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from the determination of net income for the current year:

(1) Correction of an error in the financial statements of a prior year.

(2) Adjustments that result from realization of income tax benefits of preacquisition operating loss carry forwards of purchased subsidiaries.

(b) All other items of profit and loss recognized during the year must be included in the determination of net income for that year.

§ 367.10 Unaudited items.

Whenever a financial statement is required by the Commission, if it is known that a transaction has occurred that affects the accounts but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, the amount must be estimated and the estimated amount included in the proper accounts. The service company is not required to anticipate minor items that would not appreciably affect the accounts.

§ 367.11 Distribution of pay and expenses of employees.

The charges to property, operating expense and other accounts for services and expenses of employees engaged in activities chargeable to various accounts, such as construction, maintenance, and operations, must be based upon the actual time engaged in the respective classes of work, or an appropriate allocation method.

§ 367.12 Payroll distribution.

Underlying accounting data must be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. The underlying data must permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, or operating functions.

§ 367.13 Accounting to be on accrual basis.

(a) The service company is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount that affect the accounts. If bills covering the transactions have not been received or rendered, the amounts must be estimated and appropriate adjustments made when the bills are received. When the amount is ascertained, the necessary adjustments must be made through the accounts in which the estimate was recorded. If it is determined during the interval that a material adjustment will be required, the estimate must be adjusted through the current accounts. The service company is not required to anticipate minor items which would not appreciably affect these accounts.

(b) When payments are made in advance for items such as insurance, rents, taxes or interest, the amount applicable to future periods must be charged to account 165, Prepayments (§ 367.1650), and spread over the periods to which they are applicable by credits to account 165 (§ 367.1650), and charges to the accounts appropriate for the expenditure.

§ 367.14 Transactions with associate companies.

Each service company must keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associate companies. The statements may be required to show the general nature of the transactions, the amounts involved in the transactions and the amounts included in each account prescribed in this part with respect to such transactions. Transactions with associate companies must be recorded in the appropriate accounts for transactions of the same nature. Nothing contained in this part, however, must be construed as restraining the service company from subdividing accounts for the purpose of recording separately transactions with associate companies.

§ 367.15 Contingent assets and liabilities.

Contingent assets represent a possible source of value to the service company contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items that, under certain conditions, may become obligations of the service