interpretations to be made. To this end, the data should be classified at least into revenues, expenses, gains, and losses.

1. In general, the revenue of an enterprise during an accounting period represents a measurement of the exchange value of the products (goods and services) of that enterprise during that period. The preceding discussion, under D(2), is also pertinent here.

2. Broadly speaking, expenses measure the costs of the amount of revenue recognized. They may be directly associated with revenue-producing transactions themselves (e.g., so-called "product costs") or with the account-

APPENDIX C

"SUMMARY OF GENERALLY ACCEPTED PRINCIPLES OF ACCOUNTING FOR BUSINESS CORPORATIONS ON AN HISTORICAL BASIS"

The following summary of accounting principles is taken from Paul Grady, Inventory of Generally Accepted Accounting Principles for Business Enterprises 56-67 (AICPA Accounting Research Study No. 7, 1965). It should be noted that the principles listed purport to have been derived from current accounting practice.

Accounting serves many internal and external purposes in the broad fabric of corporate business. The most important external purpose is to supply the comprehensive and dependable information required so that management may fulfill its fiduciary accountabilities to stockholders, creditors, government and others having bona fide interests. The principles of financial accounting for corporate business enterprises logically and usefully may be classified in relation to these fiduciary accountabilities. Such principles are necessarily stated in broad terms of objectives and major criteria, and the complexities facing modern business make more definitive rules, such as the APB Opinions, necessary to implement the principles in relation to the pertinent circumstances of the time.

In a changing world it naturally follows that detailed rules not only may but should be changed to meet changes in conditions or in the mode of thought of the business community, and that such changes do not necessarily affect the broader principles and concepts, all of which are comprehended in the term, generally accepted accounting principles. In this context, the principles of financial accounting for corporate business enterprise are summarized as follows:

**Objective A.** Account for sales, revenues, income, cost of sales, expenses, gains and losses in such manner as to present fairly the results of operations for the period or periods of time covered.

**Principle A-1.** Sales, revenues and income should not be anticipated or materially overstated or understated. Accordingly, there must be proper cutoff accounting at the beginning and end of the period or periods.

**Principle A-2.** Costs of sales and expenses should be appropriately matched against the periodic sales and revenues. It follows that there must be proper cutoff accounting for inventories and liabilities for costs and expenses at the beginning and end of the period or periods.

**Principle A-3.** Appropriate charges should be made for depreciation and depletion of fixed assets and for amortization of other deferred costs.

**Principle A-4.** Proper distribution of costs should be made as between fixed assets, inventories, maintenance and expense. Direct costs are usually identifiable and common costs applicable to more than one activity should be distributed on appropriate cost incurrence bases such as time or use factors.

**Principle A-5.** Contingency provisions and reserves should not be misused as a means of arbitrarily reducing income or shifting income from one period to another.

**Principle A-6.** Nonrecurring and extraordi-
nary gains and losses should be recognized in the
period they occur, but should be shown separately from the ordinary and usual opera-
tions.
Principle A-7. There is a strong presumption
that all gains and losses will be included in
periodic income statements unless they are of
such magnitude in relation to revenues and
expenses from regular operations as to cause
the statements to be misleading.
Principle A-8. Disclose rental charges under
material leases and capitalize those which are
in effect installment purchases of fixed assets.
Principle A-9. If accounting principles in
the determination of periodic results have not
been consistently maintained, the effect of the
change should be stated.
Objective B. Account for the equity cap-
cital invested by stockholders through con-
tribution of assets or retained earnings in a meaningful manner on a cumulative
basis and as to changes during the peri-
od or periods covered. The account struc-
ture and presentation in financial state-
ments of a business entity are designed to
meet statutory and corporate charter
requirements and to portray significant
financial relationships.
Principle B-1. In case there are two or more
classes of stock, account for the equity capital
invested for each and disclose the rights and
preferences to dividends and to principal in
liquidation.
Principle B-2. From a financial viewpoint
the capital invested by stockholders is the
corpus of the enterprise and its identity should
be fully maintained. Any impairment of in-
vested capital resulting from operating defi-
cits, losses of any nature, dividend distribu-
tions in excess of earnings, and treasury stock
purchases is accounted for both currently and
cumulatively.
Principle B-3. Capital surplus, however cre-
ated, should not be used to relieve the income
account of the current or future years of
charges which would otherwise fall to be made
there against. There should be no com-
mining of retained earnings with invested cap-
itl in excess of par or stated values.
Principle B-4. Retained earnings should
represent the cumulative balance of periodic
earnings less dividend distributions in cash, prop-
erty or stock, plus or minus gains and
losses of such magnitude as not to be properly
included in periodic earnings. The entire
amount may be presumed to be unrestricted
as to dividend distributions unless restrictions
are indicated in the financial statements.
Principle B-5. Retained earnings may be de-
creased by transfers to invested capital ac-
counts when formal corporate action has, in
fact, changed the composition of the equity
capital. Accumulated deficit accounts may
be eliminated against invested capital ac-
counts through formal action approved by
stockholders, which establishes a new base
line of accountability.
Principle B-6. The amount of any revalu-
ation credits should be separately classified in
the stockholder's equity section, and it is not
available for any type of charge except on
reversal of the revaluation.
Principle B-7. Disclose status of stock op-
tions to employees or others and changes
therein during the period or periods covered.
Objective C. Account for the assets in-
vested in the enterprise by stockholders
(through property contributed or re-
tained earnings) and creditors, in a mean-
ful manner, so that when considered
with the liabilities and equity capital of
stockholders there will be a fair presenta-
tion of the financial position of the enter-
prise both at the beginning and end of the
period. It should be understood that
financial position or balance sheet state-
ments do not purport to show either
present values of assets to the enterprise
or values which might be realized in liqui-
dation.
Principle C-1. Items classified as current as-
sets should be carried at not more than is
reasonably expected to be realized within one
year or within the normal operating cycle of
the particular business. Cash should be segre-
gated between unrestricted and restricted
items, and the inclusion of the latter in cur-
rent assets must be justified by their nature.
Receivables should be reduced by allowance
accounts to cover expected collection or other
losses. Receivables from officers, employees,
or affiliated companies should be shown sep-
arately. Inventories should be carried at cost
or market, whichever the lower. Cost com-
prises direct costs plus factory overhead costs,
and the basis of determination (e.g., Lifo,
Fifo or average) should be stated. Prepaid
items should be properly chargeable to future
periods.
Principle C-2. Fixed assets should be car-
ried at cost of acquisition or construction in
the historical accounts, unless such cost is no
longer meaningful. Cost of land should
ordinarily be shown separately. Cost of con-
struction includes direct costs and overhead
costs incurred, such as engineering, super-
vision and administration, interest and taxes.
Items treated as fixed assets should have at
least one year of expected useful life to
the enterprise, and normally the life is con-
siderably longer. Practicable yardsticks or criteria should be established in order that consistent distinctions may be made between fixed assets, operating expenses and maintenance. Ordinarily, this should be accomplished by creating a catalogue of property units to be included in fixed assets, any lesser items to be charged to current expense. Items no longer in service should be removed by charge to depreciation reserve or expense in order that fixed assets will represent the cost of properties in service.

Principle C-3. Appropriate provision or allowances should be made in order to charge operations with the investment in depreciable assets over the estimated life thereof. The accumulated allowances, less property retirements, should be shown as a deduction from fixed assets.

Principle C-4. Long-term investments in securities ordinarily should be carried at cost. When market quotations are available, the aggregate quoted amounts should be disclosed. Investments in affiliates should be segregated from other investments.

Principle C-5. The costs of intangible items, such as debt discount and expense, patents, copyrights, research and development (if deferred) and goodwill should be shown separately. Limited-term items should be amortized against earnings over their estimated lives. The policy in regard to amortization of unlimited-term intangibles should be disclosed.

Principle C-6. The nature and extent of hypothecated or pledged assets should be shown.

Objective D. Account for all known liabilities in a meaningful manner in order that their summarization, considered together with the statement of assets and equity invested by stockholders, will fairly present the financial position of the enterprise at the beginning and end of the period.

Principle D-1. All known liabilities should be recorded regardless of whether the definite amount is determinable. If the amounts cannot be reasonably approximated, the nature of the items should be disclosed on the face of the summary of liabilities or by footnote.

Principle D-2. Current liabilities should include items payable within one year or at the end of the operating business cycle used in the classification of current assets. Accounts should be shown separately for notes payable to banks, notes payable to others, accounts payable (may include payrolls), Federal income taxes accrued, other accrued taxes, accounts or notes payable to officers, and accounts or notes payable to affiliates.

Principle D-3. Long-term liabilities should be described and due dates and rates of interest shown.

Principle D-4. The nature and extent to which specific liabilities are a preferred lien on assets should be shown.

Principle D-5. Deferred income should be separately classified and described.

Principle D-6. Contingent liabilities of importance should be disclosed.

Objective E. Financial statements should comply with the applicable reporting standards included in generally accepted auditing standards. Reporting to investors should be performed on an entity basis.

Principle E-1. Generally accepted reporting standards applicable to financial statements are set forth in Chapters 7, 8, 9 and 11 of Statements on Auditing Procedure No. 33, which are incorporated in this Inventory.

Principles E-2. Where there is a parent company and one or more subsidiaries, there is a presumption that consolidated statements are more meaningful than separate statements.

Principle E-3. The accounts of consolidated subsidiaries or divisions operating in foreign countries should be translated into dollars at the appropriate rates of exchange.

Principle E-4. Where two or more previously independent entities merge or otherwise combine in such a manner as to constitute a pooling of interests, the new entity inherits the bases of accountability of the constituent entities.

APPENDIX D

"ALTERNATIVE METHODS OF IMPLEMENTING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES"

The following comprehensive list of alternative accounting methods is taken from Paul Grady, Inventory of Generally Accepted Accounting Principles for Business Enterprises 373-79 (AICPA Accounting Research Study No. 7, 1965):