(7) Summary of Significant Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

(a) Marketable Securities

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" has been adopted in the consolidated financial statements for fiscal 2001. The consolidated financial statements for fiscal 2000 have been restated accordingly.

(b) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(c) Depreciation

Depreciation of property, plant, and equipment is principally computed by the declining-balance method for assets located in Japan and of certain foreign subsidiaries, and by the straight-line method for assets of other foreign subsidiaries based on estimated useful lives.

(d) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

(e) Retirement and Severance Benefits

TDK accounts for and provides disclosures about its defined benefit pension and retirement plans in accordance with Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" and with Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits".

The weighted-average discount rates used in determining the present value of benefit obligations and expected long-term rate of return on assets were 3.0% for 2001 and 2000. The rates of increase in future compensation levels were 3.0% for 2001 and 2000.