

# FINANCIAL ACCOUNTING

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SEVENTH EDITION  
BENJAMIN FRANCIA STRAWSER

# **Financial Accounting**

## **Seventh Edition**

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# **Financial Accounting**

## **Seventh Edition**

# Preface

THIS TEXTBOOK introduces the student to all aspects of accounting from the basic concept of the transaction, through the financial information system to financial statements and special reports, into the interpretation of these statements and reports. It is intended for use in the beginning or principles of accounting course for business and non-business majors. The text includes a balanced presentation of the procedures, techniques and fundamental principles underlying accounting, reporting and decision making. Up-to-date pronouncements of the accounting profession (FASB, SEC, etc.) are considered throughout the text and integrated in a clear illustrative manner, not just quoted verbatim. The new cash flow statement is discussed and illustrated. A clear and concise introduction to the accounting process is developed in the early chapters of the text as a basis for special consideration given in later chapters to contemporary topics such as the uses of managerial accounting information, constant dollar accounting, current value accounting, business combinations, and income tax considerations. The text is intended to present a balanced perspective of accounting practice, theory and decision making using accounting information. The approach used is straightforward; completeness of coverage is achieved using simple but accurate terms and examples. It is a teachable text geared to student understanding of the basic concepts and practices.

The initial chapter introduces the functions of accounting and includes a brief discussion of the objectives of financial accounting, the qualitative characteristics of accounting information and basic accounting concepts. The accounting process is presented and illustrated in the next three chapters. The transactions of a single company for the initial month of its operations are used in illustrating transaction analyses and, then, the entire accounting process. The authors have found that this repetition greatly enhances student understanding of the basic concepts. An outline of the text, with comments on chapter content, follows:

1. Introduces financial and managerial accounting and the basic accounting concepts. Introduces and discusses the objectives of financial reporting, the qualitative characteristics of accounting information and the elements of financial statements.
2. Discusses the balance sheet, income statement and statement of capital.
3. Traces and explains the basic steps in the recording process.
4. Illustrates the use of the worksheet in facilitating statement preparation and discusses the common types of adjusting entries.
5. Discusses the accounting for a merchandising business and considers the basic concepts of revenue and expense recognition, alternative methods of revenue recognition and illustrates certain of the operational differences among companies, with special emphasis on the differences between retailing and service organizations.
6. Introduces a model of an accounting system and discusses the basic components of such a system.
7. Discusses the accounting procedures used to record and control cash.
8. Discusses the procedures used to account for receivables and payables.
9. Considers the alternative methods of accounting for inventories.
10. Discusses the accounting procedures used for recording and allocating the cost of plant and equipment.
11. Considers the accounting for the disposition of plant and equipment and the procedures for accounting for intangible assets and natural resources.
12. Considers the issues related to the accounting for sole proprietorships and partnerships.
13. Discusses issues relating to the formation of a corporation and the issuance of capital stock.
14. Considers matters relating to the retained earnings and dividends of a corporation.
15. Discusses the accounting for bonds payable and investments in corporate securities.
16. Discusses and illustrates the use of consolidated financial statements.
17. Illustrates the procedures used in preparing the cash flow statement.
18. Discusses common techniques of analyzing information presented in financial statements. The appendix to the chapter examines the issues relating to the inclusion of current value and constant dollar or price-level information in financial statements.
19. Presents a general discussion of the federal income tax including "inter" and "intra" period tax allocation.

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We appreciate the permissions received from the American Institute of Certified Public Accountants and the Institute of Management Accounting of the National Association of Accountants allowing us to use problem materials from past Uniform CPA Examinations and CMA Examinations, respectively. Of course, the authors are responsible for any shortcomings of this text.

*October, 1987*

*James J. Benjamin  
Arthur J. Francia  
Robert H. Strawser*

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# General Motors Corporation and Consolidated Subsidiaries

## CONSOLIDATED FINANCIAL STATEMENTS

General Motors Corporation and Consolidated Subsidiaries

### RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The following financial statements of General Motors Corporation and consolidated subsidiaries were prepared by the management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on judgments of management. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the companies and that its established policies and procedures are carefully followed. From a stockholder's point of view, perhaps the most important feature in the system of control is that it is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong program of internal audit.

Deloitte Haskins & Sells, independent certified public accountants, are engaged to examine the consolidated financial statements of General Motors Corporation and its subsidiaries and issue reports thereon. Their examination is conducted in accordance with generally accepted auditing standards which comprehend a review of internal accounting controls and a test of transactions. The Accountants'

Report appears on page 41.

The Board of Directors, through the Audit Committee and its Common Stock Classification Oversight Subcommittee (both composed entirely of non-employee Directors), is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements. The Committee selects the independent public accountants annually in advance of the Annual Meeting of Stockholders and submits the selection for ratification at the Meeting. In addition, the Committee reviews the scope of the audits and the accounting principles being applied in financial reporting. The independent public accountants, representatives of management, and the internal auditors meet regularly (separately and jointly) with the Committee to review the activities of each and to ensure that each is properly discharging its responsibilities. To ensure complete independence, Deloitte Haskins & Sells have full and free access to meet with the Committee, without management representatives present, to discuss the results of their examination, the adequacy of internal accounting controls, and the quality of the financial reporting.



Chairman



Chief Financial Officer



## STATEMENT OF CONSOLIDATED INCOME

For the Years Ended December 31, 1986, 1985 and 1984 (Dollars in Millions Except Per Share Amounts)

	1986	1985	1984
<b>Net Sales and Revenues</b> (Notes 1 and 2)			
Manufactured products	\$101,506.9	\$95,268.4	\$83,699.7
Computer systems services	1,306.8	1,103.3	190.2
<b>Total Net Sales and Revenues</b>	<b>102,813.7</b>	<b>96,371.7</b>	<b>83,889.9</b>
<b>Cost and Expenses</b>			
Cost of sales and other operating charges, exclusive of items listed below	88,298.0	81,654.6	70,217.9
Selling, general and administrative expenses	5,203.5	4,294.2	4,003.0
Depreciation of real estate, plants and equipment	3,499.6	2,777.9	2,663.2
Amortization of special tools	2,596.1	3,083.3	2,236.7
Amortization of intangible assets (Note 1)	498.0	347.3	69.1
Special provision for scheduled plant closings and other restructurings (Note 6)	1,287.6	—	—
<b>Total Costs and Expenses</b>	<b>101,382.8</b>	<b>92,157.3</b>	<b>79,189.9</b>
<b>Operating Income</b>	<b>1,430.9</b>	<b>4,214.4</b>	<b>4,700.0</b>
Other income less income deductions—net (Note 7)	983.1	1,299.2	1,713.5
Interest expense (Note 1)	( 953.7)	( 892.3)	( 909.2)
<b>Income before Income Taxes</b>	<b>1,460.3</b>	<b>4,621.3</b>	<b>5,504.3</b>
United States, foreign and other income taxes (credit) (Note 9)	( 300.3)	1,630.3	1,805.1
<b>Income after Income Taxes</b>	<b>1,760.6</b>	<b>2,991.0</b>	<b>3,699.2</b>
Equity in earnings of nonconsolidated subsidiaries and associates (dividends received amounted to \$1.7 in 1986, \$100.5 in 1985 and \$706.1 in 1984)	1,184.1	1,008.0	817.3
<b>Net Income</b>	<b>2,944.7</b>	<b>3,999.0</b>	<b>4,516.5</b>
Dividends on preferred stocks	10.8	11.6	12.5
<b>Earnings on Common Stocks</b>	<b>\$ 2,933.9</b>	<b>\$ 3,987.4</b>	<b>\$ 4,504.0</b>
Earnings attributable to:			
\$1-2/3 par value common stock	\$ 2,607.7	\$ 3,883.6	\$ 4,498.3
Class E common stock (issued in 1984)	\$ 136.2	\$ 103.8	\$ 5.7
Class H common stock (issued in December 1985)	\$ 190.0	—	—
Average number of shares of common stocks outstanding (in millions):			
\$1-2/3 par value common	317.6	316.3	315.3
Class E common (issued in 1984)	63.8	66.5	36.3*
Class H common (issued in December 1985)	63.9	—	—
<b>Earnings Per Share Attributable to (Note 10):</b>			
\$1-2/3 par value common stock	\$8.21	\$12.28	\$14.27
Class E common stock (issued in 1984)	\$2.13	\$1.57	\$0.16*
Class H common stock (issued in December 1985)	\$2.97	—	—

Reference should be made to notes on pages 30 through 41. Certain amounts for 1984 have been reclassified to conform with 1985 classifications.

Earnings and earnings per share attributable to common stocks in 1985 and 1984 have been restated to reflect the Class E common stock amendment approved by the stockholders in December 1985.

\*Adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend distributed on June 10, 1985.

## CONSOLIDATED BALANCE SHEET

December 31, 1986 and 1985 (Dollars in Millions Except Per Share Amounts)

<b>ASSETS</b>	<b>1986</b>	<b>1985</b>
<b>Current Assets</b>		
Cash	\$ 150.7	\$ 179.1
United States Government and other marketable securities and time deposits—at cost, which approximates market of \$3,881.0 and \$4,933.1	3,868.1	4,935.3
Total cash and marketable securities	4,018.8	5,114.4
Accounts and notes receivable (Note 11):		
Nonconsolidated subsidiaries and associates (including GMAC and its subsidiaries—\$1,387.1 and \$4,038.7)	1,607.0	4,126.9
Other (less allowances)	9,697.3	3,155.1
Inventories (less allowances) (Note 1)	7,235.1	8,269.7
Contracts in process (less advances and progress payments of \$2,345.7 and \$2,525.3) (Note 1)	1,590.6	1,453.8
Prepaid expenses	2,619.6	2,136.1
<b>Total Current Assets</b>	<b>26,768.4</b>	<b>24,256.0</b>
<b>Equity in Net Assets of Nonconsolidated Subsidiaries and Associates</b> (principally GMAC and its subsidiaries—Note 11)	<b>7,232.3</b>	<b>5,718.5</b>
<b>Other Investments and Miscellaneous Assets—at cost (less allowances)</b>	<b>2,308.4</b>	<b>3,069.8</b>
<b>Common Stocks Held for the GM Incentive Program (Note 3)</b>	<b>190.3</b>	<b>190.2</b>
<b>Property</b>		
Real estate, plants and equipment—at cost (Note 12)	55,240.7	47,267.1
Less accumulated depreciation (Note 12)	27,658.0	24,325.0
Net real estate, plants and equipment	27,582.7	22,942.1
Special tools—at cost (less amortization)	2,793.7	1,710.9
<b>Total Property</b>	<b>30,376.4</b>	<b>24,653.0</b>
<b>Intangible Assets—at cost (less amortization) (Note 1)</b>	<b>5,717.2</b>	<b>5,945.3</b>
<b>Total Assets</b>	<b>\$72,593.0</b>	<b>\$63,832.8</b>

### LIABILITIES AND STOCKHOLDERS' EQUITY

<b>Current Liabilities</b>		
Accounts payable (principally trade)	\$ 6,368.0	\$ 7,322.2
Loans payable (Note 14)	2,730.1	2,655.2
United States, foreign and other income taxes payable	333.1	243.1
Accrued liabilities and deferred income taxes (Note 13)	13,416.9	12,078.0
<b>Total Current Liabilities</b>	<b>22,848.1</b>	<b>22,298.5</b>
<b>Long-Term Debt (Note 14)</b>	<b>4,007.3</b>	<b>2,500.2</b>
<b>Payable to GMAC (Note 11)</b>	<b>5,500.0</b>	<b>300.0</b>
<b>Capitalized Leases (including GMAC and its subsidiaries—\$35.8 and \$76.1)</b>	<b>318.0</b>	<b>367.0</b>
<b>Other Liabilities</b>	<b>6,991.7</b>	<b>6,879.8</b>
<b>Deferred Credits (including investment tax credits—\$1,505.3 and \$1,328.8)</b>	<b>2,249.9</b>	<b>1,962.6</b>
<b>Stockholders' Equity (Notes 3, 4, 5 and 15)</b>		
Preferred stocks (\$5.00 series, \$153.0 and \$169.3; \$3.75 series, \$81.4)	234.4	250.7
Common stocks:		
\$1-2/3 par value common (issued, 319,383,830 and 318,853,315 shares)	532.3	531.4
Class E common (issued, 53,507,119 and 66,227,137 shares)	5.4	6.6
Class H common (issued, 66,585,332 and 65,495,316 shares)	6.6	6.6
Capital surplus (principally additional paid-in capital)	6,332.6	6,667.8
Net income retained for use in the business	23,888.7	22,606.6
Subtotal	31,000.0	30,069.7
Accumulated foreign currency translation and other adjustments (Note 1)	( 322.0)	( 545.0)
<b>Total Stockholders' Equity</b>	<b>30,678.0</b>	<b>29,524.7</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$72,593.0</b>	<b>\$63,832.8</b>

Reference should be made to notes on pages 30 through 41. Certain amounts for 1985 have been reclassified to conform with 1986 classifications.

## STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the Years Ended December 31, 1986, 1985 and 1984 (Dollars in Millions)

	1986	1985	1984
<b>Source of Funds</b>			
Net income	\$ 2,944.7	\$ 3,999.0	\$ 4,516.5
Depreciation of real estate, plants and equipment	3,499.6	2,777.9	2,663.2
Amortization of special tools	2,596.1	3,083.3	2,236.7
Amortization of intangible assets (Note 1)	498.0	347.3	69.1
Deferred income taxes, undistributed earnings of nonconsolidated subsidiaries and associates, etc.—net	( 562.9)	( 471.7)	( 1,316.1)
Total funds provided by current operations	8,975.5	9,735.8	8,169.4
Increase in long-term debt	2,885.3	965.9	1,074.1
Increase in payable to GMAC	5,200.0	—	—
Issuances of common stocks	327.6	2,883.3	614.0
Other—net	393.8	331.4	2,010.6
<b>Total</b>	<b>17,782.2</b>	<b>13,916.4</b>	<b>11,868.1</b>
<b>Use of Funds</b>			
Cash dividends paid to stockholders (Note 15)	1,663.1	1,616.9	1,523.7
Expenditures for real estate, plants and equipment:			
Operations	8,086.3	6,099.2	3,595.1
Hughes acquisition	—	1,948.7	—
Expenditures for special tools	3,625.3	3,075.0	2,452.1
Intangible assets arising from acquisitions (Note 1)	270.0	4,354.0	2,006.3
Increase (Decrease) in other working capital items	3,058.4	( 866.2)	( 1,964.6)
Decrease in long-term debt	1,378.2	883.1	1,793.9
Repurchases of common and preferred stocks, less shares reissued	679.4	127.8	11.8
Investments in nonconsolidated subsidiaries and associates	117.1	130.9	99.3
<b>Total</b>	<b>18,877.8</b>	<b>17,369.4</b>	<b>9,517.6</b>
Increase (Decrease) in cash and marketable securities	( 1,095.6)	( 3,453.0)	2,350.5
Cash and marketable securities at beginning of the year	5,114.4	8,567.4	6,216.9
Cash and marketable securities at end of the year	\$ 4,018.8	\$ 5,114.4	\$ 8,567.4
<b>Increase (Decrease) in Other Working Capital Items by Element</b>			
Accounts and notes receivable:			
Nonconsolidated subsidiaries and associates	(\$ 2,519.9)	\$ 159.9	\$ 307.0
Other	6,542.2	( 235.8)	86.7
Inventories	( 1,034.6)	910.0	738.2
Contracts in process	136.8	1,453.8	—
Prepaid expenses	483.5	1,707.8	( 568.9)
Accounts payable	954.2	( 2,578.7)	( 101.2)
Loans payable	( 74.9)	430.8	( 1,830.8)
United States, foreign and other income taxes payable	( 90.0)	375.8	( 416.6)
Accrued liabilities and deferred income taxes	( 1,338.9)	( 3,089.8)	( 179.0)
Increase (Decrease) in other working capital items	\$ 3,058.4	(\$ 866.2)	(\$ 1,964.6)

Reference should be made to notes on pages 30 through 41. Certain amounts for 1985 and 1984 have been reclassified to conform with 1986 classifications.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1. Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all domestic and foreign subsidiaries which are more than 50% owned and engaged principally in manufacturing or wholesale marketing of General Motors products as well as defense, electronics and computer services. General Motors' share of earnings or losses of nonconsolidated subsidiaries and of associates in which at least 20% of the voting securities is owned is included in consolidated income under the equity method of accounting.

#### Revenue Recognition

Sales are generally recorded by the Corporation when products are shipped to independent dealers. Provisions for normal dealer sales incentives and returns and allowances are made at the time of sale. Costs related to special sales incentive programs are recognized as sales deductions when these incentive programs are announced.

Certain sales under long-term contracts, primarily in the defense business, are recorded using the percentage-of-completion method of accounting. Under this method, sales are recorded equivalent to costs incurred plus a portion of the profit expected to be realized on the contract, determined based on the ratio of costs incurred to estimated total costs at completion. Profits expected to be realized on contracts are based on the Corporation's estimates of total sales value and cost at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are recorded in the accounting period in which the revisions are made. Estimated losses on contracts are recorded in the period in which they are first identified.

#### Inventories

Inventories are stated generally at cost, which is not in excess of market. The cost of substantially all domestic inventories other than the inventories of GM Hughes Electronics Corporation (GMHE) is determined by the last-in, first-out (LIFO) method. If the first-in, first-out (FIFO) method of inventory valuation had been used for inventories valued at LIFO cost, such inventories would have been about \$2,203.8 million higher at December 31, 1986 and \$2,196.3 million higher at December 31, 1985. As a result of decreases in LIFO eligible U.S. inventories, certain LIFO inventory quantities carried at lower costs prevailing in prior years, as compared with the costs of current purchases, were liquidated in 1986 and 1985. These inventory adjustments favorably affected income before income taxes by approximately \$38.2 million in 1986 and \$20.9 million in 1985. The cost of inventories outside the United States and of the inventories of GMHE is determined generally by FIFO or average cost methods.

#### Major Classes of Inventories

(Dollars in Millions)	1986	1985
Productive material, work in process and supplies	\$4,042.5	\$5,591.5
Finished product, service parts, etc.	3,192.6	2,678.2
Total	\$7,235.1	\$8,269.7

#### Contracts in Process

Contracts in process are stated at costs incurred plus estimated profit less amounts billed to customers and advances and progress payments received. Engineering, tooling, manufacturing and applicable overhead costs, including administrative, research and development and selling expenses, are charged to cost of sales when they are incurred. Contracts in process include amounts relating to contracts with long production cycles. Although shown as a current asset, approximately \$230.0 million of the 1986 amounts are not expected to be collected within one year. Under certain contracts with the United States Government, progress payments are received based on costs incurred on the respective contracts. Title to the inventories relating to such contracts (included in contracts in process) vests with the United States Government.

#### Depreciation and Amortization

Depreciation is provided on groups of property using, primarily, an accelerated method which accumulates depreciation of approximately two-thirds of the depreciable cost during the first half of the estimated lives of the property.

Expenditures for special tools are amortized over short periods of time because the utility value of the tools is radically affected by frequent changes in the design of the functional components and appearance of the product. Amortization is applied directly to the asset account. Replacement of special tools for reasons other than changes in products is charged directly to cost of sales.

#### Income Taxes

Investment tax credits are generally deferred and amortized over the lives of the related assets (the "deferral method"). In 1985, Electronic Data Systems Corporation (EDS) changed its method of accounting for investment tax credits from the flow-through method to the deferral method used by the Corporation. The effect of the change was to reduce 1985 earnings attributable to Class E common stock by \$0.41 per share and defer the recognition of investment tax credits to earnings attributable to Class E common stock in future years. GMHE recognizes investment tax credits as a reduction of income tax expense in the year that the assets which give rise to the credits are placed in service (the "flow-through method").

The tax effects of timing differences between pretax accounting income and taxable income (principally related to depreciation, sales and product allowances, vehicle instalment sales, benefit plans expense and profits on long-term contracts) are deferred. Provisions are made for estimated United States and foreign taxes, less available tax credits and deductions, which may be incurred on remittance of the Corporation's share of subsidiaries' undistributed earnings less those deemed to be permanently reinvested.

#### Pension Program

As described in Note 8, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 87, Employers' Accounting for Pensions, effective January 1, 1986 for its U.S. and Canadian pension plans and will adopt the new accounting standard for other foreign pension plans by 1989. Adoption of SFAS No. 87 had the effect of reducing 1986 pension expense by \$640.9 million and increasing consolidated net income by \$330.5 million or \$0.96 per share of \$1-2/3 par value common stock, \$0.04 per share of Class E common stock and \$0.34 per share of Class H common stock. In addition, a change in pension plan actuarial assumptions made in June 1986, as recommended by GM's independent actuary to reflect the increased yield on investments, had the effect of decreasing 1986 pension expense by \$381.6 million and increasing 1986 consolidated net income by \$195.6 million or \$0.61 per share of \$1-2/3 par value common stock.

#### Product Related Expenses

Expenditures for advertising and sales promotion and for other product related expenses are charged to costs and expenses as incurred, provisions for estimated costs related to product warranty are made at the time the products are sold. Expenditures for research and development are charged to expenses as incurred and amounted to \$4,157.7 million in 1986, \$3,625.2 million in 1985 and \$3,075.8 million in 1984.

#### Interest Cost

Total interest cost incurred in 1986, 1985 and 1984 amounted to \$1,137.0 million, \$944.9 million and \$932.5 million, respectively, of which \$183.3 million, \$52.6 million and \$23.3 million, related to certain real estate, plants and equipment acquired in those years, was capitalized.

#### Foreign Currency Translation

Assets and liabilities of operations outside the United States, except for operations in highly inflationary economies (principally in Latin America) or those that are highly integrated with the U.S. operations of the Corporation (principally in Canada), are translated into U.S. dollars using current exchange rates, and the effects

(continued)

## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 1. (concluded)

of foreign currency translation adjustments are deferred and included as a component of stockholders' equity. For operations in highly inflationary economies or that are highly integrated with U.S. operations, foreign currency translation adjustments are generally included in income. Exchange and translation gains (losses) included in net income in 1986, 1985 and 1984 amounted to \$102.2 million, \$54.1 million and (\$114.8) million, respectively.

#### Acquisitions and Intangible Assets

Effective December 31, 1985, the Corporation acquired Hughes Aircraft Company (Hughes) and its subsidiaries for \$2.7 billion in cash and cash equivalents and 50 million shares of General Motors Class H common stock having an estimated total value of \$2,561.9 million. In addition, the Corporation has contingently agreed to pay the Howard Hughes Medical Institute (Institute) on December 31, 1989, for each share of Class H common stock issued in connection with the acquisition and held by the Institute on that date, the amount, if any, by which the market value per share of Class H common stock is below \$60; provided that such payment shall not be greater than \$40 per share. Any payment required under this contingency provision will be charged to capital surplus.

The acquisition was accounted for as a purchase. In view of the current policy of the Department of Defense and a previous decision of the Armed Services Board of Contract Appeals, there is substantial uncertainty as to the recoverability through contracts with the U.S. Government of any increase in the book values of the net assets of a defense contractor as a result of a business combination accounted for as a purchase. Accordingly, the amounts assigned to the tangible net assets of Hughes at the date of acquisition did not differ materially from the historical net book values. The purchase price exceeded the net book value of Hughes by \$4,244.7 million, which was assigned as follows: \$500.0 million to patents and related technology, \$125.0 million to the future economic benefits to the Corporation of the Hughes Long-Term Incentive Plan (LTIP), and \$3,619.7 million to other intangible assets. The amounts assigned to the various intangible asset categories are being amortized on a straight-line basis: patents and related technology over 15 years, the future economic benefits of the Hughes LTIP over 5 years and other intangible assets over 40 years. Amortization is applied directly to the asset accounts.

Because the acquisition was made effective December 31, 1985, the Statement of Consolidated Income includes the operations of Hughes beginning January 1, 1986. Pro forma results of operations of General Motors as though the acquisition of Hughes had been effective at the beginning of 1985 and 1984 are as follows:

(Dollars in Millions)	Pro Forma	
	1985	1984
Net Sales and Revenues	\$102,537.1	\$89,706.2
Net Income	\$ 4,023.5	\$ 4,476.4
Earnings Per Share Attributable to:		
\$1-2/3 par value common stock	\$11.89	\$13.61
Class E common stock	\$ 1.57	\$ 0.16
Class H common stock	\$ 2.44	\$ 2.59

For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of intangible assets arising from the acquisition of Hughes is charged against earnings attributable to \$1-2/3 par value common stock. The effect on the 1986 earnings attributable to \$1-2/3 par value common stock was a net charge of \$95.0 million, consisting of the amortization of the intangible assets arising from the acquisition, the profit on intercompany transactions and the earnings of GMHE attributable to \$1-2/3 par value common stock.

On October 18, 1984, the Corporation acquired EDS and its subsidiaries for \$2,501.9 million. The acquisition was consummated through an offer to exchange EDS common stock for either (a) \$44 in cash or (b) \$35.20 in cash plus two-tenths of a share of Class E common stock plus a nontransferable contingent promissory

note issued by GM. This note is payable seven years after closing in an amount equal to .2 times the excess of \$62.50 (post-split) over the market price of the Class E common stock at the maturity date of the note. Holders may tender their notes for prepayment at discounted amounts beginning five years after closing.

In December 1986, the Corporation reacquired 11,791,790 shares of Class E common stock and related contingent notes issued in the acquisition from certain employees and former stockholders of EDS for \$751.5 million (see Note 15), including \$343.2 million attributable to contingent notes. The cost of the contingent notes, less certain income tax benefits, was assigned principally to intangible assets, including goodwill.

If the market price of Class E common stock at the maturity date of the notes were to equal the market price at December 31, 1986, \$24.88 a share, the aggregate additional consideration for contingent notes outstanding at December 31, 1986 would be \$394.0 million. Any additional consideration will be charged to goodwill and amortized over the remaining life of that asset.

The acquisition of EDS was accounted for as a purchase. The purchase price in excess of the net book value of EDS, \$2,179.5 million, was assigned principally to existing customer contracts, \$1,069.9 million, computer software programs developed by EDS, \$646.2 million, and other intangible assets, including goodwill, \$290.2 million. The cost assigned to these assets is being amortized on a straight-line basis over five years for computer software programs, about seven years for customer contracts, ten years for goodwill and varying periods for the remainder. Amortization is applied directly to the asset accounts.

The Statement of Consolidated Income includes the operations of EDS since October 18, 1984. For the purpose of determining earnings per share and amounts available for dividends on common stocks, the amortization of these assets is charged against earnings attributable to \$1-2/3 par value common stock. The effect on the 1986, 1985 and 1984 earnings attributable to \$1-2/3 par value common stock was a net charge of \$260.2 million, \$241.0 million and \$31.7 million, respectively, consisting of the amortization of the intangible and other assets arising from the acquisition less related income tax effects, the profit on intercompany transactions and the earnings of EDS attributable to \$1-2/3 par value common stock.

Earnings per share of \$1-2/3 par value common stock would have been reduced by \$0.66 in 1984 if the acquisition of EDS had been consummated at the beginning of that year.

### NOTE 2. Net Sales and Revenues

Net sales and revenues includes sales to:

(Dollars in Millions)	1986	1985	1984
Nonconsolidated subsidiaries and associates	\$ 845.3	\$ 289.1	\$ 121.6
Dealerships operating under dealership assistance plans	\$2,435.3	\$2,090.1	\$1,917.4
Unrealized intercompany profits on sales to nonconsolidated subsidiaries and to associates are deferred.			

### NOTE 3. General Motors Incentive Program

The General Motors Incentive Program consists of the General Motors Bonus Plan, the General Motors Performance Achievement Plan and the General Motors Stock Option Plans. The Program was approved by the stockholders in 1982 and will be submitted for their approval at the 1987 Annual Meeting. The Program is administered by the Incentive and Compensation Committee of the Board of Directors (the Committee).

#### Bonus Plan

Under the provisions of the Bonus Plan, the maximum amount that may be credited to the reserve for awards for any year is

(continued)

## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 3. (concluded)

equal to 8% of the amount by which net earnings exceed \$1 billion; provided, however, that the amount credited may not exceed the amount paid out as dividends on common stock during the year. The Committee may, at its discretion, direct that for any year an amount less than the maximum amount be credited to the reserve.

The Committee determined that the credit to the reserve for 1986 would be \$169.1 million, and on February 2, 1987, the Committee granted awards of \$169.1 million. In 1985, a credit of \$260.7 million was made to the reserve. Actual awards for 1985 were \$218.6 million. In 1984, a credit of \$269.2 million was made to the reserve, an amount \$35.0 million less than the maximum which could have been credited under the formula. Actual 1984 awards totaled \$224.1 million.

#### Performance Achievement Plan

Under the provisions of the Performance Achievement Plan, the Committee established target awards for the initial three-year phase-in period ended in 1984, for the first five-year period ended in 1986, and for five-year periods ending in 1988 and 1990. Awards are established based on targeted relationships between Corporation earnings and worldwide industry sales during the award periods; the percentages of the target awards ultimately distributed to the participants are determined by the Committee based on actual results in relation to the established goals and individual performance. Accruals for awards under this plan were \$8.9 million, \$21.5 million and \$33.2 million, respectively, for the three years ended December 31, 1986, 1985 and 1984.

#### Stock Option Plans

Incentive and nonqualified stock options granted under the Stock Option Plans generally are exercisable one-half after one year and one-half after two years from the dates of grant; the option prices are 100% of fair market value on the dates of grant. Options generally expire ten years from the dates of grant and are subject to earlier termination under certain conditions.

Stock Appreciation Rights (SARs) relating to outstanding stock options have been granted to certain officers of the Corporation. These SARs provide holders with the right to receive cash equal in value to the appreciation in the Corporation's common stock over the option price of the shares under option. These SARs are not exercisable during the first six months of their terms and can only be exercised during a quarterly "window period" following release of GM's quarterly or annual press release of earnings, and may be exercised only upon surrender of the related options and only to the extent that the related options are exercisable. SARs expire with the related options.

The utilization of SARs requires an accrual each year for the appreciation on the rights expected to be exercised. The amount of such accrual is dependent on the amount, if any, by which the fair market value of the common stock exceeds the related option price and on changes in fair market value during the period. Accruals for SARs were minimal in 1986, (\$2.7) million in 1985 and \$13.9 million in 1984.

Changes in the status of outstanding options were as follows:

\$1-2/3 par value common stock	Option Prices	Shares Under Option
<b>Outstanding at January 1, 1984</b>	<b>\$38.25-\$72.88</b>	<b>3,100,294</b>
<b>Granted</b>	<b>77.19</b>	<b>615,355</b>
<b>Exercised: Options</b>	<b>38.25-72.88</b>	<b>( 794,828)</b>
<b>SARs</b>	<b>38.25-72.88</b>	<b>( 231,539)</b>
<b>Terminated</b>	<b>38.25-72.88</b>	<b>( 48,039)</b>
<b>Outstanding at December 31, 1984</b>	<b>38.25-77.19</b>	<b>2,641,243</b>
<b>Granted</b>	<b>67.94</b>	<b>1,132,605</b>
<b>Exercised: Options</b>	<b>38.25-72.88</b>	<b>( 365,798)</b>
<b>SARs</b>	<b>38.25-72.88</b>	<b>( 35,970)</b>
<b>Terminated</b>	<b>38.25-72.88</b>	<b>( 30,692)</b>
<b>Outstanding at December 31, 1985</b>	<b>38.25-77.19</b>	<b>3,341,388</b>
<b>Granted</b>	<b>68.32</b>	<b>1,244,325</b>
<b>Exercised: Options</b>	<b>38.25-77.19</b>	<b>( 385,984)</b>
<b>SARs</b>	<b>38.25-77.19</b>	<b>( 51,859)</b>
<b>Terminated</b>	<b>38.25-77.19</b>	<b>( 96,066)</b>
<b>Outstanding at December 31, 1986</b>	<b>\$38.25-\$77.19</b>	<b>4,051,804</b>

The Corporation intends to deliver newly issued \$1-2/3 par value common stock upon the exercise of the stock options. Options for 2,288,809 shares were exercisable at December 31, 1986; the maximum number of shares for which additional options may be granted under the Plans was 3,301,449 at December 31, 1986.

#### Common Stocks Held for the GM Incentive Program

Common stocks held for the GM Incentive Program are stated substantially at cost and are used exclusively for payment of Incentive Program liabilities.

	1986		1985	
	Shares	Amount	Shares	Amount
Balance at January 1	2,669,664	\$190.2	2,072,694	\$144.2
Acquired: \$1-2/3	993,860	74.8	1,629,809	118.7
Class E	334,148	12.9	29,427	1.0
Class H	377,676	15.7	—	—
Delivered: \$1-2/3	(1,406,299)	( 100.8)	(1,023,688)	( 73.0)
Class E	( 29,721)	( 1.0)	( 38,578)	( .7)
Class H	( 39,256)	( 1.5)	—	—
Bal. at Dec. 31: \$1-2/3	2,228,108	163.2	2,640,547	189.2
Class E	333,544	12.9	29,117	1.0
Class H	338,420	14.2	—	—
<b>Total</b>	<b>2,900,072</b>	<b>\$190.3</b>	<b>2,669,664</b>	<b>\$190.2</b>

### NOTE 4. EDS Incentive Plans

The GM Board of Directors has approved and adopted the 1984 Electronic Data Systems Corporation Stock Incentive Plan in accordance with stockholder approval obtained in connection with GM's acquisition of EDS. Under this Plan, shares, rights or options to acquire up to 40 million shares of Class E common stock may be granted or sold during the ten-year life of the Plan.

The EDS incentive and compensation committee has granted to key employees rights to purchase a total of 6,710,040 shares of Class E common stock at prices of \$0.05 and \$0.10 per share. Class E shares sold under this Plan are subject to restrictions and vest over a ten-year period from the date the stock purchase rights are granted. An expense of \$17.1 million and \$13.2 million was recorded for these awards in 1986 and 1985, respectively.

In 1985, the committee also granted incentive stock options at a price of \$35.82 per share under the provisions of the 1984 Plan.

(continued)



## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 4. (concluded)

The option price is equal to 100% of the fair market value of Class E common stock on the date the options were granted. These incentive stock options expire six years from dates of grant and are subject to earlier termination under certain conditions. Changes in the status of outstanding options were as follows:

Class E common stock	Shares Under Option
Granted in 1985	4,082,500
Terminated	( 38,300)
Outstanding at December 31, 1985	4,044,200
Exercised	( 1,000)
Terminated	( 255,450)
Outstanding at December 31, 1986	3,787,750

At December 31, 1986, options for 939,100 Class E common shares were exercisable, and the maximum number of shares for which additional shares, rights or options may be granted or sold under the Plan was 29,501,210 shares.

As a part of the agreement for the acquisition of EDS by GM, the 2,270,160 unvested shares of EDS common stock sold under the EDS 1977 Stock Incentive Plan were converted at the date of the acquisition into an equal number of unvested shares of Class E common stock (4,540,320 shares on a post-split basis). In addition, EDS employees holding unvested shares under the 1977 Plan may receive deferred compensation payments under certain conditions. These payments are intended to compensate employees for the income tax consequences of realizing certain income taxed at ordinary income rates rather than at long-term capital gain rates.

EDS also has a bonus plan under which awards are granted to key executives and employees. The amounts accrued for this plan were \$23.2 million in 1986 and \$16.9 million in 1985.

### NOTE 5. GMHE Incentive Plans

In 1985, stockholder approval was obtained in connection with GM's acquisition of Hughes for a GMHE Incentive Plan. Under this Plan, shares, rights or options to acquire up to 10 million shares of Class H common stock may be granted or sold during the ten-year life of the Plan.

In 1986, contingent upon approval of the Board of Directors, the GM Incentive and Compensation Committee granted nonqualified stock options at a price of \$39.50 per share to acquire 39,455 shares under the provisions of the GMHE Plan. The option price is equal to 100% of the fair market value of Class H common stock on the date the options were granted. These nonqualified options generally expire ten years from the dates of grant and are subject to earlier termination under certain conditions.

At December 31, 1986, no options for Class H common shares were exercisable, and the maximum number of shares for which additional shares, rights or options may be granted or sold under the Plan was 9,960,545 shares.

Prior to the acquisition of Hughes, the Hughes board of directors adopted the Hughes Long-Term Incentive Plan (LTIP). The LTIP was developed to provide incentives to employees to remain with Hughes, a factor considered significant in preserving the value of Hughes for a buyer. The LTIP provided approximately 1,000 key scientists, engineers and managers of Hughes with restricted cash units, which entitle participants to receive payments from a trust established and funded pursuant to the terms of the LTIP. Concurrent with the acquisition of Hughes, \$250 million was contributed to the trust by Hughes, and Hughes incurred a non-recurring preacquisition charge of about \$125 million (net of the related income tax effects). In 1986, the LTIP was amended to allow participants on a one-time basis to convert restricted cash units to Class H common stock. A total of 113,517 restricted cash units were converted to 3.7 million shares of Class H common stock at a price of \$40.06 per share.

Hughes also maintains supplemental compensation plans under which awards are currently granted to officers and other key

employees. Amounts available for awards under the plans totaled \$26.2 million in 1986.

Key employees of GMHE and Delco Electronics Corporation also participate in the General Motors Incentive Program.

### NOTE 6. Special Provision for Scheduled Plant Closings and Other Restructurings

In 1986, the Corporation announced plans to close certain manufacturing and assembly plants over the next three years and to restructure certain other operations. The 1986 results of operations include a special provision of \$1,287.6 million for costs associated with these scheduled plant closings and other restructurings that can be reasonably estimated at the present time. This provision includes \$802.9 million for scheduled plant closings in the U.S. and \$484.7 million for various other restructurings of foreign operations. As a result of plant closings and other restructurings, consolidated net income was reduced by \$291.3 million or \$0.92 per share of \$1-2/3 par value common stock.

### NOTE 7. Other Income Less Income Deductions

(Dollars in Millions)	1986	1985	1984
Other income: Interest	\$813.6	\$1,328.3	\$1,466.8
Other	223.3	143.6	302.4
Income deductions	( 53.8)	( 172.7)	( 55.7)
Net	\$983.1	\$1,299.2	\$1,713.5

### NOTE 8. Pension Program and Postemployment Benefits

The Corporation and its subsidiaries have a number of defined benefit pension plans covering substantially all employees. Plans covering U.S. and Canadian represented employees generally provide benefits of negotiated stated amounts for each year of service as well as significant supplemental benefits for employees who retire with 30 years of service before normal retirement age. The benefits provided by the plans covering its U.S. and Canadian salaried employees are generally based on years of service and the employee's salary history. The Corporation and its consolidated subsidiaries also have certain nonqualified pension plans covering executives which are based on targeted wage replacement percentages and are generally unfunded currently.

Plan assets are primarily invested in United States government obligations, equity and fixed income securities, commingled pension trust funds and insurance contracts. The Corporation's funding policy with respect to its qualified plans is to contribute annually not less than the minimum required by applicable law and regulation nor more than the maximum amount which can be deducted for Federal income tax purposes.

During the fourth quarter of 1986, the Corporation adopted SFAS No. 87, Employers' Accounting for Pensions, with respect to all its U.S. and Canadian defined benefit pension plans, effective January 1, 1986. Application of SFAS No. 87 had the effect of increasing 1986 net income by \$330.5 million or \$0.96 per share of \$1-2/3 par value common stock, \$0.04 per share of Class E common stock and \$0.34 per share of Class H common stock. In addition, the change in pension plan actuarial assumptions made in June 1986, as recommended by GM's independent actuary to reflect the increased yield on investments, had the effect of increasing 1986 net income by \$195.6 million or \$0.61 per share of \$1-2/3 par value common stock.

Total pension expense of the Corporation and its consolidated subsidiaries amounted to \$821.0 million in 1986, \$1,674.8 million in 1985, and \$1,618.4 million in 1984. The 1985 and 1984 pension expense does not include amounts for the Corporation's recently acquired Hughes subsidiary. Net periodic pension cost (credit) for 1986 of U.S. plans and plans of subsidiaries outside the United States for which SFAS No. 87 has been adopted included the components shown on the next page.

(continued)

# NOTES TO FINANCIAL STATEMENTS (continued)

## NOTE 8. (concluded)

(Dollars in Millions)	U.S. Plans	Non-U.S. Plans
Benefits earned during the year	\$ 622.3	\$ 17.8
Interest accrued on benefits earned in prior years	2,517.7	81.7
Return on assets		
—Actual	(\$6,711.2)	(\$153.9)
—Less deferred gain	4,365.8 ( 2,345.4)	37.3 ( 116.6)
Net amortization	( 59.7)	( 24.0)
Net periodic pension cost (credit)	\$ 734.9	(\$ 41.1)

The following table reconciles the funded status of the Corporation's U.S. and non-U.S. plans for which SFAS No. 87 has been adopted with amounts recognized in the Corporation's Consolidated Balance Sheet at December 31, 1986 and January 1, 1986.

Measurement dates used for the Corporation's principal U.S. plans are October 1 and December 31. For non-U.S. plans, the measurement date used was November 30.

(Dollars in Millions)	U.S. Plans				Non-U.S. Plans	
	December 31, 1986	January 1, 1986	December 31, 1986	January 1, 1986	December 31, 1986	January 1, 1986
	Assets Exceed Accum. Benefits	Accum. Exceed Assets	Assets Exceed Accum. Benefits	Accum. Exceed Assets	Assets Exceed Accum. Benefits	Assets Exceed Accum. Benefits
Actuarial present value of benefits based on service to date and present pay levels						
Vested	\$12,092.9	\$14,728.0	\$ 8,578.4	\$11,514.4	\$ 766.6	\$ 658.6
Nonvested	963.8	2,951.9	192.4	1,785.7	58.7	47.2
Accumulated benefit obligation	13,056.7	17,679.9	8,770.8	13,300.1	825.3	705.8
Additional amounts related to projected pay increases	2,126.4	53.7	2,127.4	61.4	56.5	46.3
Total projected benefit obligation based on service to date	15,183.1	17,733.6	10,898.2	13,361.5	881.8	752.1
Plan assets at fair value	16,797.5	15,287.3	13,708.0	12,102.0	1,411.1	1,259.0
Projected benefit obligation (in excess of) or less than plan assets	1,614.4	( 2,446.3)	2,809.8	( 1,259.5)	529.3	506.9
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	1,684.7	1,509.0	—	—	34.1	—
Unamortized net obligation or (asset) at date of adoption	( 2,529.3)	1,884.6	( 2,723.7)	2,019.2	( 338.0)	( 357.7)
Prepaid pension cost recognized in the Consolidated Balance Sheet	\$ 769.8	\$ 947.3	\$ 86.1	\$ 759.7	\$ 225.4	\$ 149.2

The weighted average discount rate used in determining the actuarial present values of the projected benefit obligation shown in the above table for U.S. plans was 8.5% at December 31, 1986 and 10.9% at January 1, 1986 and for non-U.S. plans was 10.25% at December 31, 1986 and 11.0% at January 1, 1986. The rate of increase in future compensation levels of U.S. salaried employees was 5.6% at December 31, 1986 and 5.8% at January 1, 1986 and of non-U.S. salaried employees was 5.0% at both dates. Benefits under the hourly plans are generally not based on wages and therefore no benefit escalation beyond existing negotiated increases was included. The expected long-term rate of return on assets for both U.S. and non-U.S. plans was 10.0%. The assumptions for non-U.S. plans were developed on a basis consistent with that for U.S. plans, adjusted to reflect prevailing economic conditions and interest rate environments.

The actuarial present value of accumulated benefits for the pension plans of subsidiaries outside the United States for which SFAS No. 87 has not yet been adopted has not been determined in the

manner calculated and shown above. The total of these plans' pension funds and balance sheet accruals, less pension prepayments and deferred charges, exceeded the actuarially computed value of vested benefits by approximately \$580.9 million at December 31, 1986 and \$485.1 million at December 31, 1985.

In addition to providing pension benefits, the Corporation and certain of its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's employees, including employees in some foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Corporation. The Corporation recognizes the cost of providing those benefits primarily by expensing the cost as incurred. The cost of such benefits amounted to \$864.5 million in 1986, \$836.5 million in 1985 and \$806.1 million in 1984.

A program for early retirement or special separation is being offered to certain salaried employees. Expenses accrued in 1986 for the program were \$88.2 million.



## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 9. United States, Foreign and Other Income Taxes (Credit)

(Dollars in Millions)	1986	1985	1984
Taxes estimated to be payable currently:			
United States Federal	(\$2,176.2)	\$1,465.4	\$1,151.7
Foreign	524.2	287.3	662.5
State and local	( 200.5)	147.9	140.1
Total	( 1,852.5)	1,900.6	1,954.3
Taxes deferred—net:			
United States Federal	1,413.8	( 386.7)	8.3
Foreign	( 202.4)	54.9	( 170.6)
State and local	148.0	( 4.6)	32.1
Total	1,359.4	( 336.4)	( 130.2)
Investment tax credits deferred—net:			
United States Federal	168.2	49.0	( 15.1)
Foreign	24.6	17.1	( 3.9)
Total	192.8	66.1	( 19.0)
Total taxes (credit)	(\$ 300.3)	\$1,630.3	\$1,805.1

Investment tax credits entering into the determination of taxes estimated to be payable currently amounted to \$568.6 million in 1986, \$427.6 million in 1985 and \$311.6 million in 1984.

The deferred taxes (credit) for timing differences consisted principally of the following: 1986—\$173.3 million for depreciation, \$954.1 million for sales and product allowances, \$420.9 million for vehicle instalment sales, \$247.8 million for benefit plans expense and (\$184.5) million for profits on long-term contracts; 1985—\$269.0 million for depreciation, (\$608.1) million for sales and product allowances and \$125.1 million for pollution control bonds; and 1984—\$762.6 million for benefit plans expense, (\$305.5) million for sales and product allowances, \$387.6 million for vehicle instalment sales, (\$240.3) million for interest, (\$125.1) million for pollution control bonds and (\$435.7) million for the domestic international sales corporation (DISC).

Income before income taxes included the following components:

(Dollars in Millions)	1986	1985	1984
Domestic income	\$ 87.4	\$3,690.5	\$4,513.6
Foreign income	1,372.9	930.8	990.7
Total	\$1,460.3	\$4,621.3	\$5,504.3

The consolidated income tax (credit) was different than the amount computed at the United States statutory income tax rate for the reasons set forth in the table below.

(Dollars in Millions)	1986	1985	1984
Expected tax at U.S. statutory income tax rate	\$671.7	\$2,125.8	\$2,532.0
Investment tax credits amortized	( 375.8)	( 361.5)	( 330.6)
Foreign tax rate differential	19.9	( 7.2)	135.9
State and local income taxes	29.6	77.4	93.0
Deferred income tax reversal on the DISC	—	—	( 421.3)
Taxes on undistributed earnings of subsidiaries	—	—	( 112.2)
Research and development credit	( 86.7)	( 147.0)	( 73.5)
Tax benefit from restructuring of foreign operations	( 404.0)	—	—
ESOP credit and related adjustments	( 76.4)	( 75.2)	( 42.2)
Tax effect of foreign dividends	( 96.2)	( 19.3)	( 7.5)
Other adjustments	17.6	37.3	31.5
Consolidated income tax (credit)	(\$300.3)	\$1,630.3	\$1,805.1

### NOTE 10. Earnings Per Share Attributable to and Dividends on Common Stocks

Earnings per share attributable to common stocks have been determined based on the relative rights of \$1-2/3 par value common, Class E common and Class H common stocks to participate in dividends. The effect on earnings per share of \$1-2/3 par value common stock resulting from the assumed exercise of outstanding options and delivery of bonus awards is not material. The operations of the EDS and GMHE Incentive Plans do not have a material dilutive effect on earnings per share of Class E common or Class H common stocks, respectively, at this time.

Dividends on the \$1-2/3 par value common stock are declared out of the earnings of GM and its subsidiaries, excluding the Available Separate Consolidated Net Income of EDS and GMHE.

In connection with the authorization of the Class H common stock issued in December 1985 in the acquisition of Hughes, the stockholders of the Corporation approved certain amendments to the General Motors Certificate of Incorporation to redefine the earnings available for payment of dividends on Class E common stock. As a result of the amendment, earnings attributable to Class E common stock are determined and reported on a basis consistent with the earnings that the GM Board of Directors had previously treated as available for payment of dividends on that class. Because the amendment was retroactive to the date that the Class E common shares were first issued, previously reported earnings and earnings per share attributable to common stocks were restated. The amendment had the effect of increasing earnings per share attributable to \$1-2/3 par value common stock by \$0.27 per share in 1985 and \$0.05 per share in 1984.

Dividends on the Class E common stock are declared out of the Available Separate Consolidated Net Income of EDS earned since the acquisition of EDS by GM. The Available Separate Consolidated Net Income of EDS is determined quarterly and is equal to the separate consolidated net income of EDS, excluding the effects of purchase accounting adjustments arising from the acquisition of EDS, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class E common stock outstanding during the period and the denominator of which is currently 121.9 million shares.

Dividends on the Class H common stock are declared out of the Available Separate Consolidated Net Income of GMHE earned after December 31, 1985, the date the Hughes acquisition was made effective. The Available Separate Consolidated Net Income of GMHE is determined quarterly and is equal to the separate consolidated net income of GMHE, excluding the effects of purchase accounting adjustments arising from the acquisition of Hughes, multiplied by a fraction, the numerator of which is the weighted average number of shares of Class H common stock outstanding during the period and the denominator of which is currently 200 million shares.

The denominators used in determining the Available Separate Consolidated Net Income of EDS and GMHE will be adjusted as deemed appropriate by the Board of Directors to reflect subdivisions or combinations of the Class E common and Class H common stocks and to reflect certain transfers of capital to or from EDS and GMHE.

Dividends may be paid on common stocks only when, and as if declared by the Board of Directors in its sole discretion. The Board's policy with respect to \$1-2/3 par value common stock is to distribute dividends based on the outlook and the indicated capital needs of the business. The current policy of the Board of Directors with respect to the Class E common and Class H common stocks is to pay cash dividends approximately equal to 25% of the Available Separate Consolidated Net Income of EDS and GMHE, respectively, for the prior year.