

In explanation of the main accounting principles which were found from our tests to be employed by Imperial Oil Limited in determining their net profit per gallon of gasoline sold in 1930, the following outline is submitted:—

TOTAL COSTS OF ALL PRODUCTS

The details comprising the total costs of all products are shown in Exhibit No. 9 of Committee Minute No. 3. Of particular concern to us in the examination of total costs were such major factors as—

- (a) *Affiliated company transactions—involving trade prices of crude and other materials, transportation, royalties and interest charges—of Imperial Oil Limited with Standard Oil Company of New Jersey and subsidiaries, the International Petroleum Company, Limited and subsidiaries operating in South America, the Royalite Oil Company, Limited and subsidiaries operating in Western Canada, and affiliated companies engaged in the transportation of products by pipe lines, by coastwise and inland lake tankers and by rail tank cars.

The term "Affiliated Companies" in this report embodies—

Companies directly or indirectly controlled through capital stock ownership by Imperial Oil Limited or its subsidiaries.

Departments of Imperial Oil Limited operating independently of the regular refinery and merchandising management.

Companies directly or indirectly controlling Imperial Oil Limited or its subsidiaries through capital stock ownership.

The term "Non-affiliated Companies" embodies all companies not classified in the previous paragraph relating to affiliations.

- (b) Administrative Charges originating at Executive Headquarters but costed against refinery and marketing operations.
- (c) Contingency Reserve charges included in costs applicable to Accounts Receivable.
- (d) Inclusion of Additions and Betterments to plant and equipment in the accounts designated as repair costs.
- (e) Fire Insurance rates, used in the operation of the Insurance Fund of the Company.
- (f) Interest charges on any funded debt or advances payable or the equivalent in the form of rentals, for the operating use of the refinery and marketing properties.
- (g) Depreciation policy and rates.
- (h) Price basis of Inventories at beginning and end of fiscal year 1930.
- (i) Effect on refinery and marketing profits in Canada of accounts maintained in the private books of the Company.

Our findings in the matter of total costs were as follows:—

- (a) Crude oil purchases in the Mid-continent field of U.S.A. were made from both affiliated and non-affiliated companies on the basis of posted competitive well prices plus buying commission at fixed rates plus gathering charges and trunk pipe line charges on I.C.C. ratings whether transported by Imperial Oil Limited affiliations or outside companies.
- (b) Crude oil purchases in the South American field from the International Petroleum group, the West India Oil Company and non-affiliated companies were made on the basis of a competitive price structure, f.o.b.