

Decision No. 22759

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on the Commission's own motion into the matter of adopting and prescribing for Class C telephone utilities the Uniform System of Accounts for Class C telephone utilities prescribed by the Federal Communications Commission or adopt and prescribe the same with modifications.

ORIGINAL

Case No. 4540

Ernest Irwin and Robert E. Bennett for
California Independent Telephone Association

W. Hanisch for Roseville Telephone Company

William De Carteret for Exeter Telephone Company

CRAEMER, COMMISSIONER:

O P I N I O N

The Commission by its order of July 9, 1940, instituted the above entitled proceeding and directed that a public hearing be held thereon by me on the 11th day of September, 1940, at 10 a.m. in the Commission's Court Room in San Francisco. A notice of this hearing was mailed to all interested parties. The hearing was held on September 11th as directed by the Commission, evidence was submitted, and the matter is now ready for decision.

The Commission by its resolution of September 21, 1921 adopted and prescribed for telephone utilities, hereinafter some times referred to as telephone companies, having

annual operating revenues of \$50,000 or less the uniform system of accounts then prescribed by the Interstate Commerce Commission for Class C telephone companies. That system of accounts is now in effect.

The Federal Communications Commission, which now has jurisdiction over the accounts of telephone companies engaged in interstate business, has prescribed a system of accounts for Class A, for Class B, and for Class C telephone companies, and has recommended a system of accounts for Class D telephone companies. The said classes comprise the following:

Class A - Companies having average annual operating revenues exceeding \$100,000,

Class B - Companies having average annual operating revenues exceeding \$50,000 and not more than \$100,000,

Class C - Companies having average annual operating revenues exceeding \$25,000 but not exceeding \$50,000,

Class D - Companies having average annual operating revenues not exceeding \$25,000.

By Decision No. 29401, dated December 21, 1936, in Case No. 4082 (Vol. 40, Opinions and Orders of the Railroad Commission of California, page 318) the Railroad Commission, subject to the modifications stated in said decision adopted and prescribed for Class A and for Class B telephone companies, subject to its jurisdiction, the system of accounts prescribed by the Federal Communications Commission for Class A and for Class B telephone companies.

There has been filed in this proceeding as Exhibit 2, a copy of the system of accounts prescribed by the Federal Communications Commission for Class C telephone companies, and as Exhibit 1, the system of accounts now prescribed by the

Railroad Commission for Class C telephone companies. After reviewing the record in this proceeding, the Commission's Department of Finance and Accounts prepared and submitted to Robert E. Bennett, Secretary of the California Independent Telephone Association, for his criticism, a proposed system of accounts for telephone utilities having average annual operating revenues of \$1,500 but not exceeding \$50,000. The changes which he has recommended have merit and have been made. A copy of the system of accounts as revised is attached hereto as Exhibit A.

The pamphlet containing the system of accounts now prescribed by the Commission for Class C telephone companies contains an appendix in which bookkeeping forms are suggested and explained. It is our purpose to print as part of the system of accounts prescribed by the following order, bookkeeping forms and instructions substantially the same as those now contained in the appendix of Exhibit I. These bookkeeping forms and instructions will not be prescribed by the order herein. They are not a part of the system of accounts. They are being submitted as an aid in the keeping of a set of books that will meet the accounting needs of the telephone companies. The use of the forms is not obligatory, and the telephone companies may for the present adopt other forms, provided the forms chosen will produce the results required by the system of accounts prescribed by the following order.

I submit the following form of order:

O R D E R

A public hearing having been held in the above entitled matter and the Railroad Commission having considered

the record therein,

IT IS HEREBY ORDERED that from and after January 1, 1941, telephone companies having average annual operating revenues of \$1,500 and not more than \$50,000, be, and they are hereby, ordered and directed to keep their accounts in the manner prescribed in the system of accounts attached hereto as Exhibit A, which Exhibit A is hereby made a part of this order.

IT IS HEREBY FURTHER ORDERED that the Commission's resolution of September 21, 1921, to which reference is made in the foregoing opinion, be, and the same is hereby, vacated and set aside, effective January 1, 1941.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 12th day of November, 1940.

Ray A. Riley
James D. Dimm
Keith W. Johnson
H. B. K. A.
Justus J. Cameron
Commissioners.

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THE NEXT



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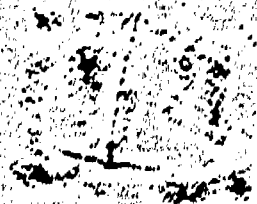


EXHIBIT A

UNIFORM SYSTEM OF ACCOUNTS

FOR

CLASSIC TELEPHONE COMPANY

INCORPORATED

RAILROAD COMPANY

OF NEW

STATE OF CALIFORNIA

Effective January 1, 1942

DEFINITIONS

When used in this system of accounts, unless otherwise indicated:

1. "Accounts" or "these accounts" means the accounts prescribed in this system of accounts.
2. "Affiliated companies" means companies that directly or indirectly through one or more intermediaries control, are controlled by, or are under common control with, the accounting company.
3. "Amortization" means the gradual extinguishment of an amount in an account by prorating such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.
4. "Book amount," as applied to securities issued or assumed by the company, means (1) the amount duly authorized for inclusion in account 150, "Capital stock," for stock having no par value and (2) the face amount of all other securities.
5. "Book cost" means the amount at which property is recorded in an account without the deduction of amounts in related reserves or other accounts.
6. "Commission" means the Railroad Commission of the State of California.
7. "Company" as used herein covers corporations, partnerships and individuals.
8. "Cost" means the amount of money actually paid (or the then current money value of any consideration other than money given) for property or services.
9. "Cost of removal" means the cost of demolishing, dismantling, tearing down, or otherwise removing telephone plant, including the cost of transportation and handling incidental thereto.
10. "Debt expense" means all expenses incurred in connection with the issuance and sale of evidences of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; cost of engraving and printing bonds, certificates of indebtedness, and other commercial paper; fees to trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions to underwriters, brokers, and salesmen; and other like costs.

11. "Depreciation," as applied to depreciable telephone plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of telephone plant in the course of service from causes known to be in current operation, against which the company is not protected by insurance, and the effect of which can be forecast with a reasonable approach to accuracy. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and the requirements of public authorities.
12. "Face amount," as applied to securities issued or assumed by the company, means the amount of principal set forth in the documents themselves.
13. "Investment advances" means advances, represented by notes or by book accounts only, with respect to which it is mutually agreed or intended between the creditor and the debtor that they shall be settled by the issuance of capital stock or funded debt or shall not be subject to current cash settlement.
14. "Net book cost," as applied to telephone plant, means the book cost less amounts in related depreciation and amortization reserves. As applied to other property, it means the book cost less amounts in related reserves for loss in value.
15. "Net salvage value" means the salvage value of property retired after deducting the cost of removal.
16. "Retired," as applied to plant, means removed, sold, abandoned, destroyed, or otherwise withdrawn from telephone service.
17. "Salvage value" means the amount received for property retired, if sold, or, if retained for reuse, the amount at which the material recovered is chargeable to account 122, "Material and supplies."
18. "Service life" means the period between the date when telephone plant is placed into service and the date of its retirement.

19. "Service value" means (1) the difference between the book cost and the salvage value of station apparatus or station wiring and (2) the difference between the book cost and the net salvage value of other telephone plant.

20. "Stock expense," as applied to capital stock, means all expenses incurred in connection with the issuance, sale, or resale of capital stock, such as fees and commissions (including the cash value of securities) paid to promoters, underwriters, brokers, and salesmen; fees for legal services; cost of soliciting subscriptions for capital stock, including fees, commissions, and advertising; cost of obtaining governmental authority and filing notices thereunder; fees and taxes for issuance of capital stock, and cost of preparing, engraving, printing, issuing, and distributing prospectuses and stock certificates in connection with both original and additional capital stock issues.

INSTRUCTIONS - GENERAL

1. Classification of companies.

(A) For the purpose of this system of accounts, telephone companies having average annual operating revenues not exceeding \$50,000 shall be divided into two classes as follows:

Class C. -- Companies having average annual operating revenues exceeding \$1,500 but not exceeding \$50,000.

Class D. -- Companies having average annual operating revenues not exceeding \$1,500.

(B) Class C companies shall keep all of the accounts prescribed in this system of accounts that are applicable to their affairs. Companies that desire more detailed accounting may adopt the accounts prescribed for Class A or Class B telephone companies.

(C) No uniform system of accounts is presently prescribed by the Commission for Class D companies. But it is expected that they will keep an accurate record of their receipts and expenditures, and of the purposes for which the expenditures were made.

2. Records.

(A) The accounts prescribed herein should be kept by the double-entry method. The company's records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. When the full information is not recorded in the general books, the entries therein shall be supported by other records, in which the full details shall be shown, and the general book entries shall contain sufficient reference to the detail records to permit ready identification. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of the Commission.

(B) Companies may subdivide any accounts prescribed herein provided such subdivisions do not impair the integrity of the prescribed accounts; and companies may keep clearing, temporary, or experimental accounts if they wish, in addition to the prescribed accounts.

(C) Each company shall keep its books of account on a monthly or other appropriate uniform basis so that for each accounting period all transactions applicable thereto, as nearly as can be ascertained, will be entered in the books. Each company shall close its books of account at the end of each calendar year, unless otherwise authorized by the Commission.

3. Submission of questions.

Responsible officials of the company shall submit all questions involving interpretation of the prescribed accounting to the Commission for consideration and decision. There shall also be submitted to the Commission for consideration and decision questions with respect to spreading over a number of years relatively large revenue, expense, or income items which if included in the accounts for a single year would seriously distort those accounts; also questions with respect to the disposition of relatively large items that relate to transactions that occurred prior to the current calendar year but were not recorded in the books of account in a prior year. Ordinary delayed items should be charged or credited to the same accounts to which they would have been charged or credited had they not been delayed.

4. Distribution of Pay and Expenses of Employees

The charges to plant, operating expense and other accounts for services and expenses of employees engaged in activities chargeable to various accounts shall be based upon the actual time engaged in the respective classes of work or, in case that method is impractical, upon the basis of a study of the time actually engaged during a representative period.

INSTRUCTIONS - BALANCE SHEET ACCOUNTS

1. Purpose of Balance Sheet Accounts.

The balance sheet accounts are intended to disclose the financial condition of the company as of a given date by showing its assets and other debits, and liabilities, capital stock, surplus or deficit, and other credits.

2. Current Assets and Liabilities.

In the group of accounts designated as current assets there shall not be included any item the book cost of which is not reasonably assured, except that items of doubtful value may be written down and for record purposes carried in these accounts at a nominal amount. If not thus written down such items shall be included in account 139, "Other deferred charges," at book cost, or nominal amount, or written off by charges to account 530, "Uncollectible operating revenues - Dr," account 323, "Other miscellaneous income charges," or account 413, "Miscellaneous debits to surplus."

In the group of accounts designated as current and accrued liabilities, there shall be included obligations, either matured at the date of the balance sheet, or which became due within one year thereafter, except, however, such items as accrued taxes and minor items which may not be payable until later than one year, which items shall be classified as accrued liabilities.

If a liability is due later than one year from date of issue it shall be credited to a long term debt account.

3. Book Cost of Securities Owned.

(A) Securities of others acquired by the company shall be initially recorded in these accounts at cost.

(B) The book cost of such securities shall be reduced to a nominal value if there is no reasonable prospect of a substantial value, but fluctuations in market value shall not be recorded in the accounts. Amounts by which such securities are (or may be) thus reduced shall be charged to account 413, "Miscellaneous debits to surplus." The company shall maintain a complete record of the facts on which it bases such adjustments.

4. Capital Stock.

(A) All transactions relating to capital stock of the accounting company shall be recorded by class of stock. Stocks

are of the same class only when they are issued under identical terms as to all of the following: par value, stated value, preferences in distribution of dividends and assets, voting rights, and conditions under which they may be retired.

(B) Before recording journal entries which it is proposed to enter in the company's books to record the issuance or assumption by the company of no-par capital stock or appropriations of surplus for transfer to no-par capital stock accounts, the plan of accounting shall be presented to this Commission for consideration and approval. Such plan shall be accompanied by a statement giving complete information with respect to the basis upon which the amounts to be recorded have been determined and by a copy of the authorization issued by the regulatory body approving the issuance of no-par stock.

(C) All stock expense shall be charged to account 134.2, "Capital stock expense."

(D) When par-value capital stock that has been issued by the accounting company is reacquired, the par value of the amount reacquired shall be recorded in account 105, "Company securities owned," until such time as the stock is retired or cancelled. The difference between (a) the amount paid therefor plus the expenses incurred in connection with its reacquisition and (b) the par value plus the premium or less the discount and less the expense originally entered in respect thereto and not charged off shall be charged or credited, as appropriate, to account 402, "Miscellaneous credits to surplus" or account 413, "Miscellaneous debits to surplus."

(E) When no-par capital stock that has been issued by the accounting company is reacquired, the accounting shall be the same as for capital stock having a par value, except that the proportionate amount at which the particular class of no-par capital stock is included in account 150, "Capital stock," shall be used in lieu of the par value in all entries.

5. Long-term debt.

(A) All transactions relating to long-term debt of the accounting company shall be recorded by class of debt. Long-term debt issues are of the same class only when issued under identical terms as to all the following: principal amount, interest dates payable and rate of interest, maturity date, redemption price, priority of underlying security, and conditions set forth in the evidence of indebtedness issued in respect thereof.

(B) When long-term debt is issued, if the amount of money (or the then current value of any consideration other than money) received therefor is greater than the principal amount of such long-term debt, plus the interest accrued and plus the debt expense incurred in connection with the issuance and sale, the excess shall be included in account 168, "Unamortized premium on long-term debt."

(C) When long-term debt is issued, if the amount of money (or the then current value of any consideration other than money) received therefor is less than the principal amount of such long-term debt, plus the interest accrued and plus the debt expense incurred in connection with the issuance and sale, the difference shall be included in account 135, "Unamortized debt discount and expense."

(D) When long-term debt that has been issued by the accounting company is reacquired, the principal amount thereof shall be included in account 105, "Company securities owned," until such long-term debt is resold, or is retired and cancelled. Any difference between (a) the amount paid to reacquire the securities, plus the expenses incurred in connection with the reacquisition, and (b) the face value of the securities, plus the accrued interest thereon, shall be charged or credited as appropriate to account 402, "Miscellaneous credits to surplus," or account 413, "Miscellaneous debits to surplus." Concurrently, the proportionate amount which is included in account 168, "Unamortized premium on long-term debt," or in account 135, "Unamortized debt discount and expense," applicable to the class of securities which was reacquired, shall be written out of such accounts and shall be charged or credited as appropriate, to account 402, "Miscellaneous credits to surplus," or account 413, "Miscellaneous debits to surplus."

BALANCE SHEET ACCOUNTS

ASSET SIDE

I. INVESTMENTS:

- 100.1 Telephone plant
- 100.2 Telephone plant under construction
- 102 Investments in securities
- 103 Miscellaneous physical property
- 104 Fund accounts
- 105 Company securities owned

II. CURRENT ASSETS:

- 113 Cash
- 116 Temporary investments
- 117 Notes receivable
- 118 Due from customers and agents
- 120 Accounts receivable
- 121 Interest and dividends receivable
- 122 Material and supplies
- 123 Other current assets

III. OTHER ASSETS:

- 126 Subscriptions to capital stock

IV. PREPAYMENTS AND DEFERRED CHARGES:

- 130 Prepayments
- 134.1 Discount on capital stock
- 134.2 Capital stock expense
- 135 Unamortized debt discount and expense
- 139 Other deferred charges

BALANCE SHEET ACCOUNTS

LIABILITY SIDE

V. NONCORPORATE PROPRIETORSHIP:

- 140 Proprietary capital
- 141 Undistributed profits

VI. STOCK:

- 150 Capital stock
- 152 Premium on capital stock

VII. LONG-TERM DEBT:

- 154 Funded debt
- 156 Advances from affiliated companies

VIII. CURRENT AND ACCRUED LIABILITIES:

- 158 Notes payable
- 159 Accounts payable
- 160 Customers' deposits
- 163 Matured long-term debt
- 164 Advance billing and payments
- 165 Other current liabilities
- 166 Accrued liabilities

IX. DEFERRED CREDITS:

- 168 Unamortized premium on long-term debt
- 169 Other deferred credits

X. RESERVES:

- 171 Depreciation reserve
- 172 Amortization reserve
- 173 Other reserves

XI. CONTRIBUTIONS OF TELEPHONE PLANT:

- 175 Contributions of telephone plant

XII. SURPLUS:

- 181 Surplus

I. INVESTMENTS

100.1. Telephone Plant.

This account shall include the cost of telephone plant used in telephone service and physical property held for imminent use in telephone service under a definite plan for such use at the date of the balance sheet as classified under accounts 201 to 277, inclusive.

100.2. Telephone plant under construction.

(A) This account shall include the cost of construction of telephone plant not ready for service at the date of the balance sheet.

(B) When any telephone plant, the cost of which is included in this account, is completed and ready for service, the cost thereof shall be credited to this account and charged to the telephone plant accounts.

Note.--It is not required that this account shall include the cost of construction work which will be completed and ready for service within a short period, such as the installation of station apparatus, and other work to be completed within a period of one or two months.

102. Investment in securities.

This account shall include the book cost (see balance sheet instruction 3) of securities issued or assumed by other companies, other than securities held in fund accounts or as temporary investments, and of investment advances to other companies.

103. Miscellaneous physical property.

This account shall include the amount of the company's investment in physical property other than property the investment in which is includible in accounts 100.1, "Telephone plant," and 100.2, "Telephone plant under construction." It shall include the amount of all assessments for the construction of public improvements levied against miscellaneous physical property.

104. Fund accounts.

(A) This account shall include the amount of cash, the book cost (see balance sheet instruction 3) of securities issued by other companies, the par or stated value of securities issued or assumed by the company, and other assets that are held by trustees or by the company's treasurer in a distinct fund for the purpose of redeeming outstanding obligations or for other specific purposes not provided for elsewhere.

(B) A separate subaccount, with a title that will designate the obligation in support of which the fund was created, shall be maintained for each fund.

Note.—Securities actually issued or assumed by the company that have been reacquired by it shall be either retired or carried in account 105, "Company securities owned," unless it is required by provision of a mortgage, or by the decision of a trustee, notes subject to control by the accounting company, that they be retained alive in sinking or other funds. When so retained they shall be considered as actually outstanding, but not otherwise.

105. Company securities owned.

This account shall include the book or face value of nominally issued and normally outstanding securities issued or assumed by the company, other than such securities held in sinking or other special funds.

II. CURRENT ASSETS

113. Cash

This account shall include the amount of cash and other current funds on hand or on deposit in banks. It shall include, also, the amounts of cash on special deposit, other than in fund accounts, to pay dividends and interest, and for other purposes; and amounts advanced to officers, employees, and others as working funds or petty cash funds from which certain expenditures are to be made.

116. Temporary investments.

This account shall include the book cost (see balance sheet instruction 3) of securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, and other similar investments of a temporary character.

117. Notes receivable.

This account shall include the book cost (see balance sheet instruction 3) of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within one year from date of issue.

118. Due from customers and agents.

This account shall include amounts owed to the company by customers for services rendered or billed and amounts due from agents and others authorized to collect operating revenues. The amount of notes held as security for customers' accounts may be carried in this account pending collection.

120. Accounts receivable

This account shall include amounts currently due from others not provided for in account 118, "Due from customers and agents," or account 121, "Interest and dividends receivable," such as those for traffic settlements, and other items not covering telephone service to customers.

121. Interest and other dividends receivable

This account shall include the amount of interest receivable accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned and on loans made, and the amount of declared dividends receivable on stocks owned.

122. Material and supplies

(A) This account shall include the cost of material and supplies on hand, including plant supplies, tools, fuel, stationery, directory paper stock, and other supplies. So far as practicable transportation charges shall be included as part of the cost of the particular material to which they relate.

(B) So far as practicable, cash and other discounts on materials shall be deducted in determining the cost of the particular material to which they relate or credited to the account in which the material is charged.

(C) Materials recovered in connection with construction, maintenance, or retirement of property shall be accounted for in this account at cost, estimated if not known. Scrap and nonusable material shall be charged to this account at the estimated sales price.

(D) Inventories of material and supplies shall be taken at least annually and the necessary adjustments shall be made to bring this account into harmony with the actual inventories. In effecting the adjustments, differences shall be equitably apportioned among the accounts to which material costs have been charged since the preceding inventory or shall be included in account 675, "Other operating expenses."

Note.--When material and supplies are purchased for immediate use, their cost may be charged directly to such telephone plant or other account as is appropriate.

123. Other current assets

(A) This account shall include the book cost (see balance sheet instruction 3) of all current assets that are not includible in accounts 113 to 122, inclusive.

(B) The records supporting the entries in this account shall be so maintained that, in the annual reports to the Commission, a complete analysis of the entries, including a description of each class of assets may be shown.

III. OTHER ASSETS

126. Subscriptions to capital stock.

(A) This account shall include the amount of any balance owing from subscribers upon legally enforceable subscriptions to capital stock.

(B) The records supporting the entries in this account shall be so maintained that the company can furnish the name and address of each subscriber, the amount and kind of capital stock subscribed for, the date of subscription, the date that each payment is due and the date that each is paid, the nature of each payment (whether cash or other consideration), and any other information that is necessary to make the history of the subscription complete.

IV. PREPAYMENTS AND DEFERRED CHARGES

130. Prepayments.

(A) This account shall include the amount of rents, taxes, insurance, directory expenses, and like expenses paid for in advance of the period to which they apply. As the periods covered by such prepayments expire, this account shall be credited and the proper operating expense or other accounts shall be charged with the amount applicable to the period.

(B) This account shall be subdivided as follows:

- Prepaid rents.
- Prepaid taxes.
- Prepaid insurance.
- Prepaid directory expenses.
- Other prepayments.

134.1 Discount on capital stock.

(A) This account shall include the excess of (a) the book amount of capital stock of the company sold or resold plus dividends accrued over (b) the amount of money (or the then current money value of any consideration other than money) received from the stock.

(B) Amounts included herein may, if the company desires to write them off, be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(C) When capital stock is reacquired, any amounts included herein applicable to the reacquired stock shall be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(D) A separate subaccount with appropriate title shall be maintained for the discount applicable to each class and series of capital stock.

Note.-- No amounts shall be included in this account to represent discount on no-par capital stock unless the articles of incorporation or other controlling document prescribe a stated value for such stock.

134.2 Capital stock expense.

(A) This account shall include the amount of stock expenses that have not been written off in accordance with paragraphs (B) and (C) hereunder.

(B) Amounts included herein may, if the company desires to write them off, be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(C) When capital stock is reacquired, any amounts included herein applicable to the reacquired stock shall be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(D) A separate subaccount with appropriate title shall be maintained for the stock expenses applicable to each class and series of capital stock.

135. Unamortized debt discount and expense.

(A) This account shall include the excess of (a) the amount of principal of bonds and other forms of long-term debt of the company sold or resold plus interest accrued and plus debt expenses incurred in connection with the issuance and sale or resale, over (b) the amount of money (or the then current money value of any consideration other than money) received for the bonds or other forms of long-term debt.

(B) Amounts included in this account shall be amortized under such a plan as will equitable distribute the amounts over the life of the securities to which the amounts apply. The amortization shall be on a uniform basis and the amounts thereof shall be charged to account 338, "Amortization of debt discount and expense."

(C) Amounts included herein may, if the company desires to write them off, be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(D) When any bonds or other forms of long-term debt are reacquired, any amounts included herein applicable to the reacquired securities shall be credited to this account and charged to account 413, "Miscellaneous debits to surplus."

(E) A separate subaccount with appropriate title shall be maintained for the discount and expense applicable to each class and series of long-term debt.

139. Other deferred charges.

(A) This account shall include the amount of all deferred charges not provided for elsewhere.

(B) This account shall include also amounts representing extraordinary losses due to destruction of plant by storms, floods, etc., transferred from account 171, "Depreciation reserve," under the provisions of paragraph 7 of operating expense accounts instruction 4; and the cost of extensive retirements of station apparatus and inside drop, and block wires.

(C) Charges provided for in paragraph (B) above shall be included in this account only after the permission of the Commission has been obtained, and the amounts shall be distributed over such a period as the Commission may approve or direct. The application to the Commission for such permission and approval or direction shall give full particulars concerning the plant abandoned or retired or the extensive retirements of apparatus or wires, the amounts chargeable to operating expenses, and the period over which in the judgment of the company the amount of such charges should be distributed.

(D) The records supporting the entries in this account shall be so maintained that, in the annual reports to the Commission, a complete analysis of the entries, including a description of each class of deferred charges, may be shown.

V. NONCORPORATE PROPRIETORSHIP

140. Proprietary capital.

(A) This account should be restricted to the amount considered by the noncorporate holder of the proprietary interest to be the permanent investment in the business, subject to change only by additional investment or by the withdrawal of portions of such amount not representing net income. When so maintained, account 141, "Undistributed profits," shall also be maintained and the entries therein shall be made in accordance with the text of that account.

(B) When account 141, "Undistributed profits," is not maintained, this account shall be charged with the withdrawals from the business by any holder of proprietary interest and shall be charged or credited, as appropriate, with all items that are includible in account 181, "Surplus," when a company is incorporated.

(C) When the company is owned by a partnership, a separate subaccount shall be maintained hereunder with respect to each partner.

Note. --Amounts received by any noncorporate holder of proprietary interest as just and reasonable compensation for services performed shall be excluded from this account and charged to the appropriate operating expense account or other accounts.

141. Undistributed profits.

(A) This account shall include the amount of undistributed profits of a noncorporate proprietorship when account 140 is restricted to the amount of the permanent investment in the business.

(B) This account shall be charged or credited with all items that are includible in account 181, "Surplus," for an incorporated company.

VI. STOCK

150. Capital Stock.

(A) This account shall include the total book amount of capital stock issued by the company.

(B) A separate subaccount with appropriate title shall be maintained for each class and series of capital stock.

152. Premium on capital stock.

(A) This account shall include the excess of (a) the amount of money (or the then current money value of any consideration other than money) received for capital stock of the company sold or resold over (b) the book amount of the stock plus dividends accrued. It shall include also assessments against stockholders representing payments required in excess of the book amount.

Note.—Amounts received in excess of the stated value of no-par capital stock, or assessments upon such stock, shall be included in account 150, "Capital stock," unless the articles of incorporation or other controlling document prescribes a stated value for such stock, in which case the amounts received in excess of such stated value shall be included in this account.

VII. LONG-TERM DEBT

154. Funded debt.

(A) This account shall include indebtedness, other than that covered by account 156, "Advances from affiliated companies," payable at more than one year from date of issue or assumption. Such indebtedness includes bonds, debentures, mortgages, notes, receivers' certificates, and other obligations maturing more than one year from date of issue or assumption.

(B) A separate subaccount with appropriate title shall be maintained for each class and series of funded debt.

156. Advances from affiliated companies.

(A) This account shall include the amount of principal of notes owed to affiliated companies and the amount of open book accounts representing advances from affiliated companies, not subject to current cash settlement. Interest payable accrued on such notes and open accounts shall be included in this account when such interest is not subject to current cash settlement.

(B) The records supporting the entries in this account shall be so maintained that the company can furnish information as to the kind and amounts of advances received from each affiliated company, the purpose of each advance, the length of time for which each advance is made, and how and when it is expected to be repaid.

VIII. CURRENT AND ACCRUED LIABILITIES

158. Notes payable.

(A) This account shall include the amount of principal of notes, drafts, acceptances, and other evidences of indebtedness (except interest coupons), issued or assumed by the company, that are payable on demand or by their terms are payable within a time not exceeding one year from the date of issuance.

(B) The records supporting the entries in this account shall be so maintained that the company can furnish complete details as to each note, such as the date issued, the consideration received, and the date payable.

(C) This account shall be subdivided as follows:

Notes payable to affiliated companies.
Notes payable to others.

159. Accounts payable.

(A) This account shall include the amounts currently owed to others not provided for in other accounts, such as those for wages, traffic settlements, material and supplies, repairs to telephone plant, and matured rents.

(B) This account shall be subdivided as follows:

Accounts payable to affiliated companies.
Accounts payable to others.

160. Customers deposits.

This account shall include the amount of cash deposited with the company by customers as security for the payment for telephone service. Deposits refunded shall be debited to this account, and amounts applied to uncollectible bills shall be credited to the account of the customer and debited to this account.

163. Matured long-term debt.

This account shall include the amount of long-term debt and receivers' certificates, including any obligation for premiums, matured and unpaid without specific agreement for extension of maturity. It shall include bonds drawn or called for redemption but not presented.

164. Advance billing and payments.

This account shall include the amount of advance billing creditable to revenue accounts in future months; also advance payments made by prospective customers prior to the establishment of service. Amounts included in this account shall be credited to the appropriate revenue accounts in the months in which the service is rendered, or cleared from this account as refunds are made.

165. Other current liabilities.

This account shall include the amount of all current liabilities not provided for elsewhere, including matured interest and declared dividends.

166. Accrued liabilities.

This account shall include the amount of interest on indebtedness of the company and on receivers' certificates (other than interest includible in account 156, "Advances from affiliated companies"), rents, taxes, and other liabilities accrued to the date of the balance sheet but not due until after that date.

IX. DEFERRED CREDITS.

168. Unamortized premium on long-term debt.

(A) This account shall include the excess of (a) the amount of money (or the then current money value of any consideration other than money) received for bonds or other forms of long-term debt of the company sold or resold over (b) the face amount of the bonds or other forms of long-term debt plus interest accrued and plus debt expenses incurred in connection with the issuance and sale or resale.

(B) Amounts included in this account shall be amortized under such a plan as will equitably distribute the amounts over the life of the securities to which the amounts apply. The amortization shall be on a uniform basis, and the amounts thereof shall be credited to account 316, "Miscellaneous income."

(C) When any bonds or other forms of long-term debt are reacquired, any amounts included herein applicable to the reacquired securities shall be charged to this account and credited to account 402, "Miscellaneous credits to surplus."

(D) A separate subaccount with appropriate title shall be maintained for the unamortized premium applicable to each class and series of long-term debt.

(E) Amounts included herein may, if the company desires to write them off, be charged to this account and credited to account 402, "Miscellaneous credits to surplus."

169. Other deferred credits

(A) This account shall include the amounts of all deferred credits, not provided for elsewhere, that cannot be entirely cleared or disposed of until additional information has been received or that are being held for credit to other accounts in the future.

(B) The records supporting the entries in this account shall be so maintained that, in the annual reports to the Commission, a complete analysis of the entries, including a description of each class of deferred credits, may be shown.

X. RESERVES

171. Depreciation reserve

(A) This account shall be credited with the amounts charged to account 603, "Depreciation," for currently accruing depreciation of telephone plant. (See also operating expense accounts instruction #4.) It shall be credited also with amounts transferred from surplus to provide for past deficiencies in the reserve.

(B) At the time of retirement of depreciable telephone plant, this account shall be charged with the book cost

of the property retired plus the cost of removal (except the cost of removal of station apparatus and station wiring) and shall be credited with the salvage value and insurance recovered, if any. It shall be credited with amounts representing extraordinary losses due to destruction of plant by storms, floods, etc., transferred to account 139, "Other deferred charges," when so authorized by the Commission.

172. Amortization reserve.

(A) This account shall be credited with the amounts charged to account 613, "Amortization of intangible property," for the amortization of organization, leaseholds, franchises, patent rights, and similar intangible property.

(B) When any leasehold included in account 211, "Land," or any franchise, patent, or similar intangible expires, is relinquished, or is otherwise retired from service, this account shall be charged with the amount included herein with respect to the property going out of service.

173. Other reserves.

This account shall include the amounts of reserves not provided for elsewhere, such as those for depreciation of miscellaneous physical property and for pensions, accident and death benefits, savings, relief, hospital, or other purposes.

XI. CONTRIBUTIONS OF TELEPHONE PLANT

175. Contributions of telephone plant.

(A) This account shall include the amounts of money or its equivalent contributed directly or indirectly for or in connection with the construction or acquisition of telephone plant. The records shall be so kept that the amount and description of each contribution and the name of each contributor will be readily available.

(B) When the service in connection with which the contribution was made is permanently discontinued by the company, the amount in this account with respect to that service shall be charged hereto and credited to account 102, "Miscellaneous credits to surplus."

Note.--Except as provided in paragraph (3), the amounts of contributions shall be permanently carried in this account.

XII. SURPLUS

181. Surplus.

This account shall include the balance in the surplus account of the company. (See also accounts 140, "Proprietary capital," and 141, "Undistributed profits.")

INSTRUCTIONS - TELEPHONE PLANT ACCOUNTS

1. Purpose of telephone plant accounts.

(A) The telephone plant accounts are the accounts in which is recorded the cost of property (both tangible and intangible) used in telephone operations and physical property held for imminent use in telephone service under a definite plan for such use. The cost of plant shall be recorded in accounts 201 to 277, inclusive, in accordance with the texts of those accounts.

(B) Telephone plant contributed to the company shall be included in the telephone plant accounts at its original cost of construction less the amounts of estimated depreciation and amortization applicable to such plant. Amounts so included in the plant accounts shall be credited to account 175, "Contributions of telephone plant."

(C) Telephone plant constructed or acquired through the expenditure of money or its equivalent contributed to the company shall be included in the telephone plant accounts at the cost of construction or acquisition, and the amount of money or its equivalent contributed shall be credited to account 175.

(D) The cost of individual items of work equipment, such as hand and other portable tools that are likely to be lost or stolen or that have relatively small value (\$10 or less) or short life, shall be included in the telephone plant accounts only when the investment in such property is relatively large and the correctness of the accounting therefor is verified by current inventory. When not so verified the cost of such items shall be charged to the operation and maintenance expense account appropriate for the use of such items.

2. Telephone plant acquired.

(A) When property that comprises a substantially complete operating unit or system is acquired, the amount paid for the property (together with the preliminary expenses incurred in connection with the acquisition) shall be charged to account 276, "Telephone plant acquired."

(B) The amount paid for the property plus the preliminary expenses shall then be credited to account 276 and distributed to the telephone plant and other appropriate accounts in such manner as the Commission may approve or direct. Copies of journal entries recording the distribution of amounts in account 276 shall be submitted to the Commission within 60 days from the date of acquisition.

Note.--In connection with the acquisition of substantially complete operating units or systems, the company shall procure from the grantor (and the grantor shall deliver) all existing records, or certified copies thereof, relating to the property acquired.

3. Cost of construction.

(A) The cost of construction of property chargeable to the telephone plant accounts shall include the cost of labor, material and supplies, transportation, contract work, relief and pensions, protection, injuries and damages, privileges and permits, taxes, special machine service, interest during construction, insurance, construction services, and other analogous elements in connection with such work.

4. Cost of reconstruction.

Reconstruction (or extraordinary repairs) includes the following:

(a) Restoring to an efficient or proper condition, buildings, structures, or other units of property which have deteriorated.

(b) Substituting, in order to maintain normal efficiency, new parts for old parts of continuous structures, such as pole lines, cables, wires, and conduits.

(c) Restoring the condition of property damaged by storm, flood, fire, or other casualty.

(d) Recovering salvage and removing retired or abandoned property in connection with above mentioned work.

Reconstruction should be taken into consideration in arriving at a rate of depreciation. Care should be taken to see that ordinary current repairs are not handled as reconstruction.

When plant and equipment is reconstructed and the property as reconstructed is of no greater size or capacity than was the original property, the cost of reconstruction shall be treated as follows:

Debit

To account 171, "Depreciation reserve," the amount carried therein with respect to such property.

To account 122, "Material and supplies," the value of salvage recovered from original property.

To accounts for operating expenses (600 and 612) the remainder of the cost of reconstruction.

Credit

To account 113, "Cash," or to other appropriate accounts, the cost of reconstruction.

If the property as reconstructed is more useful or of greater capacity than was the original property, the cost of reconstruction shall be treated as follows:

Debit

To accounts for plant and equipment (201 to 277), the excess cost of the property as reconstructed over the cost or ledger value of the original property.

To account 171, "Depreciation reserve," the amount carried therein with respect to the property reconstructed.

To account 122, "Material and supplies," the value of salvage recovered from original property.

To accounts for operating expenses (600 and 612), the remainder of the cost of reconstruction.

Credit

To account 113, "Cash," or other appropriate accounts, the cost of reconstruction.

When it is necessary to reconstruct or replace a major portion of any unit of property or any important section of a continuous structure, the cost shall be handled through the plant and equipment accounts; that is, the cost of the property removed or replaced shall be credited to the appropriate plant and equipment accounts and the new property shall be charged thereto.

5. Telephone plant retired

(A) Depreciable telephone plant: The book cost of any depreciable telephone plant shall be credited to the appropriate plant account and charged to account 171, "Depreciation reserve," whether or not it is to be replaced. Account 171, "Depreciation reserve" shall also be charged with the cost of removing such plant and shall be credited with the amount received for any materials recovered and sold, or the cost (estimated if not known) of the materials if returned to stores. The cost of property installed in place of the property retired shall be charged to the appropriate telephone plant account.

(B) Station wiring: When stations are removed from customers' premises, the original cost of the station installations (including drop and block wires) carried in account 232, "Station wiring" thereby retired from service shall be credited to account 232 and charged to account 607, "Station removals and changes." The latter account shall be credited with the salvage value of such property recovered. The cost of the removal of the station apparatus, inside, drop, and block wires shall be charged to account 607. When stations are reinstalled on premises from which the station apparatus had previously been removed, if inside wire, ground wire, drop or block wires left from a previous installation is reused, wholly or in part, the cost of installing the station apparatus (not including the cost of the apparatus which shall be charged to account 231) and the cost of placing such wires again in service shall be charged to account 607, and account 607 shall be credited and account 232 shall be charged with the actual or average amount at which the station installations and inside, drop, and block wires had previously been retired.

(C) Book cost of retirements: The book cost of telephone plant retired shall be the amount at which such property is included in the telephone plant accounts when such amount can be determined from the company's records.

(D) The accounting for the retirement of property recorded in the accounts for organization, franchises, patent rights, and other intangible property shall be as provided for in the texts of account 172, "Amortization reserve," and account 613, "Amortization of intangible property."

(E) When telephone plant is sold together with the telephone traffic associated therewith, the book cost of the plant shall be credited to the appropriate plant accounts, and the estimated amounts carried with respect thereto in the depreciation and amortization reserve accounts shall be charged to such reserve accounts. The difference, if any, between (a) the net amount of such debit and credit items and (b) the consideration received (less commissions and other expenses of making the sale) for the property, shall be debited or credited, as appropriate, to account 402, "Miscellaneous credits to surplus," or account 413, "Miscellaneous debits to surplus."

Note. -- In connection with the sale of a substantially complete operating unit or system, the company shall deliver to the purchaser all existing records, or certified copies thereof, relating to the property sold.

TELEPHONE PLANT ACCOUNTS

- 201. Organization.
- 202. Franchises.
- 203. Miscellaneous intangible property.
- 207. Right of way.
- 211. Land.
- 212. Buildings.
- 221. Central office equipment.
- 231. Station equipment.
- 232. Station wiring.
- 241. Poles, conduit, cable, and wire.
- 261. Furniture and office equipment.
- 264. Vehicles and other work equipment.
- 276. Telephone plant acquired.
- 277. Telephone plant sold.

(See telephone plant accounts - instructions)

201. Organization.

This account shall include the cost of organizing and incorporating the company.

Note A.--This account shall not include any discounts on securities issued, nor shall it include costs incident to negotiating loans or selling bonds or other evidences of debt or expenses in connection with the authorization, issuance, sale, or resale of capital stock.

202. Franchises.

This account shall include amounts paid for governmental franchises, consents, certificates, and similar rights running for more than one year that are necessary in the conduct of the company's telephone operations.

203. Miscellaneous intangible property.

This account shall include the cost of patent rights and other intangible property, not provided for elsewhere, devoted to telephone service and having a life of more than one year from the date placed into service.

Note.--The cost of intangible property having a life of one year or less from the date placed into service shall be charged to account 675, "Other operating expenses."

207. Right of way.

This account shall include amounts paid for land and for leaseholds, easements, and similar rights in land having a term of more than one year acquired for the location of poles, cable, wire, and conduit plant; also permits to erect poles and to place conduit when the expected period of occupancy exceeds the estimated life of the initial plant installed. It shall include the related portion of the pay and expenses of right-of-way agents and other costs of acquiring such land, rights, and permits.

Note A.--Annual or more frequent payments for the use of right-of-way shall be charged to account 675, "Other operating expenses."

Note B.--Payments to municipalities or other governmental agencies (exclusive of franchise taxes) as consideration for a franchise or right to conduct the company's telephone operations, whether or not the right to occupy city property, streets, and highways is obtained thereunder, shall be accounted for as franchise payments. (See also account 202.)

211. Land.

(A) This account shall include the cost of land and of leaseholds, easements, and similar rights in land having a term of more than one year used for general and central office buildings, garages, shops, and for storage and other telephone purposes other than right of way. It shall also include special assessments upon land for the construction of public improvements.

(B) When land, together with the buildings thereon, is acquired, the cost shall be fairly apportioned between the land and the buildings and accounted for accordingly. If the plan of acquisition contemplates the removal of the buildings, the total cost of the land and buildings shall be accounted for as the cost of the land, and the salvage value of the buildings when disposed of shall be deducted from the cost of the land so determined.

Note.--Annual or more frequent payments for the use of land shall be charged to the account appropriate for rent.

212. Buildings.

This account shall include the cost in place of buildings and all permanent fixtures, machinery, appurtenances, and appliances installed as a part thereof. It shall include costs incident to the construction or purchase of a building and to securing possession and title. (See also paragraph (3) of account 211, "Land.")

Note.--This account shall not include the cost of any telephone equipment or wiring or apparatus for generating or controlling electricity for operation of the telephone system.

221. Central office equipment.

This account shall include the cost installed of local and toll switchboards and appurtenances, main and intermediate frames, relay and coil racks, interior wires and cables, power apparatus, and other apparatus used in the operating and terminal rooms.

231. Station equipment.

(A) This account shall include the cost of equipment and apparatus such as telephone sets, private branch exchanges, booths and special fittings, and other apparatus not includible in account 221, "Central office equipment."

(B) The following subdivision of this account is recommended:

Station apparatus.
Private branch exchanges.
Booths and special fittings.

232. Station wiring.

This account shall include the cost of installing station apparatus (together with the cost of materials used in the installation) and the cost installed of inside, drop, and block wires. (See also paragraph (B) of telephone plant accounts instruction 5.)

247. Poles, conduit, cable, and wire.

(A) This account shall include the cost installed of poles, crossarms, guys, underground conduit, manholes, wire (except inside, drop, and block wires), cable, and other material used in the construction of such plant.

(B) The following subdivision of this account is recommended:

Poles and fixtures.
Conduit.
Cable.
Wire.

261. Furniture and office equipment.

This account shall include the cost of general furniture and equipment in offices, storerooms, shops, and other quarters.

264. Vehicles and other work equipment.

This account shall include the cost of vehicles, tools, garage and shop machinery and equipment, and miscellaneous work equipment not provided for in other accounts.

Note A.--The cost of chairs, desks, tables, etc., in garages and shops shall be charged to account 261, "Furniture and office equipment."

Note B.--The cost of testing equipment and tools regularly used in central offices shall be carried to account 221, "Central office equipment."

276. Telephone plant acquired.

This account shall be charged temporarily with the cost of acquisition (i.e., the amount of money actually paid or the then current money value of any consideration other than money exchanged for telephone plant, together with the preliminary expenses incurred in connection with the acquisition) of telephone plant pending determination of the amounts to be charged to the appropriate telephone plant accounts and to other accounts. (See also telephone plant accounts instruction 2.)

277. Telephone plant sold.

This account shall be credited temporarily with the selling price of substantially complete operating units or systems pending determination of the amounts to be credited to the appropriate telephone plant accounts and to other accounts. (See also paragraph (E) of telephone plant accounts instruction 5.)

INSTRUCTIONS - INCOME AND SURPLUS ACCOUNTS

1. Purpose of Income Accounts.

The income accounts are designed to show as clearly as practicable for each calendar year, the total operating revenues and operating expenses of the company; the returns accrued upon securities owned and from properties not used in the telephone operations; the amounts accrued for taxes, use of money, rents and other reservations and appropriations of income.

2. Purpose of Surplus Accounts.

The surplus accounts are designed to show the changes in the company's surplus or deficit during each calendar year resulting from (a) the operations and other transactions reflected in the income accounts, (b) the appropriations or other reservations of surplus for dividends and other specific purposes, (c) accounting adjustments not properly attributable to the period, such as delayed income debits and credits, special and unusual transactions, such as are not regularly recorded in the income accounts, (d) profits or losses arising from the sale or retirement of property, (e) debits or credits arising from adjustments for securities reacquired, and (f) miscellaneous items.

INCOME AND SURPLUS ACCOUNTS

I. TELEPHONE OPERATING INCOME

- 300. Operating revenues
- 301. Operating expenses
 - Net operating revenues
- 302. Rent from lease of operating property
- 303. Rent for lease of operating property
- 305. Operating taxes
 - Net operating income

II. OTHER INCOME

- 312. Interest and dividend income
- 315. Income from miscellaneous property
- 316. Miscellaneous income
- 323. Miscellaneous income charges
 - Total other income
 - Income available for fixed charges

III. FIXED CHARGES

- 335. Interest on funded debt
- 336. Other interest deductions
- 338. Amortization of debt discount and expense
- 340. Other fixed charges
 - Total fixed charges
 - Net income

IV. SURPLUS

- 481. Surplus (at beginning of period)
- 400. Income balance
- 402. Miscellaneous credits to surplus
 - Total credits
- 413. Miscellaneous debits to surplus
- 415. Dividend appropriations
 - Total debits
- 481. Surplus (at end of period)

I. TELEPHONE OPERATING INCOME

300. Operating revenues.

This account shall include the total revenues for the accounting period which are provided for in operating revenue accounts.

301. Operating expenses.

This account shall include the total operating expenses for the accounting period which are included in operating expense accounts.

302. Rent from lease of operating property.

This account shall include rents from the exclusive use of telephone operating property held as a whole and operated by others.

303. Rent for lease of operating property.

This account shall include rent for the exclusive use of telephone operating property held as a whole and operated by the company.

305. Operating taxes.

This account shall include all federal, state, county, municipal and other taxes, including franchise taxes payable annually or more frequently, relating to telephone plant operations and privileges for the period for which the income account is accrued. Taxes accrued through this account prior to their payment shall be credited to account 106, "Taxes accrued."

II. OTHER INCOME

312. Interest and dividend income.

This account shall include all interest and dividend income, such as dividends from stock owned by the company, interest on securities, notes, and other evidences of indebtedness owned by the company, interest on bank balances, certificates of deposit, open accounts, and other analogous items, including such income from sinking and other funds.

315. Income from miscellaneous physical property.

This account shall include all revenues from and expenses (including depreciation and insurance) of physical property the cost of which is includible in account 103, "Miscellaneous physical property."

316. Miscellaneous income.

This account shall include all items not provided for elsewhere that are properly creditable to income. It shall include all expenses incurred in connection with such items.

323. Miscellaneous income charges.

This account shall include all items, properly chargeable to income, not applicable to telephone operations and not provided for elsewhere.

III. FIXED CHARGES

335. Interest on long-term debt.

This account shall include the current accruals of interest on all classes of long-term debt. The records shall be so kept that the interest on each class of long-term debt may be shown separately in the reports to the Commission.

Note.--This account shall not include charges for interest on long-term debt issued or assumed by the company and held by or for it, whether pledged as collateral or held in the treasury, in special deposits, or in sinking or other funds.

336. Other interest deductions.

This account shall include all interest charges not provided for elsewhere. It shall include the amount of discount, premium, and expense on notes maturing 1 year or less from date of issue.

338. Amortization of debt discount and expense.

This account shall include the portion of the unamortized debt discount and expense on outstanding long-term debt that is applicable to the accounting period, determined in accordance with the text of account 135, "Unamortized debt discount and expense."

340. Other fixed charges.

This account shall include all items of fixed charges not provided for elsewhere that are properly chargeable to income.

IV. SURPLUS

300. Income balance.

An account under this title shall be maintained in the general books of the company. The balance of all the preceding income accounts (300 to 340, inclusive) shall be closed into this account at the end of each calendar year.

352. Miscellaneous credits.

This amount shall include amounts creditable to surplus not provided for elsewhere.

303. Miscellaneous debits.

~~This~~ account shall include amounts chargeable to surplus not provided for elsewhere.

325. Dividend appropriations.

This account shall be charged with the amounts of dividends declared on outstanding capital stock of the company.

INSTRUCTIONS - OPERATING REVENUE ACCOUNTS

1. Purpose of Operating Revenue Accounts

The operating revenue accounts are designed to show the amounts of money which the company becomes lawfully entitled to receive, less uncollectible revenues, from furnishing telephone service. Credits to the revenue accounts shall be based on the gross charges made for the service rendered by the company. The totals of the operating revenue accounts shall be transferred annually to account 300, "Operating revenues."

Discounts allowed subscribers for prompt payment, correction of overcharges, authorized refunds, and other corrections shall be charged to the account previously credited.

OPERATING REVENUE ACCOUNTS

- 500. Local service revenues
- 510. Toll service revenues
- 520. Miscellaneous operating revenues
- 530. Uncollectible operating revenues - Profit

OPERATING REVENUE ACCOUNTS

500. Local operating revenues.

This account shall include all revenues from the furnishing of telephone service within the same exchange area.

510. Long distance revenues.

This account shall include all revenues from the transmission of messages between points in different exchange areas.

520. Miscellaneous operating revenues.

This account shall include all operating revenues not includible in accounts 500 and 510, such as telegraph commissions, directory advertising and sales, rents of minor items of property.

530. Uncollectible operating revenues -- Debit.

This account shall include amounts credited to operating revenue accounts which have proved impractical of collection.

This account may include monthly charges based on estimates, to provide a reserve for uncollectible accounts.

INSTRUCTIONS -- OPERATING EXPENSE ACCOUNTS.

1. Purpose of Operating Expense Accounts.

The operating expense accounts are designed to show the expenses of furnishing telephone service, including depreciation and expense of maintaining the plant used in such service.

2. Maintenance Expense -- Cost of Repairs.

Maintenance expenses and cost of repairs chargeable to operating expenses include inspecting, testing and reporting on the condition of telephone plant to determine the need for repairs, replacements, rearrangements and changes; testing for locating and clearing trouble; routine work to prevent trouble, such as pulling up slack, tighten-

ing guys and making guy stobs, trimming trees, straightening poles and cross arms, and cleaning and adjusting equipment; replacing minor items of telephone plant; rearranging and changing the location of property not retired; including rearranging circuits, reassociation of party lines, rearranging grouping of trunks and calling circuits, rerunning jumper wires and connecting on distributing frames, underlining switchboard jacks, etc.; repairing material for reuse; restoring the condition of property damaged by storms, floods, fire or other casualties; training employees for maintenance work; inspecting and testing after repairs have been made. The expenses of pole butt reinforcements ordinarily should be classed as repairs and the cost thereof charged to maintenance, unless provision for such work has been made in the depreciation reserve, in which case, the work should be treated as reconstruction. (See plant account instruction 4.)

3. Extensive Replacement or Repair.

If extensive or extraordinary replacement or repair work is performed in any year and the cost is considered too large to be charged off in one year, the company shall apply to the Commission for permission to charge such cost to account 139, "Other deferred charges," and to amortize the same over a given period by charges to operating expenses or other accounts.

4. Depreciation Accounting.

(A) All telephone plant shall be considered depreciable and subject to charges for depreciation expense, except plant the cost of which is included in accounts 201, "Organization," 202, "Franchises," 203, "Miscellaneous intangible property," 207, "Right of way," 211, "Land," and 222, "Station wiring."

(B) Depreciation charges shall be computed and accounted for under a method that will evenly distribute to account 308 during the life of the property the original cost (less salvage). The Commission at present does not prescribe the rates of depreciation or method of accumulating the depreciation reserve.

(C) Except as provided, when depreciable plant is retired from service, the book cost of the plant retired shall be credited to the appropriate telephone plant accounts and charged to account 171, "Depreciation reserve." The cost of removal shall likewise be charged to account 171 and the salvage value of the plant retired credited thereto.

(D) Extraordinary charges to account 171, "Depreciation reserve," under the provisions of paragraph C above for retirement of plant destroyed by storms, floods, etc. when such charges cause undue depletion of the depreciation reserve, should be credited to account 171, "Depreciation reserve," and charged to account 139, "Other deferred charges," or to account 103, "Miscellaneous debits to surplus."

OPERATING EXPENSE ACCOUNTS

I. Maintenance Expenses.

- 600 Maintenance of plant and equipment
- 607 Station removals and changes
- 612 Other maintenance expense

II. Depreciation and Amortization Expenses.

- 608 Depreciation
- 613 Amortization of intangible property

III. Operating Expenses.

- 624 Operators' wages
- 623 Other traffic expense
- 655 Office supplies
- 674 General services and licenses
- 675 Other operating expenses

IV. MAINTENANCE EXPENSES

600. Maintenance of plant and equipment.

This account shall include the cost of all labor employed and material and supplies used in repairing or maintaining all classes of telephone plant. (See operating expense instruction 2).

607. Station removals and changes.

(A) This account shall include the cost of removing or changing the location of stations and inside, drop, and block wires, and the cost of station disconnections, reconnections, and reinstallations.

(3) In cases where stations are reinstalled at premises from which they were previously removed, this account shall include the cost of all labor, materials, and expense necessary in connection with the reuse of the existing inside drop, and block wires. (See also paragraph (3) of telephone plant accounts instruction 5.)

Note.--Amounts charged to subscribers for moves and changes shall be credited to account 500, "Local service revenues."

517. Other maintenance expenses.

This account shall include all items of maintenance expense not provided for elsewhere, such as transportation expense and contract work that cannot be segregated as to labor and supplies. This account shall also include the cost of permits and privileges for maintenance work when not includible in other accounts.

Note.--Transportation expense in connection with construction should be included as a part of construction costs.

II. DEPRECIATION AND AMORTIZATION EXPENSES

506. Depreciation expense.

This account shall include the amount of depreciation charges applicable to the accounting period for all classes of depreciable telephone plant. The depreciation charges shall be computed in accordance with operating expense accounts instruction 4.

Note.--Depreciation on miscellaneous physical property shall be charged to account 315, "Income from miscellaneous physical property," and credited to account 173, "Other reserves."

513. Amortization of intangible property.

This account shall be charged each month with the amount necessary to cover the cost applicable to organization and to such portions of the lives of limited-term franchises, patents, leases, and similar intangible property included in the telephone plant accounts, as are expired during the month. Amounts so charged shall be credited to account 172, "Amortization reserve."

III. OPERATION EXPENSES

624. Operators' wages.

This account shall include the wages of chief operators, supervisors, local and toll-switchboard operators, information operators, and all other operators employed in central offices; also the pay of operators employed at public telephone stations.

633. Other traffic expenses.

This account shall include the cost of power purchased, the cost of labor and supplies in operating the power plant, the cost of charging batteries, the pay and expenses of messengers, and other expenses in connection with the operation of central offices and public telephones.

665. Office salaries.

This account shall include the salaries of the general officers of the company and the salaries of other employees that are not chargeable to any of the preceding expense accounts.

674. General services and licenses.

This account shall include all amounts paid for services received under a license agreement or a general service contract, or arrangement, providing for the furnishing of general managerial, accounting, engineering, financial, legal, or other general services.

675. Other operating expenses.

This account shall include all expenses of operation not properly chargeable to other accounts, including, among other things, legal expenses, office supplies and expenses, minor rents, and other general expenses.