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"FOOTNOTES AND FINANCIAL STATEMENTS"

Address

of

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Before

THE MINNESOTA STATISTICAL ASSOCIATION
THE MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

and the

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And before

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FOOTNOTES AND FINANCIAL STATEMENTS

The topic I want to discuss with you tonight nearly always falls in the accountants' province but it involves a good deal that is not, strictly speaking, a question of accounting as that subject is ordinarily described. The proper scope and function of footnotes to financial statements has not often been formally considered in the literature of accounting. In addition, the mechanics of drafting has often been passed over rather lightly by practitioners. It has been all too easy for accountants to throw in footnotes of all sorts and descriptions as a means of "getting in" some information or comment as to the accounting policies and accounting facts of the company whose statement is presented. The extent to which this is sometimes carried is illustrated by a statement which contained fifteen pages of footnotes. Again it is not unusual to find the same or a very similar note repeated five or six times. In all too many cases the language of the note evidences a lack of careful draftsmanship. In one case the accountants explained the basis of normal stock inventory prices by saying: "The fixed prices are those below which the corporation has not bought light native cowhides, upper leather and crude rubber since 1920 with the exception of the period from November, 1931 to April, 1933." Another page-long note was devoted to the travels and adventures of two shares of stock whose ownership at the moment was apparently the subject of a heated controversy.

Notes have in the past contributed a great deal to the bulkiness and complexity of financial statements and in some cases have been of such significance as to lead a critic to remark that the information they give is more important to him than the balance sheet itself. Indeed, in the case I mentioned a moment ago, the effect of the fifteen pages of footnotes was such as to cause the Commission to ask that a three column statement be prepared showing the amounts originally given, the adjustments contemplated by the footnotes, and the amounts as adjusted.

I am, however, running somewhat ahead of my topic. To discuss the problem satisfactorily, I think it necessary to outline broadly the role which financial statements play in the registration statement and annual reports. As many of you know, our forms require sets of individual and consolidated statements and of statements for significant unconsolidated subsidiaries. Each set consists of a balance sheet, profit and loss statement, and supporting schedules as to such items as surplus, property, reserves and investments. Many have asserted that this is too much and that the investor will not wade through them, indeed that they will not even study the prospectus statements which omit most of the schedules as well as the statements of the smaller unconsolidated subsidiaries. There is doubtless much truth in this. On the other hand, the national financial services, large investors, and many banking houses consult the full statements and pass their informed opinions on to the individual investor. In addition we fill thousands of orders for photostatic copies of parts of registration statements. While the prospectus has also been criticized as too bulky, it is interesting to note that many annual reports to stockholders - which are not directly subject to our rules - are coming closer to its general disclosure level. In some respects this development is the result of applying the prospectus principle to the annual reports filed with us on form 10-K, except that the necessity of complying with requirements to furnish specified information is absent and except that in guaging the materiality of particular data somewhat more flexible and more adaptible criteria may be used.

As I have indicated, a good portion of this "bulkiness" has been attributed to the practice of requiring information to be disclosed in footnotes. I frequently hear accountants say: "Financial statements are clearer if they are not cluttered up with footnotes." Or as one eminent accountant wrote: "Those ... who are accustomed to the simpler and more direct language of the old prospectus may look with some concern on the modern prospectus with an over-ornamentation of cross-references and footnotes." I agree with these remarks. Certainly a statement which has no need for disclosure in footnotes is clearer than a statement which requires pages of explanatory notes.

But this does not mean that the latter statement would be a better and clearer statement without the footnotes. If the footnotes are well conceived and deal with material matters, such an omission would only obscure the fact that the financial statements presented without the notes did not adequately disclose the company's condition. Simplicity in such a case is itself misleading.

It is clear to me that some footnotes will ordinarily be necessary. It is equally clear that those which are necessary should be stated in as concise, clear fashion as is possible. Granting this, determination of the proper function of footnotes becomes essential. For our purposes, they may be divided roughly into three classes:

1. Those which explain the accounting principles followed, or compare the results following a change in accounting principles;

2. Those which disclose information for which there is no place in the body of the statement;

3. Those which are necessary to explain questionable accounting principles and which show the effect of application of such principles and the effect that would have resulted from following generally accepted principles of accounting.

At heart the need for many footnotes stems from the wide variety of generally accepted accounting principles which exist in many fields. If such a program as is envisaged by the Tentative Statement of Accounting Principles sponsored by the American Accounting Association and by the activities of the American Institute of Accountants is perfected and widely adopted, many of these notes may well become unnecessary. Until then, however, it seems essential for our forms to require information as to such matters as the method of preparing consolidated statements; the depreciation and amortization policies; the treatment of discounts; the basis of carrying securities, inventories and sometimes other assets; the basis of determining profits on sale of securities and so on.

In many cases where several sets of financial statements are filed much of the required information is pertinent to captions in several balance sheets, schedules or other statements. The easy way is to repeat. A more workmanlike method in many cases is the judicious use of cross references. Perhaps the most satisfactory method in many cases would be to draft an integrated statement covering these matters as a sort of additional financial statement to accompany the usual balance sheet, profit and loss statement and related schedules. Precise reference under the appropriate captions to the appropriate paragraphs would then serve to relate it to the financial statements with no loss of utility, with much saving of space, and possibly with the result of obtaining an integrated, readable document.

Some of you may feel that such requirements as I have indicated will call forth no more than disclosure of some widely established accounting policy. This is not the fact. Let me illustrate the sort of thing that is frequently found. As I mentioned before, our forms require a footnote explaining the principles followed in consolidation. In one case the resulting note disclosed that only the par value of the subsidiary's stock had been eliminated against the investment. As a result, Accounting Release No. 3 was issued. This release indicated that an amount equal to the par or stated value of the subsidiaries stock owned by the parent and its proportionate share of their surpluses at acquisition should be eliminated against the parent's investment account.

In another case a note stated that the registrant's equity in the net assets of a consolidated subsidiary as shown on the books of the latter exceeded the registrant's investment in the subsidiary by approximately $210,000.00 at the balance sheet date. Of this amount $200,000.00 represented the excess of the subsidiary's aggregate net assets at date of acquisition over the cost of the registrant's investment in the subsidiary. This amount was credited to consolidated capital surplus. The balance ~~of~~ $10,000.00, representing the earnings of the subsidiary since its acquisition, was credited to earned surplus in consolidation.

A separate note to the same statement explained that in consolidation the subsidiaries' fixed assets were carried at appraisal values instead of at the higher amounts at which such assets were reflected in the books of the subsidiary. The excess of the latter amount over the appraisal value of the fixed assets, approximately $250,000.00, was carried in the consolidated balance sheet as "goodwill". While the excess of a parent's investment over its equity in the net assets of a subsidiary is frequently reflected in consolidated statements as goodwill, it seems to me highly questionable that there may be both purchased goodwill and acquired surplus arising out of the acquisition of the same subsidiary. Such information as these notes disclosed is to my mind significant to any thoughtful investor.

In the second group of footnotes, those which supply information for which there is no place in the body of the statements, there is presently found much which I think could be eliminated by giving the information in the balance sheet itself. I would include here such matters as the market quotations or cost of marketable securities, the breakdown of inventories into classes, the annual maturities of long term debt and other similar items. In cases in which the suggested statement of accounting principles is appropriate, the substance of some of this class of footnotes can be worked into that statement. Thus in explaining the principles followed in consolidation, the amounts involved in the disposition of the difference between investment and equity could be shown.

Stripped of what might be handled otherwise, this group would ordinarily be narrowed to a relatively few important items such as contingent liabilities, arrearages in cumulative dividends, defaults on indebtedness, and other comparable matter. In the case of an income statement, a note might well reclassify certain of the operating expenses into functional amounts, such as depreciation or maintenance. In any case, however, there must also be left room in this group for descriptions of the unusual - the transaction, policy or event that is of infrequent occurrence and particular significance. It is in this last category that I think some of the most difficult questions have arisen and will continue to arise. In the promotional company where assets have been acquired for stock or at speculative values or from the promoters and have not been so well integrated into a going business as to be evaluable by the results of operations, there is usually found a note explaining the way in which the particular balance sheet amount was determined - by vote of the directors or the stockholders, either as to the value of the asset or the amount of stock to be given therefor. If an appraisal was made, the circumstances and basis thereof are obtained; if acquired from a promoter, the cost to him is given, if he has recently obtained the property. In some cases such information has been given only after citation of a deficiency; in others, at the outset.

Another general situation that comes under this topic is the reflection of transactions in the statements in accordance with permissive statutes but not in accordance with what many feel are the requirements of sound financial practice. I have in mind here one of our requirements that has frequently resulted in a rather lengthy footnote and that has caused considerable criticism. I refer to the case of stock entitled to a preference in liquidation in excess of its par or stated value. In such a case there is immediately raised the question of how this stock should be treated in the balance sheet. Nor do all the cases fall conveniently into a single class. In some, preferred stock having, for example, a par value of $100 per share may have a redemption price of $110 and a preference in involuntary liquidation of $105. This might be called a fairly normal situation and since the excess involved is not ordinarily significant it offers relatively little trouble. But even here the aggregate excess of the liquidation preference over the par of the preferred has in a few cases been greater than the entire junior capital and surplus.

In other cases the preference has been many times the par value. This situation customarily arises in two ways. In the first, a preferred stock having a preference in liquidation of, say, $50 and a par or stated value of only $10 has been sold at a price to net the company $10. In transactions of this sort the par or stated value of the company's outstanding stock is the equivalent of the capital contributed by the shareholder but its preference in liquidation exceeds the capital contributed by $40 per share. In a variant of this situation, stock with a preference of $50 is again sold for $10 per share but the par or stated value is only $1. In this case 90% of the capital contributed is credited to paid-in surplus. The situation now appears that the par or stated value is only 10% of the capital actually contributed and in addition, as in the last case, the preference on liquidation exceeds the capital contribution by $40 per share. In some of these cases the preference and the paid-in amounts are about the same but the par or stated value is much lower.

Last of all is the group of cases arising out of corporate reorganizations. A not infrequent procedure here is to reduce radically the par or stated value of securities without, however, reducing the preference on involuntary liquidation. Then surplus resulting from the restatement of capital is used to absorb an operating deficit and to reduce the carrying values of various assets.

To illustrate the reorganization technique, I may use an early case before the Commission. In that case each of three classes of no par stock was shown at a stated value of $5 per share aggregating some $900,000. Capital surplus of over $6,300,000 and earned surplus of $2,500,000 were set forth separately. The three classes, however, consisted of a $7 preferred with a liquidation preference of $100; a Class A with a minimum liquidating preference of $50 and a Class B residual stock. Prior to a recapitalization some years earlier, there had been two series of $100 par preferred and a no-par common. In the change, a large proportion of its original stated capital had been turned into surplus and used in part to wipe out a $2,500,000 operating deficit. After consideration, the registrant amended its statements to show the preferred and Class A stocks at their liquidating preferences of $2,700,000 and $3,200,000. The remaining equity was assigned to the Class B stock. In a footnote the respective amounts of stated capital and of each class of surplus were shown.

In cases such as I have outlined it often becomes difficult to tell whether contributed capital in fact has been preserved. Furthermore if no junior equity exists the reality of the "preference" may be questioned. It may be argued that despite the label "preferred" the effect of many corporation laws is such that the company is under no obligation to refrain from distributing assets below an amount equivalent to the preference. For this reason upon more mature deliberation it was felt in subsequent cases that the method described above was not entirely satisfactory since it tended to obscure the possibility that capital contributed by preferred stockholders or the amounts to which they were entitled in liquidation might not be maintained and safeguarded against distributions to junior securityholders. This it seems is permissible under the laws of many states. Of course, the Commission in establishing requirements for financial reporting doubtless is not bound to follow permissive state statutes. On the contrary the Commission is specifically authorized to prescribe the form in which information shall be set forth in financial statements filed with it. But in such cases as these the form of presentation required must clearly be such as to warn of the dangers inherent in the situation as well as to reveal the economic facts. Out of these considerations the Commission has gradually, as case after case came up, developed its present policy of requiring disclosure of all pertinent facts in the balance sheet or in footnotes thereto. In reaching the requirements we now have, we have thought that the investor, to understand the position of his security in relation to other securities of the company, must have before him the answers to such questions as these. What is the amount of the aggregate excess of the liquidating preference of preferred stock over its par or stated value? Is this excess protected by junior capital? Does the total junior capital and surplus more than equal this excess? If it does are there any restrictions upon the payment of dividends on common stock out of such surplus? If earned surplus is not restricted, is paid-in surplus? Does the fact that paid-in surplus was contributed by preferred stockholders make any difference? If the excess is greater than the total of junior capital and surplus is there any restriction upon the payment of dividends from current earnings? Are dividends in arrears? If they are, what effect does that fact have upon all of these questions? Clearly here is a case where disclosure should be made. If explanatory footnotes are omitted the uncluttered financial statements may be easier to read, but it is not easier to understand their full portent. In fact such statements would undoubtedly mislead the unwary reader.

Our present policy of disclosure is now incorporated in Accounting Release No. 9 published last December. This release calls for information to be shown in the financial statements in addition to that previously required by the Commission's forms. It reads:

> "... In the case of preferred stock the preference on involuntary liquidation if other than the par or stated value, and the dividends in arrears, if any, should be shown (preferably in the balance sheet) both per share and in the aggregate for each class of such stock.
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> "As a means of further disclosure when the excess involved is significant there should be shown in the balance sheet or in footnotes thereto (1) the difference between the aggregate preference on involuntary liquidation and the aggregate par or stated value; (2) a statement that this difference plus any arrears in dividends, exceeds the sum of the junior capital and the surplus, if such is the case; and (3) a statement as to the existence of any restrictions upon surplus growing out of the fact that upon involuntary liquidation the preference of the preferred stock exceeds its par or stated value."

While good business judgment ordinarily precludes the payment of dividends out of contributed capital most corporate laws do not adhere to this philosophy where part of the contribution has been termed "surplus". In such cases as these, determination of the existence or absence of a restriction on surplus is often an involved legal problem, the solution of which is not primarily a question of accounting. To reveal to prospective stockholders the complexities of the legal situation and to encourage consideration of the problem the Commission at the time this release was published also announced a policy of requiring an opinion of counsel to be submitted which would set forth restrictions on surplus growing out of the situations we have been discussing. In addition since such restrictions can be no more effective than the remedies available to enforce them, an opinion was requested as to the remedies which were available to security holders should any of these restrictions be disregarded.

The relation of this whole problem of liquidating preferences to the general principles of accounting is far from remote. It is, I feel a direct challenge of one of the underlying assumptions of accountants, namely, that there is a distinction between income and capital that is both real and important to the corporation. Accountants have as a group frowned upon procedures which blur this distinction. In this vein accountants have sought to restrict the concept of "dividends" to the distribution of earnings. Likewise, charges to capital surplus have been scrutinized against possible relief of the income and earned surplus accounts. Here the question is, "What is income?"

When the amount paid in on shares is wholly unrelated to the stated value and the liquidating preference, or where the reality of loss has not been recognized by reduction of liquidating preferences, as well as stated values, the soundness of the distinction between capital and income is again at issue, this time on the point of what is capital and what are the equities therein. In various ways we have looked askance at the practice. However, the basic remedy lies in its abandonment by those who now employ it, either voluntarily or as a result of changes in applicable laws. In the meantime, the footnote method must continue in use.

Turning now to another category in this group, what disclosure is required as to the effect of events occurring between the date of the balance sheet and the date of the accountants' certificate. This presents a nice problem. Furthermore it is a very important problem when it arises with reference to statements filed under the Securities Act of 1933.

Certain aspects of this problem are very familiar. We know that it is customary for accountants either to disclose in footnotes the effect of significant events occurring subsequent to the date of the balance sheet or to consider their effect in preparing financial statements and in forming an opinion as to the company's financial condition at its balance sheet date and as to its operating results for the period. The balance sheet treatment of inventories illustrates this point. Customarily the inventories of many concerns are stated at "cost or market, whichever is lower". Market of course is determined as at the date of the balance sheet. But subsequent price declines should also be taken into consideration. If the changes indicate that significant inventory losses may be sustained, reserves should be provided or the relevant facts disclosed in collateral notations. Similar disclosures should be made with respect to substantial commitments for the purchase of goods where the contract price is considerably above the current market unless such commitments are covered by sales contracts on a profitable basis. Unfilled sales orders at specified prices must be considered when production costs have advanced considerably. Like principles should be carried over into the treatment of marketable securities and other investment securities. Uninsured losses occasioned by fire and flood; the issuance or redemption of substantial amounts of securities; changes in capital structure, such as those that arise pursuant to quasi-reorganizations, should likewise be disclosed even though the events giving rise to such changes or losses occur subsequent to the date of the balance sheet.

Up to this point my illustrations have all had to do with situations where an event at an intermediate date would have some effect on our present opinion as to the financial condition of the company at the earlier balance sheet date. Additional illustrations of a somewhat similar nature could be cited. In most of these cases disclosure should be made on the face of the balance sheet or in a collateral notation. However, where the happening of the event only affects future operations and as a consequence the financial condition of the enterprise in the future, the problem is much more complex and is not yet well settled.

These cases cover a very broad field. At one extreme it is obvious that there is no need for the accountant to comment upon events subsequent to the date of the balance sheet if their effect is not significant. At the other extreme there is no question that the accountant should disclose happenings after the date of the balance sheet if it is probable, or even possible, that as a result of such happenings the enterprise may become bankrupt or suffer serious financial embarrassment. Between these extremes the accountant faces a dilemma.

Events directly related to the operations of an enterprise and having an effect upon its future prospects are matters of interest to investors. This interest points toward the necessity of disclosure. But it would not always do to disclose the facts alone. They easily might be misinterpreted. Some attempt may have to be made to interpret their effect. Then the question is presented as to whether it would be fair to measure the effect of harmful influences upon the enterprise without doing as much as to the favorable factors. This, of course, would be mere conjecture. If the chain is carried this far, the accountant is in danger of becoming a forecaster - a person apt to rank along with the weather man in the opinion of the public.

Writers are practically unanimous in saying that the accountant is not a prophet; that he should be careful not to be drawn into a prognostication; that he should not express opinions that might be construed as predictions o. earnings; and that he should guard the reputation of the profession for conservatism and reliability. These views are also supported by the American Institute of Accountants. In addition to its formal rules of professional conduct the Institute has adopted a resolution admonishing accountants:

> "That estimates of earnings contingent upon future transactions should not be certified nor should an accountant permit his name to be used in conjunction with such estimates in a manner which might mislead anyone."

As a matter of fact, even pro-forma financial statements giving effect to specific uncompleted transactions generally are frowned upon and under certai: circumstances the use of such statements is prohibited by the Commission.

In determining whether disclosure should be made in circumstances such as I have described two predominant interests must be considered. The one is the interest of the investor in obtaining all possible information concerning the enterprise in which his funds are invested. The other is the interest of the general public in preserving in independent accountants the qualities of impartiality and reliability - characteristics which are not compatible with the business of forecasting. These interests must be balanced. Consequently each case must be decided upon the circumstances peculiar to it. Somewhat the same factors underlie this problem as are found in the concept of "materiality" or "reasonableness".

This and related problems were discussed by a number of prominent practitioners in a round table session about two years ago at the fiftieth anniversary celebration of the American Institute of Accountants. The discussion centered not so much on events that had happened between the balance sheet date and the date of the accountants' certificate, but rather upon all events that had happened at any time up to the date of the certificate that might have an adverse effect upon the enterprise in the future. Various speakers indicated that in their opinion it was unnecessary to disclose the fact that legislative enactments, changes in manufacturing methods in a given industry and other changes of an economic nature might possibly have an adverse future effect upon the enterprise.

One speaker indicated that if the business of a company is protected by patents that are about to expire; if some competing device has been invented and is making substantial inroads upon the business of the enterprise; or if defective products have been sold and there is a probability that there will be heavy returns, the possible future effects of such conditions should be commented upon. There was considerable debate among a number of the speakers as to whether it would be necessary to disclose that a given company in the past disposed of from 20% to 25% of its entire output to one customer and that consequently a large part of the company's market might be dried up by the loss of one customer. Most of those who discussed the point indicated that they would not disclose such information. However, one expressed the view that in the other extreme where 75% of the sales of a company were made to one customer, he would disclose that fact as a matter of history rather than as a matter relating to the future and let the investor make his own prognostications. It seems to me that this latter view is a sensible one and should prevail whenever sales to one customer bulk large. It also indicates that the final solution depends in part upon a question of degree. I have no doubt that if one large customer had actually been lost before the issuance of the accountants' certificate and if as a result of such loss the company faced the possibility of bankruptcy, all accountants would insist upon the disclosure of that condition. After all, the utility of past financial statements to a prospective investor lies in the light they may shed upon the future. And if there are known events which destroy the validity of reasonable inferences therefrom, the duty of disclosure seems clear.

The comments of those who took part in this discussion evidence a lack of agreement among accountants, at least with respect to this particular problem. Moreover, in some instances the individual speakers made statements contradictory in themselves. Thus the view was expressed by one speaker that an accountant is only required to disclose events subsequent to the date of the balance sheet if such events affect the financial condition at the date of the balance sheet or the profit and loss statement as it existed at that time. It was pointed out that to hold otherwise would open up a field leading to almost immeasurable possibilities. But it was also recognized by the same speaker that the effect of anything that has happened or that is likely to happen which affects the future cannot be utterly disregarded. Moreover, it was acknowledged that the Securities Acts placed certain responsibilities upon accountants in this respect.

With these divergent views it is fortunate that investors are not dependent upon financial statements as the only source of such information. Item 6 of Form A-2, under the Securities Act of 1933, calls for an outline of the general development of the business for the five years prior to the date of filing of the registration statement. In response to this question registrants are required to state only materially important developments which have occurred in the business. For example, a statement should be made as to lines which have been added or abandoned; plants which have been acquired, sold or abandoned; changes in the mode of conducting the business, such as fundamental changes in the method of distribution and various other materially important changes.

We have not lost sight, however, of the fact that financial statements should stand on their own feet and consequently we have required in a number of cases that things having a direct effect upon the future operations of the enterprise be disclosed in the current income statement. In one case in which the salary of the president for future periods was to be increased substantially, that fact was required to be disclosed in a note to the registrant's profit and loss statement. In another case a footnote was requested to direct attention to pertinent provisions of an agreement whereby employees and officers were entitled to share in future profits of the company.

On the other hand, in a number of cases we have accepted registration statements where disclosure of important developments which had occurred in the business was made in the body of the registration statement only and not disclosed in connection with the financial statements. In one case a registrant between the date of its balance sheet and the filing date of its registration statement, had entered into a working agreement with the United Automobile Workers of America. Although disclosure of that fact was not required in the financial statements, the registrant was required to amend the body of its registration statement to disclose further information with respect to this agreement. In its amendment, it summarized the pertinent provisions of this agreement and stated that as a result thereof wages of production employees would be increased not in excess of 20%.

In another case the registrant for many years carried on its operations with convict labor. Several days after the date of its balance sheet the use of convict labor was discontinued. These facts we required to be explained in response to item 6 of the registration statement in such a way as to reveal the possible effect on the income and business of the registrant of the substitution of free labor for convict labor, including a comparison of the cost of free and convict labor for the three preceding years.

From what I have said I believe it is apparent that this problem is in need of further study. It is another evidence of the fact that accounting, although it is the best medium we have, is in some respects an inadequate means of reporting financial information. Our attitude on the problem can be summarized by saying that while we do require disclosure of such information, the place of disclosure depends upon the facts of the individual case. But in any event the disclosure should cover both the facts involved and so far as practicable the expected effect of such developments. I also believe that the registrant and the accountant should take a liberal attitude toward the problem and make such disclosures even though in an individual case the clear necessity therefor might not appear.

The final group of notes that I mentioned embraces explanatory comments that become necessary when questionable accounting practices have been followed. In part this group overlaps with the first group. I have segregated it and placed it last because I feel that it is disappearing. It represents in a sense the last stand of practices which are being discarded in favor of what we hope and believe are sounder principles. It is important since it is the point at which progress is being made or is needed. The explanations and justification which accompany the carrying of treasury stock as an asset or the writing off of discount while bonds are still outstanding are now but the traces of formerly common practices. The explanations accompanying assets carried at written up values, or at unconscionably low written down values, indicate areas in which further study and progress is needed. In Accounting Release #4 the Commission has, I believe, contributed an effective tool to the accountant for weeding out unsound practices. As you may know, the Commission there determined that statements would be considered misleading unless prepared in accordance with generally accepted accounting practices, even though disclosure were made in footnotes or in the certificate. The effect of this release, however, has not yet been fully felt, since it was issued too late to be applicable to the majority of 1937 statements.

To summarize, it seems to me that footnotes are an essential part of financial statements. But if footnotes relating to accounting principles and practices are filed as a separate statement, wherever practicable, if footnotes elaborating upon captions in the financial statements are abbreviated and included as parenthetical notations in the body of the statement wherever possible, and if financial statements are amended to give effect to accounting principles for which there is substantial authoritative support instead of following the practice of basing the statements on dubious principles and making so-called "full disclosure" by way of footnotes, then we will be well on the road toward clearer and more intelligible financial statements. If finally the footnotes that must still remain are expressed in concise and simple language, a major improvement in our financial reporting will have been gained.

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