company. By means of a graph, the reader is informed that basic gasoline prices were lowered sharply in the 20's and 30's and remained constant in the 40's while state and federal taxes have raised the price of gasoline to the consumer in recent years.

Some annual reports have over emphasized product presentation, reducing the calibre of their reports accordingly. The corporation should avoid overburdening the report with too large a relative portion of material on the company products; this tends to reduce it to the status of an advertising circular, and it rates about the same amount of attention. If a company has an extensive list of products, the mention of the brand name will

often cover a number of them sold under the same label. Let the reader know what the products are, urge their backing, but keep the treatise brief.

Taxes

There is hardly an industry now existent where taxes do not form a major consideration.

The extent to which taxes have increased and become a major cost affecting industry stockholders, employees, and the buying public is a subject of major importance which receives extensive mention in many reports.⁵

In its treatment of taxes, management must formulate a policy as to whether its review will merely give the effect of taxes on operations, or whether it will go a step farther and comment on the propriety of the taxes levied. In connection with its graphic presentation of taxes mentioned above, the Texas Company criticises the share of taxes borne by the petroleum industry as being out of proportion to its dollar wealth in respect to other major industries.

General Motors, which produces what is probably one of the most comprehensive reports of any industrial

⁵ Ibid., p. 16.

corporation, has varied its treatment in the last decade. Up until the beginning of the war it maintained a policy, begun in 1935, of commenting on the subject under the heading of "Cost of Government" and outlining their economic necessity, etc. With the advent of World War II, it cut its treatise to a mere recapitulation of tax charges and has continued that policy since the end of hostilities.

The majority of corporations list taxes in comparison with other expenses, and refrain from further comment. Often the method of presentation -- in tables or graphically -- precludes any need for comment on their proportionate size. The treatment which any particular company gives taxes is a detail dependent in part on its products. In any event it is usually a subject of enough importance to require mention in the annual report.

Production

Production ordinarily figures prominently in most annual reports. The extent to which it is mentioned is again dependent on the field in which the corporation operates. Steel companies have historically supplied full production tables, but the tendency seems to be towards condensing this section of the report and letting

the financial results speak for the production phase. This trend seems desirable since detailed production figures would ordinarily have a very limited appeal to the readers of the annual report.

Outlook for the Future

In the corporate annual reports of recent years, there has been a strong tendency towards too heavy emphasis on this subject. Philosophical executives have even thrown in their opinions of world affairs.

While a conservative business forecast -- based on facts -- is a worthwhile addition, it would seem that the subject could be adequately handled without delving into irrelevant material. While it is only sensible to point out basic trends which will probably affect future operations, the observations will probably prove more valuable -- and effective -- if kept to a minimum consistent with clarity.

Advertising

Since most corporation budgets list a sizable sum for advertising, this is another subject which should not be omitted from the annual report. However it can ordinarily be adequately written up without an excess use of space.

A brief statement as to the company policy as concerns advertising would seem a minimum. Libbey-Owens-Ford Glass Company offers an example of such a statement in its 1946 report:

The company in 1946 curtailed its advertising, noting the excessive current demand for its products, and aimed its more limited program at long-range objectives. Magazines which reach large consumer audiences were used sparingly early in the year to explain the properties and functions of Thermopane.

A further sentence or two as to the value of advertising is often desirable. For example Philco has the following to say in its 1946 report:

One of the most important assets of Philco Corporation is its trademark "Philco" even though it is not valued on the balance sheet. . . . the corporation has invested \$57,000,000 in advertising its name and the products which carry it. In order to continue and increase public acceptance for the goods it manufactures, Philco last year greatly broadened and diversified its advertising program in line with its growing volume of business.

This paragraph goes on to list the means of advertising utilized.

Ordinarily advertising will not demand as extensive a treatment as some of the subjects mentioned above, but it should not be ignored.

Competition

Few corporations have taken notice of their competitors in their annual reports, or have they given consideration to their place in the industry. In an exception to this rule, Phillip Morris in its 1946 report presents an interesting and informative center-page spread of comparative statistics in percentages for itself and the aggregate figures for four major competitors. The table covers a ten year period, and the statistics listed give an analysis of operations, capital structure and asset position.

Such a comparison is not ordinarily justified for the average corporation, should it have to compile the figures itself. However when such figures for the industry in which the company operates are available from government agencies or other sources, this may provide the company with a standard for comparison. This expanded treatment of competition should be classed as a supplementary item intended primarily for the most inclusive reports, since a paragraph of text would ordinarily cover the subject adequately.

Appreciation

The closing paragraph of the review of operations is the most uniform section of the annual report of industrials. It is here that management expresses its thanks to both stockholders and employees for their helpful cooperation during the year. Usually a simple statement is the most effective; sincerity should be the keynote.

WRITING STYLE

Daily newspapers -- through the use of style sheets -- set a standard for the general usage of their reporters. However no such standard has been set up for use by corporations in the publication of their annual reports.

For instance, it is left to the discretion of the individual company as to whether they should refer to the company as "the company," "our company" or "your company." Which word will meet with the best reception from the varied readers of the report?

Likewise there is no Emily Post guide covering the general writing style to be followed in the review of operations. Ten years ago practically all annual reports used a strictly business-form letter as the lone

accompaniment to their financial statements. In 1946 reports the reviews run the scale from that same old style to a free-flowing, newspaper feature-story style. This expansion of writing techniques has developed along with the trend towards lengthier and more complete reviews of operations.

In selecting the style for the report the corporation might do well to consider the words of caution given by Dr. Lewis H. Haney, Professor of Economics at the Graduate School of New York University: "The annual report should be designed to impart information, rather than a propaganda instrument."⁶

The ideal writing style should be easy to read, easy to understand; such readability and comprehensiveness can be accomplished without resorting to the "flamboyant newspaper style" criticised by Dr. Haney.

To give the review of operations a sense of readability the report should avoid the use of abrupt, disconnected sentences thrown into a random system of paragraphing. A smoothly written review divided into logical

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"Best Annual Report for 'Our Company'," Trusts and Estates, 82:159, February, 1946.

paragraphs set off by well-worded headings will attract the interest of the reader. By arranging the information in logical sequence the text can be given a narrative style that besides adding readability helps the recipient of the report to understand the full meaning more easily.

SUMMARY

The subjects which the average annual report should cover include labor, finance, stockholders, research, products, taxes, production, outlook for the future, advertising, competition, and appreciation. In addition the corporation should give consideration to any other subjects of peculiar interest or importance in its own particular field of operations.

The length of the treatise of each subject will vary from company to company according to the importance of that phase in the company's operations. Treatment should in all cases be adequate to give the reader a clear understanding of the situation.

The review of operations is of value only if it adds to the recipient's understanding of the operations of the company. It is through this text that management has an opportunity to cultivate a friendly and constructive attitude on the part of the stockholders, employees, and the general public.

CHAPTER IV

SUPPLEMENTARY MATERIAL

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SUPPLEMENTARY MATERIAL

In order to make the annual report as informative as possible, and yet maintain a concise style and avoid undue length, certain supplementary material is desirable. Often a photograph, chart, graph or table can present in one page data that would require several pages of written text to set forth, and present that data more clearly and effectively.

CHARTS AND GRAPHS

The number and variety of charts and graphs used to illustrate corporate annual reports appears to be increasing with each passing year. The survey of industrial annual reports for 1946 indicates that a majority include some type of chart or graph, and of the companies using them, the average number included was four.

Various corporations and public relations firms have made stockholder surveys in recent years, and practically all show that the stockholder himself is definitely in favor of their use. The unanimity of thought along this line is shown by one such survey which listed 97% of the stockholders contacted as favoring some sort of graph in the annual report.¹

From the increased occurrence of such material in annual reports, it seems apparent that company executives are becoming well aware of this preference.

Types of Charts and Graphs Used.

The words "chart" and "graph" are used more or less interchangeably, and there seems to be no basic difference even with Webster. Statistics presented in graphical form in annual reports are usually of the time-series type; they indicate the varying proportions of some amount such as sales over a period of successive years. Bar graphs are most frequently used, but in some cases the plain bar will be eliminated in favor of a series of company product units (such as automobiles for an automobile manufacturer) to provide a more colorful presentation.

¹
"Stockholders Tell What They Want in Annual Reports,"
Printers Ink, 214:24, January 25, 1946.

The term "chart" is probably more applicable to diagrams wherein certain portions of some unit are split off to represent various uses. Such diagrams are often used to picture distribution of the income dollar, through splitting up a paper dollar or circular figure.

Both charts and graphs are designed to present a series or group of data in its more easily and quickly understood form. Proportions indicated by a single dimension, such as the bar graph, give the reader an instantaneous grasp of material which cannot be approached by tables or written matter.

Types of Data Charted

The statistics most frequently charted in 1946 annual reports surveyed were sales volume, production figures, and distribution of the income dollar, in the order mentioned. Each of these subjects lends itself well to graphical presentation.

In connection with the use of sales volume charts, it is significant that of fifteen companies using this type of chart, only one plotted its dollar volume against unit volume sales. The Jewel Tea Company chart was drawn up with 1939 as an index of 100, and plotted dollar sales and tons sold.

Taxes are another item receiving a good deal of attention on the part of chart exponents, but the methods of treatment are diverse. Several corporations show taxes charted by total amounts paid only, while several others line up the tax bill against company earnings. At least one company plotted wages, taxes and earnings on the same graph, while another combined income, taxes and dividends. DuPont showed a different approach by merely plotting "The Effect of 1946 Federal Personal Income Tax on Employee Compensation at each \$10,000 Stage." This graph was used in connection with a treatise in the text on the difficulty of adequately compensating top executives in the face of increasing taxes. As mentioned previously, the Texas Company plots the retail price of gasoline showing the portion made up by taxes.

The use of a chart to indicate the percentage of the income dollar going for various expenses and the profit left over has become very popular. Some companies utilize a pie-chart for this purpose while others divide up a greenback. One reason for the increased popularity of this type chart is the fact that it clearly indicates the large percentage of the company income that goes for wages and the small part that goes to stockholders and is retained in the business for future needs.

The increasingly important role of labor relations is reflected in annual reports by the growing number of charts based on various phases of employee relations. The trend is strengthened by the fact that more companies are distributing their reports to employees in addition to the stockholders.

The list of items charted which are of specific interest to employees, as found in even a relatively small number of corporate annual reports, is an impressive one. Such charts are drawn up as time-series types on the following data:

- Average hourly wages
- Average annual wages
- Distribution of the income dollar (percentage to labor)
- Length of service of employees
- Number of employees
- Number of hours worked
- Number of strikes among suppliers (automotive industry)
- Total wages paid

The above individual items are found in many interesting combinations. Typical examples are number of employees and number of stockholders, number of employees and wages paid, and number of hours worked and earnings.

From this diversity of statistics charted, it is evident that many corporations are impressed with the importance of such charts, but that opinions as to the best methods of presentation vary greatly.

Caterpillar Tractor Company seemed to give the subject the fullest coverage, including in their report four charts devoted to employee interests. This is in line with that company's policy of addressing the annual report to both stockholders and employees.

Earnings per share and dividends paid were charted by several companies and made an effective presentation. General Electric devotes a whole page to a bar chart showing this data for a period of forty-eight years. Also there were several companies which plotted net profit alone for a series of years.

Production graphs are of particular importance in a good number of industries, and received a good deal of use. Steel and automotive companies are examples of types utilizing this data for charts.

Among the miscellaneous data presented graphically by various corporations were the following diversified items:

Accounts receivable
Application of funds
Average stock prices
Costs
Current ratio
Dividends paid
Earnings per share
Fixed assets
Inventories
Investment in fixed assets
Net worth
Net worth per share
Number of stockholders
Percentage of goods exported
Prices
Ratio of profits to sales
Return on invested capital
Sales
Users of company products (by percentages)
Working capital

Again the treatment was time-series, and many different combinations were found. An interesting example of a different presentation was that of Federated Department Stores which printed a graph of its sales as a percentage of total department store sales in the cities in which its stores operate.

A number of companies use maps of the United States punctuated with various colored dots and figures to indicate locations of branches, plants, sources of raw materials, etc. Several utilized the back cover of their report in a flap arrangement for this purpose.

Principles of the Use of Charts

Before going all out for the use of charts, it might be well to take note of some principles concerning their use, and their limitations.

While there can be no question that charts are desirable in most presentations of facts, they should be used with discretion and sparingly, for the excessive or unnecessary use of both tables and charts tends to defeat their purpose --the decision to use a chart should be determined by its value to the report and, more especially, to the reader.²

When a report is punctuated too often by charts, tables, and the like, the reader tends to rely solely on these items for his information. Also the continuity of the thought which the text attempts to maintain is broken and the report fails to serve its full purpose.

The American Society of Mechanical Engineers has set up a list of suggestions for uniformity in graphical presentation which might well serve as a guide to any corporation preparing graphs for use in its annual report. These are as follows:³

² Saunders, Alta Gwinn and Chester Reid Anderson, Business Reports, p. 349.

³ Ibid., pp. 371-377.

- (1) The general arrangement of a diagram should read from left to right.
- (2) Where possible represent quantities by line magnitudes as areas or volumes are more likely to be misinterpreted.
- (3) For a curve the vertical scale, whenever practicable, should be so selected that the zero line will appear on the diagram.
- (4) If the zero line of the vertical line will not normally appear on the curve diagram, the zero line should be shown by the use of a horizontal break in the diagram.
- (5) The zero lines of the scales for a curve should be sharply distinguished from the other coordinate lines.
- (6) For curves having a scale representing percentages, it is usually desirable to emphasize in some distinctive way the 100 percent line or other line as a basis of comparison.
- (7) When the scale of a diagram refers to dates, and the period represented is not a complete unit, it is better not to emphasize the first or last ordinates, since such a diagram does not represent the beginning or the end of time.
- (8) When curves are drawn on logarithmic coordinates, the limiting lines of the diagram should each be at some power of ten on the logarithmic scales.
- (9) It is advisable not to show any more coordinate lines than necessary to guide the eye in reading the diagram.
- (10) The curve lines of a diagram should be sharply distinguished from the rulings.
- (11) In curves representing a series of observations, it is advisable, whenever possible, to indicate clearly on the diagram all the points representing the separate observations.
- (12) The horizontal scale for curves should usually read from left to right and the vertical scale from bottom to top.
- (13) Figures for the scales of a diagram should be placed at the left and at the bottom or

- along the respective axes.
- (14) It is often desirable to include in the diagram the numerical data or formulas represented.
 - (15) If numerical data are not included in the diagram, it is desirable to give the data in tabular form accompanying the diagram.
 - (16) All lettering and all figures on a diagram should be placed so as to be easily read from the base or the bottom, or from the right-hand edge of the diagram as the bottom.
 - (17) The title of the diagram should be made as clear and complete as possible. Subtitles or descriptions should be added if necessary to insure clearness.

Most of the charts printed in corporate annual reports follow the majority of these principles, but a number could be improved. For example, in its 1946 report Bristol Myers runs a clearly-designed bar chart covering dollar volume for a period of fourteen years, but fails to indicate -- on the chart itself or anywhere on that page -- just what the climbing bars represent. Examination of the text on the following page reveals that the subject of the graph is sales volume.

Other companies turn their graphs into puzzles by attempting to include too many varied statistics in one over-all graph. Witness the maze produced by International Harvester when it pictures forty-four years of growth in terms of capital invested, sales, employees, wages and

salaries -- all at one time, with employees charted in thousands and other items in millions of dollars.

Diamond Match confines to one graph the average hourly wage rate curves of workers in nine different phases of its production process. While the resultant picture indicates that they follow the same trend, the overall picture is a confusing one.

TABLES

Many corporations present statistical data for a number of years in tabular form. This method of presentation is the easiest and least expensive to prepare, fairly effective, and probably the most widely used.

A table is the most desirable form for presenting detailed statistical information, both for accuracy and conciseness. From tabular data, readers, especially a specialized class, can acquire quickly and precisely a picture that would take more space to portray in descriptive expository form. Tables do not make it unnecessary however, for the author of a report to discuss the material. . . .⁴

HISTORICAL BACKGROUND

In the use of both charts and tables, the corporation again is faced with the question of how long a period

⁴ Seyfried, John Edward, Principles and Mechanics of Research, p. 169.

it is desirable to cover. As in the case of comparative statements, discussed in Chapter II, the table or chart which does not cover some part of the pre-war period is of little value for comparison purposes at this time.

A survey of a large group of investment analysts revealed that they considered a table covering taxes and earnings for a minimum of ten years as desirable.⁵ Currently this would seem applicable to most statistical presentations, and it is used by quite a few companies.

As in the case of comparative statements, seven years would seem a minimum period for statistical tables to cover, with ten years being a more adequate coverage. Material included in tables often is more suited to longer spans than comparative statements. This is true because tabular data more often is of an analytical nature, such as ratios or per share figures, which is more easily compared over a long period.

For instance United States Steel gives a truly historical picture with a table covering operating and financial statistics for the period from 1902 to 1946.

⁵ Carlson, Ruth I., "Corporate Reports Inadequate," Trusts and Estates, 83:219, September, 1946.

Historical data is certainly a justifiable supplement to the annual report, especially in the viewpoint of the stockholder.

Investors as a class need to know, first, that the whole financial structure is strong -- not merely that the concern will be able to meet current obligations; and second, that there is sufficient evidence in the history of its earnings to warrant a belief in future growth.⁶

PHOTOGRAPHS

A majority of the reports surveyed used photographs to add to the appearance of their 1946 annual reports. The average number of pictures included in those reports using them was approximately twenty.

Such a number seems rather large, but the elaborate use of some companies raised the over-all average. For example, the Goodyear Tire and Rubber Company ran a total of some 145 photographs, including shots of twenty-nine plants, seventeen directors, and numerous other subjects. This display hardly seems justifiable and such lavishness has brought on the logical consequence that "stockholders

⁶ Crow, William H., Corporation Treasurer's and Controller's Guide, p. 1289.

and the lay public alike have both criticised. . . .
the overuse of photographs, thus making for a very costly
annual report."⁷

It would seem from the viewpoint of the average corporation that the use of photographs should be considered optional. If used at all, they should be used sparingly. Smaller companies might want to reserve their use for special anniversary numbers.

While they serve a purpose--that of clarifying the reader's concept of the subject pictured -- charts and graphs are often more comprehensive. Photographs have definite limitations -- expense being a major one. Besides the expense of having photographs taken and plates made, a more expensive paper may be required for good reproduction.

Also the use of photographs is limited as that of graphs and tables, since too many tend to make the report a picture-story, where the text is neglected, or break off all continuity of the text. In such cases it may come to a choice between pictures and graphs or tables. In most cases the latter are more informative.

⁷ Silbermann, Joachim, "Does Your Annual Report Belong to the Gaslight Era?" Sales Management, 56:35, January 1, 1946.

After the Bureau of Business Research at the University of Kansas had made a survey of annual reports in 1945, its director, L. L. Waters, had the following to say:

To the extent that well chosen photographs of aspects of the company's business inform readers or cause them to read material which might otherwise be neglected, pictures should be utilized.⁸

And another writer puts it:

Yet colored pictures of factories brightly lighted at night, -- as some of these must have been in view of their extraordinary success, -- tell no tales.⁹

SUMMARY

There are a number of supplementary aids to the annual report that can be utilized to make it a more effective and concise instrument for the purpose of informing its readers.

Charts and graphs may be used to present to the eye data which would require pages of text and still not be as clear or effective. Sales, taxes, distribution of the income dollar, and earnings and dividends paid per share of stock are a few of many statistical figures which may

⁸ "Modern Corporation Reports," The Commercial and Financial Chronicle, 164:1927, October 17, 1946.

⁹ Ripley, W. Z., Main Street and Wall Street, p. 163.

be presented in charts or graphs from year to year. In preparing such presentations, the company should be careful to follow the standards set by the American Society of Mechanical Engineers in order to make their charts as easily understood as possible.

Tables provide a convenient and condensed means of presenting other statistical data. In both tables and charts the company should be careful to cover a long enough period to offer a valid comparison, preferably a ten-year span.

Photographs are an aid that should be used sparingly if at all, ordinarily being saved for special occasions such as anniversaries. Larger companies may wish to use a few annually however, limiting them to subjects which definitely are of an informative nature.

In the use of any of these supplementary items the company should avoid crowding out the review of operations. Too many breaks in the text take away its continuity and give the report a picture-book air which wards off careful scrutiny.

CHAPTER V

FORMAT AND DISTRIBUTION

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FORMAT AND DISTRIBUTION

After the annual report has been developed to its best as to content, there remain other important aspects of the problem. First it must have the proper format to set it off effectively. Secondly it must be put into the hands of the proper readers so as to derive the maximum benefits from the effort expended in producing the report.

SIZE

The standard letter size of $8\frac{1}{2}$ x 11 inches is becoming the standard size for corporate annual reports, and the majority of the 1946 reports surveyed were this size. One reason for this trend, which is in most cases an enlarged size, is the widespread use of charts, tables, and photographs which are more easily adapted to the $8\frac{1}{2}$ x 11 size.

Besides the fact that it furnishes good display possibilities, this size fits neatly into the usual office

or home file, and thus is more likely to be kept for future reference, without getting lost or mutilated.

This one phase of annual reports seems to be as uniform as any, and it seems probable that this uniformity will become even more widespread in the next few years.

COVER

More and more annual reports are shedding their familiar cover style of the company title printed against a drab background in favor of attractively designed covers. Some of these resemble butterflies, emerging from their musty cocoon in full color, and others are adding a second color to produce striking patterns which catch the eye of the reader.

The cover is the first thing that the prospective reader notices about an annual report, and while elaborateness isn't a necessity, a cover that has appeal holds definite advantages over the stereotyped style. If the company is going to make the contents of its report worthwhile, it wants the reader to pick the report up and read it. An attractive cover is like a welcome mat at the front door. "Knowledge and information must be packaged attractively."¹

¹ Waters, L. L., "Modern Corporation Reports," Commercial and Financial Chronicle, 164:1927, October 17, 1946.

Leaning somewhat on the lavish side, a number of corporations have turned to photographs to dress up their annual report covers in 1946, but the results are gratifying. The General Mills report is set off with a photograph of an old mill, complete with water wheel. The Caterpillar Tractor Company shows a full color picture of a tractor on the last stages of the assembly line, while International Harvester limits itself to black and white and comes up with an effective print of one of its cultivators against an attractive country landscape.

Standard Oil adorns its report with a color painting of a village square, complete with Esso Service Station. Automobile manufacturers tend to feature their latest models. Studebaker utilizes plates from its national magazine ads to give a full color display of its post-war car on its front and back covers. A note giving the source of the cuts on the inside of the front cover subtly calls attention to this money-saving aspect. And Packard used its 1946 cover to unveil its newest model -- a 1948 convertible in maroon.

Others, through the use of a second color and stylish lettering, turn out appealing covers. General Motors and General Electric gain striking effects in this manner.

An attractive cover is a feature which should be given full consideration by the corporation. A change from year to year seems desirable. When each succeeding year finds the report bound in exactly the same cover, the reader tends to file it -- often in the trash basket -- without looking farther than the cover.

COLOR

The extent to which color should be used in corporate annual reports is another question which has been bandied about frequently, as more complete annual reports have developed. Some critics believe that color is uncalled for, while others are of the opinion that the use of color can be of great value.

As with the use of photographs, the stockholders and general public have frowned upon extensive use of color. In writing of the Caterpillar Tractor report, a prize-winner in the Financial World competition, Dr. Lewis Haney² commended its use of color while avoiding garishness.

Full color pictures seem out of place in an annual report. However the use of a second color is fairly

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"New Fashions in Annual Reports," Financial World, 85:5, October 2, 1946.

prevalent, and it adds a great deal to the presentation. Yet the fact remains that the use of color, like the use of photographs, is something extra. A well laid out report, lacking color, can come close to equaling the vari-colored one.

PARAGRAPHING

As the review of operations has grown in length, the practice of breaking it down into sections on various subjects has been practically universally adopted. By the use of titles that stand out, the appearance and readability of the review is greatly increased.

Bold face type of a larger size than the text is in general use by many companies to give headings to various divisions of the review of operations. Corporations using a second color in their report find it particularly effective when used for the paragraph headings.

Most companies keep their subject headings in line with the text, but General Electric utilizes a wide margin to give the subject matter of the text at appropriate intervals. Either method seems adequate.

PAPER AND TYPE

The wartime paper shortage still exists as a peacetime paper shortage, but the publishers of annual reports

do not seem to have been cramped by this factor in the production of their 1946 reports. These appear on all grades and finishes of paper. The expense which the corporation wishes to incur appears to be the governing factor here.

With the many styles of clear and attractive type now available, the corporation can -- through the use of a reputable printer -- add much to his report by having it attractively treated in this respect. Most of the reports show little to be asked in this matter.

ONE REPORT OR SEVERAL

As was mentioned earlier, many annual reports are now addressed to others besides stockholders. Also some companies have produced separate reports for distribution to employees, either made up of excerpts from the regular report to stockholders, or an entirely different report. For example, Studebaker took excerpts from its 1946 report and combined them with a special letter from the president and chairman of the board to make a separate report for employees. The same cover design was used for both reports.

Weston Smith, business editor and vice-president of Financial World, the magazine which sponsors the annual

contest to select the best in corporate annual reports, favors one report for all. He expresses his attitude as follows:

It has been the experience of some corporations, which have prepared two separate annual reports, that labor union leaders often compare the statements to stockholders with that for the employees, and find that the latter has omitted certain information. In some instances this oversight has provided ammunition for "another grievance," and even a demand to "see the company's books." When the same report is distributed to these two most important sections of the company family, there can be no cause for such misunderstandings.

Even without Mr. Smith's reasoning, which may or may not be valid, it would seem that a single report could serve the purpose, and serve it well. With the wider dispersion of corporate stock ownership, emphasized by the stock-bonus plans used in some industries, the employee and stockholder ranks often overlap to a certain extent. The added expense of putting out an extra report could be saved, or used in part to provide needed improvement in one comprehensive report.

³
Financial World, 86:28, July 3, 1946.

DISTRIBUTION

Corporate annual reports are gaining wider distribution each year. Growing from their basic recipient class -- the corporation stockholders -- the publication now goes out to such other groups as employees, business colleges and universities, and various segments of the general public.

This wider distribution can mean great benefits for both the corporations and the public in general. As the editors of Trusts and Estates magazine point out:

The list of public recipients (of the benefits of corporate enterprise) is a long one. . . . a corporation report is a public document. Although addressed to stockholders and basically a financial accounting by management, it should none the less tell the whole corporate story to stockholders, employees and the public. The public cannot be excluded from corporate affairs, cannot be unaffected by corporate activity, and should not have to learn from other sources the benefits of corporate enterprise.⁴

Distribution of annual reports of the corporation to others than stockholders can serve a better purpose than merely being a nice gesture. The employees are the first group that one must consider with the thought of widening the circulation of its annual report.

⁴ "Three Is a Company," 82:150, February, 1946

One writer has suggested that in order to draw the best attention of the employee to the report it should be sent to his home address, accompanied by a letter of transmittal addressed to him individually. This gives that added personal touch that helps to instill real interest in the recipient, and create a desire to read the report more thoroughly.⁵

The same author suggests another group as possible recipients of the annual report, and that is the opinion molding people of the community. In this he suggests personal distribution if possible. It would seem desirable to reach this group, but personal distribution in a community of any size would ordinarily be out of the question.

Yet it would seem that the report should be made available to this group, and there are certain other methods which might be utilized for this purpose. A plan of advertising the availability of corporate annual reports (such as that adopted by the Standard Oil Company of New Jersey and several other concerns in recent years) is often an effective one. Through coupon-ads in newspapers,

⁵ Kerr, George, "How to Get Maximum Benefit from Your Annual Report," Advertising and Selling, 40:56, January, 1947.

interested parties can be invited to send for the current report.

Another way in which the content of the annual report may be publicized is through the use of pertinent excerpts from its pages as material for inclusion in radio and periodical advertising, both national and local. This should be particularly effective when used in localities where plants or branch offices are set up. Companies of sufficient size or importance can accomplish this partly by releasing various statistics to newspapers at the time of publication of the annual report. Some of the financial figures and other information have news value to daily papers as well as financial and business publications. Even smaller companies will find a good reception for such information in the vicinity of their plants.

Another way which the corporation may investigate is the release of parts of the report through local Chamber of Commerce or some civic organization. The Chamber of Commerce is usually interested in pertinent facts for its own magazine and can serve to transmit well-written excerpts from annual reports.

In the distribution of reports to colleges and universities the corporation enters a field where it can

exert a helpful influence on American thinking.

More and more corporations make a point of distributing their annual reports to business colleges and universities throughout the land, not only to educate the coming generations to the importance which the annual report holds but also to aid teachers and educators in their continuing effort to further democracy.

This field is one which the larger corporation might well consider, but which is hardly within the scope of the average corporation. The benefits which industrials can accrue from a better understanding through the influential group of men and women attending American colleges and universities are many.

The smaller corporation can aid clearer understanding of the benefits of corporate enterprise by publicizing vital data from its annual report on a local scale.

TIMELINESS

Corporations vary by several months as to the promptness with which they publish their annual reports. There seems to be little excuse for the delay some companies make in sending out their reports. The annual report

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Silbermann, Joachim, "Making Annual Reports Attractive," The Commercial and Financial Chronicle, 164:3348, December 26, 1946.

covers a year's operations, and like any review of a period of time, it loses its value when excessively delayed.

With the 1946 reports surveyed, the average date of publication was about March tenth for the calendar year ended December thirty-first. And there seemed to be no direct correlation between the extensiveness of the presentation and the date of publication. Caterpillar Tractor, producer of one of the better annual reports, published theirs after a lapse of twenty-nine days, while Philco required ninety days for a less elaborate one.

Naturally the physical dispersion of a large company's organization as well as its accounting system -- plus various other factors -- may cause some variation in the time needed for publication of the annual report. However promptness is of major importance.

Much of the annual report can be prepared near the last part of the year, with only the finishing touches needing to be added after the end of the period. By the time the financial statements are drawn up and audited, the report could be made ready for the final approval. A little planning beforehand can lead to a better-organized and promptly-released annual report.

SUMMARY

The size adopted by most corporations for their annual reports is 8½ x 11 inches. The trend is towards more wide-spread use of this size, and it seems entirely adequate and the most advantageous size available.

The cover of the report is an important feature which should receive a good deal of attention. It should be attractively designed so as to create interest on the part of the reader and draw his attention to the material inside.

Full color is not recommended for use in annual reports, but a second color may be incorporated to good effect in the case of larger companies. Effective arrangement in black and white can often closely approach the effect gained with the use of color.

Logical paragraphing, set off by appropriate titles, gives the report added readability. The grade and finish of paper on which the report is printed is usually a matter of individual choice. The average report utilizes clear type and little is to be desired here.

Distribution is a problem that reaches prime importance as a better report is published. Groups which should

be considered in addition to the stockholders include the employees, colleges and universities, and various sections of the general public.

Through use of excerpts from the report in its advertising program, and through advertising the availability of the report itself, the general public can be drawn into the recipient group. It is usually desirable to release the report to the employees directly with a letter of transmittal from the top executives.

It seems the best at present to concentrate the efforts of the company on producing one good report for all readers rather than a separate report for such groups as stockholders, employees and the general public.

The value of timeliness is great. Through careful planning throughout the year the company should attempt to release its annual report as soon as possible following the end of the period.

CHAPTER VI

CONCLUSIONS

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CONCLUSIONS

From the foregoing four chapters the following conclusions as to the most effective treatment of the various parts of a corporate annual report may be drawn.

FINANCIAL STATEMENTS

The financial statements of the corporation comprise the heart of the annual report, and should be given the fullest consideration in its preparation.

Each statement should be developed in sufficient detail in order for the reader who so wishes to make an intelligent analysis. This includes the profit and loss statement, balance sheet, and surplus statements.

The balance sheet often requires a series of notes listed on another page to indicate clearly the nature of the various accounts. The profit and loss statement break-down should give separately the more important expense divisions such as

cost of manufacturing or procuring goods, selling expense, administrative expense, and general expense. Any changes in surplus should be accounted for, and capital and earned surplus should be separate.

Comparative statements are highly recommended by the American Institute of Accountants. Listing of such figures for a minimum period of seven years is desirable.

Simplified statements are advisable for reports going to a varied list of recipients, with the regular statements following. The corporation should be alert to developments in accounting terminology which may mean added clarity for financial statements.

REVIEW OF OPERATIONS

The review of operations should be carefully prepared and bear the stamp of approval of the board of directors as shown by the signatures of the president and/or chairman either at the end of the review or on a letter of transmittal which forms a definite part of the review.

The report can still be properly labeled a report to stockholders, but as the company expands the distribution of the report, there should be a paragraph at the opening of the review to the effect that the report is intended for other interested parties as well as the stockholders.

The subjects to be reviewed vary according to the particular business which the corporation may be engaged in,

but certain general subjects are common to practically all fields. At present labor relations is a subject calling for adequate coverage as much as any other. A full treatment of management-employee problems is virtually a must for the adequate annual report.

Finance is the heading under which the management can point out significant developments as to funded debt, new stock issues, and other phases which cannot be fully told by mere figures in the financial statements. A statement as to the number of stockholders and some breakdown as to their classification is desirable.

Research and the company's products are two more items which will usually require mention in the review of operations. It is to the company's benefit to point out the contribution which research may make in the way of insuring the safety of the stockholder's investment and the employee's job. Brief treatment should be accorded the company's products, pointing out any recent improvements, along with an expressed hope for backing by the reader.

In view of the increasingly important role that taxes play in the life of the corporation, as well as the individuals who receive the annual reports, this subject should be accorded mention. Should it be the considered opinion of management

that their company bears an excess tax burden, this might well be indicated.

The production record for the year, along with the factors influencing it either for the better or worse, should be covered and a statement of the advertising policy of the company would be part of a complete report.

Developments as far as competition goes may be worthy of mention, and some statement as to the standing of the company within its field of industry should be made. There is a trend towards inclusion of a paragraph as to the outlook for the future. It seems that this subject can best be covered by a short statement as to the general outlook, carefully based on factual evidence. It is often well to include the basic assumptions in the statement so that the reader can judge for himself the validity of any predictions.

The review is usually closed with a word of appreciation to stockholders and employees for their cooperation during the period just past. A short sincere statement will usually carry the idea best.

It is essential that the text of the review of operations be readable, and a clear, easily understood style is the best method of insuring this quality. The information can be effectively rendered in narrative style, and set forth

in logical paragraphs which facilitate reading and understanding of the report.

SUPPLEMENTARY MATERIAL

There are a number of methods which can be utilized to supplement the review of operations, and make the report a more concise and effective publication.

Charts and graphs may be used to present pictorially information which would not be equally effective in the text. Sales, taxes, distribution of the income dollar, and earnings and dividends paid per share of stock are only a few of the many items which lend themselves well to graphical presentation. If a corporation plans to use charts it should be careful to have them drawn up in clear, uniform style.

Tables are an effective means of presenting various statistical data. In both tables and charts the corporation should be careful to include a long enough period to offer valid comparison, preferably ten years.

Tables and charts can be over-used. They should not break into the review so often as to take away the continuity of thought. Also the picture-book type of report should be avoided.

Photographs are one of those extras which are best reserved for special anniversary numbers. Larger companies

may use them effectively on a small scale however, choosing subjects that will definitely add to the readers understanding.

FORMAT AND DISTRIBUTION

As to the size, the 8½ x 11 inch seems to be approaching use as a standard, and it seems adequate for most companies. The cover is an important feature—it should be attractively designed so as to catch the interest of the reader and invite inspection of the material inside.

Full color is out of the question for most reports, but a second color may be considered advantageous in case of larger corporations. Others can effectively arrange theirs on black and white so as to obtain the best presentation.

The text of the review of operations should be divided into logical paragraphs, set off by stylish headings. The grade and finish of paper are more of an individual choice rather than a criteria of a good report, and the almost universal use of clear type leaves little to be asked in this phase.

There are wider fields today than ever before in which the corporation may wish to distribute its annual report. Groups to be considered include, besides the stockholders, the employees, colleges and universities and various sections

of the public in general.

It is often to the advantage of the company to distribute the report to its employees and to the segments of the general public which are interested and involved in its operations. This can be accomplished through advertisement or general news releases at the time of the publication of the report, besides other possible methods.

As to the question of whether the company should publish separate reports for stockholders and employees, it seems best to try and work out one comprehensive report for all those who will receive it.

The corporation should, through careful planning beforehand, attempt to distribute its annual report as soon as possible after the close of the fiscal period. A report loses value when it is delayed to any extent.

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VITA

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The author was born in Richmond, Virginia on November 26, 1922, the son of Mr. and Mrs. J. P. Dalton of the same city. He was educated in the Richmond public schools, receiving his diploma from John Marshall High School in June, 1939.

He entered the University of Richmond in September, 1939, and received his Bachelor of Arts degree with a major in English in January, 1943. Immediately on graduation he entered the Naval Reserve Midshipman School in New York City and received his commission as ensign in June, 1943. He served in the Atlantic, Mediterranean and Pacific theaters during the course of the war and was released to inactive duty with the rank of Lieutenant in May, 1946.

He reentered the University of Richmond as a graduate student in business administration in June, 1946 and is a candidate for the degree of Master of Science in Business

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