

**Financial Statement Presentation Meeting**  
**Joint International Group and Financial Institutions Advisory Group**  
**September 14, 2007**

Location: FASB Offices, Norwalk CT, USA

<b>Time</b>	<b>Agenda Item</b>	<b>Lead</b>	<b>Paper #</b>
9:00 – 9:15	<b>Welcome, Introductions</b>	John Smith	
9:15 – 9:45	<b>Overview of Preliminary Model</b> <ul style="list-style-type: none"> <li>▪ <i>Working principles</i></li> <li>▪ <i>Management approach to classification</i></li> <li>▪ <i>Segregating business and financing activities</i></li> </ul>	Kim Petrone	1
9:45 – 10:30	<b>Statement of Comprehensive Income</b> <ul style="list-style-type: none"> <li>▪ <i>Disaggregation by function and nature</i></li> <li>▪ <i>Income taxes</i></li> </ul>	Denise Gomez	2
10:30 – 10:45	Coffee Break		
10:45 – 11:30	<b>Statement of Comprehensive Income (cont)</b> <ul style="list-style-type: none"> <li>▪ <i>Alternatives for presenting OCI items</i></li> <li>▪ <i>Subtotals and totals</i></li> </ul>	Denise Gomez	2
11:30 – 12:15	<b>Additional Segment Disclosures</b> <ul style="list-style-type: none"> <li>▪ <i>Disclosure of operating and financing segment information</i></li> </ul>	Regenia Cafini	3
12:15 – 1:15	Lunch		
1:15-2:30	<b>Reconciliation of Statement of Cash Flows to Statement of Comprehensive Income and the Statement of Cash Flows</b> <ul style="list-style-type: none"> <li>▪ <i>Reconciling items (FASB and IASB views)</i></li> <li>▪ <i>Direct and indirect methods</i></li> <li>▪ <i>Implications for use of indirect method on the Statement of Cash Flows</i></li> </ul>	Nobu Kawanishi	4
2:30 – 2:45	Coffee break		
2:45 – 3:45	<b>Recasting Exercise</b> <ul style="list-style-type: none"> <li>▪ <i>Staff report on findings and results</i></li> <li>▪ <i>Participant comments</i></li> </ul>	Regenia Cafini	5
3:45 – 4:15	<b>Open Discussion</b> <ul style="list-style-type: none"> <li>▪ <i>Questions on other aspects of the model and illustrative financial statements (e.g., statement of financial position)</i></li> </ul>	Kim Petrone	6
4:15 – 4:55	<b>Communication Strategy and Next Steps</b>	Kim Petrone	7
4:55 – 5:00	<b>Wrap up</b>	John Smith	

**SEPTEMBER 14, 2007 JIG/FIAG MEETING**  
**Participant List (as of September 11, 2007)**

**JIG Members**

<b>Name</b>	<b>Company</b>	<b>Title</b>
Kathryn Cearns	Herbert Smith	Consultant Accountant
Malcolm Cheetham	Novartis	Chief Accounting Officer
Bo Eriksson	Stora Enso Oyj	Senior Vice President/ Corporate Controller
Sue Harding	Standard and Poor's	Managing Director
Greg Jonas	Moody's Investor Services	Managing Director
Ken Kelly	McCormick & Co.	Vice President and Controller
Stuart MacDonald	Scottish Power	Head of Group Financial Reporting
Elizabeth Mooney	Capital Strategy Research	Analyst
Hans-Joachim Pilz	SBFA Investment Research	Managing Director
Walter Schuster	Stockholm School of Economics	Professor
Stephen Taylor	Deloitte Touche Tohmatsu	Partner
Takashi Yaekura	Hosei University	Professor, Faculty of Business Administration
Hiroshi Yamada	Matsushita Electric Industrial Co Ltd	General Manager, Accounting Group

**FIAG Members**

Phil Arthur	Ernst & Young	Partner
Joseph Boateng	Johnson and Johnson	Director, Pension Funds
Jo Clube	Aviva PLC	Senior Finance Manager
Burkhard Keese	Allianz SE	Executive Vice President, Group Financial Reporting
Charles Holm <i>(for Sylvie Matherat, Banque France)</i>	Federal Reserve Board	Associate Director and Chief Accountant, Banking Supervision and Regulation
Esther Mills	Morgan Stanley	Managing Director, Global Accounting and Standards Control
Ralph Odermatt	UBS	Managing Director, Accounting Policies and Support
Stephen Ryan	Stern School of Business New York University	Associate Professor of Accounting and Robert Stovall Faculty Fellow
Kevin Spataro	All State	Head of Accounting Policy and Research
Alan Zimmerman	Fox-Pitt, Kelton	U.S. Director of Research, Insurance, and Banks

**SEPTEMBER 14, 2007 JIG/FIAG MEETING**  
**Participant List (continued) (as of September 11, 2007)**

**IASB Members & Directors**

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John Smith  
Tatsumi Yamada  
Liz Hickey (Director)

**FASB Members & Directors**

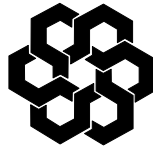
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**JIG Official Observers**

Francoise Flores—European Financial Reporting Advisory Group (Mazars)  
Jenifer Minke-Girard—IOSCO (SEC)



**International  
Accounting Standards  
Board**



**Financial Accounting  
Standards Board**

*This document is provided as a convenience to observers at the IASB/FASB joint international group and financial institution advisory group meeting on financial statement presentation, to assist them in following the discussion. It does not represent an official position of the IASB or the FASB. IASB and FASB Board positions are set out in their respective Standards.*

*Note: This document is based on the staff papers prepared for the September 14, 2007 meeting. All of the staff papers are included in this document.*

## **INFORMATION FOR OBSERVERS**

**MEETING:                   JOINT INTERNATIONAL GROUP (JIG) AND  
FINANCIAL INSTITUTION ADVISORY GROUP (FIAG)  
ON FINANCIAL STATEMENT PRESENTATION,  
14 SEPTEMBER 2007, NORWALK**

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**TOPIC:                     OVERVIEW OF PRELIMINARY MODEL  
AGENDA PAPER 1**

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### **INTRODUCTION AND PURPOSE OF MEETING**

1. By the end of June, the Boards had expressed their preliminary views on most of the substantive issues that will be addressed in Phase B of the financial statement presentation project. The purpose of the September 14, 2007 meeting with both of the project's advisory groups (the Joint International Group (JIG) and the Financial Institutions Advisory Group (FIAG)) is to provide the Boards and staff with input on the Boards' preliminary views (the preliminary model) and on issues that the Boards will be discussing in the coming months. The Boards plan to issue an initial discussion document explaining their preliminary views in the first quarter of 2008.

### **Illustrative Financial Statements**

2. Illustrations of financial statements reflecting the Boards' preliminary views for both a manufacturing company and a financial institution are included in the related agenda paper. They are included for illustrative purposes and to aid in the discussion

of the agenda materials. Agenda Paper 6 includes an illustrative Statement of Financial Position and Statement of Changes in Equity (as those statements are not discussed in the other agenda papers).

## **OVERVIEW OF PRELIMINARY MODEL**

### **Objective and Working Principles**

3. The Boards' objective is to present information in the financial statements in ways that enable investors, creditors, and other financial statement users to:
  - a. Understand an entity's present and past financial position
  - b. Understand how past operating, financing, and other activities caused an entity's financial position to change and the components of those changes
  - c. Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.
  
4. The working principles of financial statement presentation follow.

Financial statements should:

  - a. Portray a cohesive financial picture of an entity
  - b. Separate an entity's financing activities from its business and other activities and further separate financing activities between transactions with owners in their capacity as owners and all other financing activities
  - c. Disaggregate line items if that disaggregation enhances the usefulness of that information in predicting future cash flows.
  - d. Help a user assess an entity's ability to:
    - (1) Meet its financial commitments as they come due (including, but not limited to, its ability to raise capital and to use existing assets for generating future cash flows)
    - (2) Invest in business opportunities.
  - e. Help a user understand:
    - (1) The basis on which assets and liabilities are measured
    - (2) The uncertainty in measurements of individual assets and liabilities
    - (3) What causes a change in reported amounts of individual assets and liabilities
    - (4) The difference between cash-based accounting and accrual accounting
    - (5) The effects of noncash activities during the period on an entity's financial position.

## The Working Format and Cohesiveness of the Financial Statements

5. The Boards have agreed that the first working principle (financial statements should portray a cohesive financial picture of an entity) is the governing principle. Some think about this cohesiveness principle in terms of articulation or linkage—a cohesive financial picture will clarify the relationships between related items in the financial statements. The following table represents the format for classifying and presenting information within the financial statements excluding the notes (referred to as the working format).

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
<b>Business</b> <ul style="list-style-type: none"> <li>◆ Operating assets and liabilities</li> <li>◆ Investing assets and liabilities</li> </ul> <b>Discontinued operations</b>	<b>Business</b> <ul style="list-style-type: none"> <li>◆ Operating income and expenses</li> <li>◆ Investing income and expenses</li> </ul> <b>Discontinued operations</b>	<b>Business</b> <ul style="list-style-type: none"> <li>◆ Operating cash flows</li> <li>◆ Investing cash flows</li> </ul>
<b>Financing</b> <ul style="list-style-type: none"> <li>◆ Financing assets</li> <li>◆ Financing liabilities</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>◆ Financing asset inc/exp</li> <li>◆ Financing liability inc/exp</li> </ul>	<b>Financing</b> <ul style="list-style-type: none"> <li>◆ Financing asset cash flows</li> <li>◆ Financing liability cash flows</li> </ul>
<b>Income taxes</b>	<b>Income taxes</b>	<b>Income taxes</b>
<b>Equity</b>	<b>Statement of Changes in Equity</b>	<b>Equity</b>

*Note: The Boards have not addressed totals, subtotals, or the order in which sections would be presented, nor have they finalized the labels of the categories and sections.*

6. Application of the cohesiveness working principle would result in an entity classifying its assets, liabilities, and equity items into one of the prescribed categories or sections in the statement of financial position and then similarly classifying changes in assets, liabilities, and equity items in the statement of comprehensive income and the statement of cash flows. The Boards are of the view that, ideally, the financial statements should be cohesive at the line-item level. Thus, to the extent practical, an entity would label line items similarly across the financial statements.

### Management Approach to Classification

7. The working format would separate the different functional activities of an entity and apply to all business entities, including financial institutions. Because functional activities vary from entity to entity, an entity would choose the classification that best

affects management's view of what constitutes its business (operating and investing) and financing activities. Thus, a manufacturing entity may classify the exact same asset (or liability) differently from a financial institution because of differences in the businesses in which those entities engage. This management approach to classification will allow an entity's financial statements to communicate clearly about the various aspects of its activities.

8. An entity would be required to explain, as a matter of accounting policy, its bases for classifying assets and liabilities in the operating category, the investing category, and the financing categories. The Boards anticipate that that disclosure would include a discussion of the type(s) of businesses in which the entity engages. Any change in the basis for classification would be viewed as a change in accounting policy and would be implemented through retrospective application to prior periods (consistent with FASB Statement No. 154, *Accounting Changes and Error Corrections*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

#### **Classification Guidelines**

9. An entity consisting of different businesses would apply the classification guidance to its assets and liabilities at the reportable segment level (as that term is defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and IFRS 8 *Operating Segments*). Thus, an entity may classify similar assets (or liabilities) differently because of differences in the businesses in which it engages.

#### **Business Section**

10. The business section of the statement of financial position would include all assets and liabilities that management views as part of the entity's continuing business activities.

#### ***Operating Category***

11. The operating category would include assets and liabilities that management views as integral to the business activities it is currently engaged in and unrelated to financing those activities. Assets and liabilities that are integral to an entity's business would be those that management views as related to producing and delivering goods or

providing services (for example, accounts receivable, inventory, equipment, accounts payable, pension obligations, and, for a financial services business, deposits and loans). An entity would include operating assets and liabilities in the same category.

### ***Investing Category***

12. The investing category would include assets and liabilities that management views as related to the entity's investing activities. The term *investing* is used in the economic sense—committing money or capital with the expectation of earning a financial return. Examples of assets that an entity might classify in the investing category include real estate purchased solely for the purpose of earning a return (and the entity is not in the real estate business); an investment in a joint venture or an associate that is not related to the entity's business; or a speculative investment such as artwork.

### **Financing Section**

13. The financing section of the statement of financial position would include only financial assets and financial liabilities that management views as part of the financing of the entity's business activities (referred to as *financing assets and liabilities*).
14. In determining whether a financial asset or liability is part of the financing of the business, management would consider whether the item is interchangeable with other sources of financing and whether the item could be characterized as independent of specific business activities. For example, the financing section would normally *exclude* assets and liabilities related to transactions with customers, suppliers, and employees because transactions of that nature usually relate to an entity's operations. The financing section would normally *include* liabilities that originated from an entity's capital-raising activities because capital is usually raised as a means to fund operating activities (for example, money market funds, a bank loan, bonds).
15. As financial assets and liabilities are generally part of the operations of a financial services business, the financing section of a bank, for example, could include fewer types of financial instruments than that of a retail business. While a financial institution would most likely classify cash as an operating asset and a bank overdraft

as an operating liability, an entity that is not a financial institution would usually classify those items in the financing section.

### **DISCUSSION QUESTIONS (Agenda Paper 1)**

- 1) **Are the working principles for financial statement presentation complete** (refer to paragraph 4)? **If not, what principle would you add?**
  
- 2) When the JIG met in September 2006 and when the FIAG members talked to the staff in November 2006, the Boards had not yet decided that the preliminary model would apply to financial institutions as well as non-financial entities. As described in paragraph 7, the Boards support a management approach to financial statement presentation. That is, entities are to classify their assets and liabilities in the operating, investing, and financing categories in a manner that reflects how management views their business(es).<sup>1</sup> Thus, while the classification and application guidance applies to all industries, the Boards fully expect that the financial statements of entities in different industries will look different. **Do you support a management approach to classification? Is there additional classification guidance that should be provided?**
  
- 3) When the JIG met last September, the business section included a treasury category and the Boards were considering adding an investing category. As described above, the business section would include an investing category and what was the treasury category would be the financing assets category in the financing (not the business) section. **In your view, is this the appropriate way to segregate business and financing activities?**

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<sup>1</sup> Assets, liabilities, and equity items are to be classified in the other sections (discontinued operations, equity, and income tax) based on their accounting treatment rather than management's view of the item.

**TOPIC: STATEMENT OF COMPREHENSIVE INCOME**  
**AGENDA PAPER 2**

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**INTRODUCTION**

1. This paper describes the Boards' preliminary views on preparing and presenting the statement of comprehensive income and is organized as follows:
  - a. Disaggregation by function and by nature
  - b. Presentation of income tax expense
  - c. Presentation of other comprehensive income (OCI)
  - d. Totals and subtotals.

**DISAGGREGATION BY FUNCTION AND BY NATURE**

2. As noted in Agenda Paper 1, the following categories or sections would be presented in the statement of comprehensive income:
  - Business section
    - Operating category
    - Investing category
  - Financing section
    - Financing income category
    - Financing expense category
  - Discontinued operations section
  - Income Tax section
3. Within the operating, investing, and financing categories, an entity would disaggregate its income and expenses by *function*. *Function* refers to the primary activities in which an entity is engaged, such as selling a product or providing a service, cost of sales, research and development, marketing, and administrative activities.
4. Each of those functions would be further disaggregated by *nature* to the extent that it enhances the usefulness of the statement of comprehensive income. If this presentation is impractical, it would present the information in the notes to financial statements. *Nature* refers to the inputs (costs) required to accomplish those functional activities, such as costs related to people (labor and benefits), materials, energy,

equipment (depreciation), and occupancy (rent). (Refer to the statement of comprehensive income for a manufacturing company on page 1 of the Appendix.)

5. If, in the opinion of management, presenting disaggregated information by function would not provide relevant information (because, for example, the entity does not engage in a variety of functions, that is, it provides mainly services), an entity would disaggregate its revenues, expenses, gains, and losses by their nature within the operating, investing, and financing categories. (Refer to the statement of comprehensive income for a commercial bank on page 2 of the Appendix.)
6. In addition, an entity would be required to separately report any expense that is important in understanding its operating results that may not relate to a functional line item (for example, impairment of goodwill).

#### **PRESENTATION OF INCOME TAX EXPENSE**

7. The Boards are of the view that all income taxes, including those related to transactions with owners, should be presented in a separate section of the financial statements as income taxes are not related to the underlying transaction. Rather, income taxes are a form of income appropriation to taxing authorities. Moreover, members of both Boards generally agreed that any income tax allocation would be arbitrary and that the costs of providing this information exceed the benefits.
8. Therefore, the Boards agreed that income taxes should no longer be allocated to continuing operations, discontinued operations, and so forth (that is, all items, including discontinued operations and other comprehensive income (OCI) items would be presented on a pre-tax basis).

#### **Taxes Currently in Equity**

9. The staff believes that a consequence of the Boards conclusion to eliminate intraperiod tax allocation, is that **all** income taxes currently charged or credited directly to equity (see paragraphs 10-12) would be included in the income tax section of the statement of comprehensive income. The staff is in the process of confirming

this with Board members, particularly because that is more than a presentation issue (that is, it would affect the amount currently reported as comprehensive income).

10. Paragraph 36 of Statement 109 states that the income tax effects of the following items are to be charged or credited directly to equity:
  - a. An increase or decrease in contributed capital.
  - b. An increase in tax basis of assets acquired in a taxable business combination accounted for as a pooling of interests and for which a tax benefit is recognized at the date of the business combination.
  - c. Expenses for employee stock options recognized differently for financial reporting and tax purposes.
  - d. Dividends that are paid on unallocated shares held by an ESOP and that are charged to retained earnings.
  - e. Deductible temporary differences and carry-forwards that existed at the date of a quasi reorganization.
  
11. Paragraph 58 of IAS 12 (as amended by IAS 1 *Presentation of Financial Statements*, revised 2007) states that current and deferred tax should be recognized as income or an expense and included in profit and loss for the period, except to the extent that the tax arises from:
  - a. A transaction or event which is recognized, in the same or a different period, outside profit or loss either in other comprehensive income or directly in equity; or
  - b. A business combination.
  
12. Paragraph 61A clarifies that current tax and deferred tax related to items recognized in the same or a different period:
  - a. In other comprehensive income, shall be recognized in other comprehensive income.
  - b. Directly in equity, shall be recognized directly in equity.

### **Note Disclosure**

13. The Boards agreed that the notes should include information to assist users in analyzing income tax information due to the change in presentation (that is, no intra-period tax allocation). The Boards have yet to discuss possible disclosure

requirements; however, some ideas discussed include an entity providing the following in the notes:

- a. Information regarding the drivers and sustainability of its effective tax rate
- b. A detailed analysis of effective tax rates and how those rates vary by activity, segment, or geographic region
- c. The tax amount related to significant items or to items for which it can objectively calculate the tax effect.

## **PRESENTATION OF OTHER COMPREHENSIVE INCOME**

### **Long Term Goal**

14. The Boards expressed their view that **all** current period changes in assets and liabilities should be presented in one of the functional categories on the statement of comprehensive income, thereby rendering OCI and the mechanism of recycling unnecessary. The Boards believe that achieving that view is a long-term goal. To achieve it, current standards that require recognition of amounts in OCI will need to be changed. As the scope of the financial statement presentation project does not include recognition issue, both Boards agreed to address those standards individually and separately, rather than as part of this project.

### **Alternative Presentations**

15. While the Boards' long-term goal would have items currently recognized in other comprehensive income classified in the same manner as all other changes in assets and liabilities, the Boards acknowledged that, as an interim step, OCI items might need to be presented in a separate section of the statement of comprehensive income rather than included in the functional categories. Paragraphs 17-22 describe two alternatives for presenting other comprehensive income items during this interim period. While both alternatives will be included in the discussion document, more Board members preferred the first. Those alternatives are illustrated on pages 1 (manufacturing) and 2 (bank) of the Appendix.

16. A third alternative—which breaks away from the working format and requires an entity to recognize all changes in assets and liabilities in the period in which they occur—is described following those two interim views. While the Boards previously

discussed all three alternatives as interim views, the third is more akin to a long-term view because it would eliminate the notion of recycling (presumably as part of this project). A number of IASB members prefer the third alternative—it's unclear whether all would support it if it retained the notion of recycling as an interim step. The third alternative is illustrated on pages 3 (manufacturing) and 4 (bank) of the Appendix and is presented alongside a fourth alternative (that is consistent with the working format and with the Boards' long-term goal as described in paragraph 14).

**Alternative 1 (Interim View)**

17. An entity would present all current period changes in assets and liabilities in one of the functional categories or sections (operating, investing, financing, discontinued operations, and income taxes) in the statement of comprehensive income. A subcategory within each functional category would distinguish items of income and expense that are components of OCI. An entity would reclassify (recycle) OCI items, as required by other standards, from the OCI subcategory to the corresponding operating, investing, or financing category.
18. An entity would present OCI items other than foreign currency translation adjustments in the statement of comprehensive income consistent with the classification of the asset or liability that gives rise to those items. For example, an entity would present an unrealized gain or loss on an available-for-sale security in the investing category if it classified that security in the investing category on the statement of financial position.
19. An entity would present foreign currency translation adjustments in the statement of comprehensive income:
  - a. in the operating category if related to consolidated subsidiaries and proportionately consolidated joint ventures (IASB only; the FASB has not discussed)
  - b. in the same category as the equity method investment if related to an equity method investment.
20. Under Alternative 1, cohesiveness is achieved without exception, as all items would be classified within the predefined sections and categories and there would be a clear

distinction between OCI items and non-OCI items. This is somewhat responsive to the view that OCI items are sufficiently different from other items of income and expense. However, under Alternative 1 OCI items are dispersed among the other functional sections and categories. This could make the analysis of an entity's business and financing activities exclusive of OCI items difficult.

**Alternative 2 (Interim View)**

21. An entity would present OCI items in the statement of comprehensive income in a separate section (OCI section) that would be presented with the same prominence as the business, financing, income tax, and discontinued operations sections. The OCI section would include operating, investing, and financing categories. An entity would reclassify (recycle) OCI items, as required by other standards, from the OCI section to the corresponding category in the business, financing, or discontinued operations section.
22. Alternative 2 presents all OCI items in a section separate from the other sections allowing all OCI items to be analyzed and considered as a whole. However, Alternative 2 would introduce an exception to the cohesiveness principle, as OCI items would be classified in a section that does not appear on the statements of financial position and cash flows. This would require a user to reclassify certain information (the OCI items) to create a cohesive picture of an entity. In addition, in Alternative 2, OCI items that are recycled would be recycled between sections; in Alternative 1 the recycling would occur within the same category (from the OCI subcategory to the non-OCI subcategory).

**Alternative 3 (Long-Term View)**

23. As noted earlier, the third alternative is not consistent with the overall working format. Instead of the sections of the statement of comprehensive income being based on functional activities (business and financing), there would be two sections based on whether the items are short-term (some might label it the "trading" section) or long-term (non-trading) in nature. The short-term and long-term sections would each be further separated into the same functional categories and sections (operating, investing, financing, and so forth) as the working format.

24. An entity would classify changes in assets and liabilities in the short-term and long-term sections in the statement of comprehensive income based on whether the related asset or liability is short- or long-term in nature. However, there would be an exception to that classification principle—an entity would present changes in long-term assets and liabilities in the short-term section if the income and expense items are closely related to an entity’s operating cycle. For example, depreciation expense related to long-term assets would tend to be shown in the short-term section, as that expense is associated with the consumption of an operating asset.
25. The staff is in the process of better articulating Alternative 3 based on further discussion with IASB members. The key principle behind the alternative presentation is dividing gains and losses into those that have an effect in the near future and those that relate to a longer time span (such as gains and losses due to price changes, or holding gains and losses). In addition, entities that trade investments as part of their main activity would tend to classify gains arising on price movements of certain investment assets as part of their trading (short-term) activities.
26. Under Alternative 3 there would be short-term and long-term sections on the statement of comprehensive income, thus it could be viewed as cohesive with a classified statement of financial position (which has short- and long-term subcategories). However, as some Board members noted, there would be exceptions to the short-term/long-term classification principle and not all entities would present a classified statement of financial position. Also, while most OCI items would be classified in the long-term section, that section would include changes in other long-term assets and liabilities (such as pension and lease obligations). Thus, similar to Alternative 1, OCI items will not be in their own section which could make analysis of an entity’s business and financing activities exclusive of OCI items difficult (for those that desire to exclude all OCI items from their analysis). However, others would view the fact that the long-term section includes changes that have similar characteristics to OCI items as an advantage of Alternative 3.

#### **Alternative 4 (Long-Term View)**

27. The fourth alternative is what the Boards initially considered when discussing how items currently reported as OCI items should be presented in the working format. Thus, unlike Alternative 3, the classification of revenues, expenses, gains, and losses is consistent with the classification of the related assets and liabilities. Alternative 4 is similar to Alternative 1 (interim view) except that there is no concept of recycling (consistent with the Boards' long-term goal) and all changes are classified in one of the functional categories—there is no subcategory for “former” OCI items.

#### **TOTALS AND SUBTOTALS**

28. While the Boards have yet to discuss totals and subtotals nor have they confirmed the terminology used for categories and sections, they did agree to include the following based on the general principles for aggregation and disaggregation in IAS 1 in the preliminary model.

An entity would present additional line items, headings, and subtotals on each of the financial statements when such presentation is relevant to an understanding of its financial position and changes in that financial position. Because the effects of an entity's various activities, transactions and other events differ in their frequency, predictive value, or feedback value, disaggregated information assists in understanding the financial results achieved and in making projections of future results. An entity would include additional line items on the financial statements and modify the descriptions used as necessary to explain the components of its financial results. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution.

29. The Boards will discuss common subtotals for each of the financial statements and additional subtotals for specific statements at a meeting later this year. The staff plans to recommend that there be a subtotal for each category and section on each of the primary financial statements so that, consistent with the cohesiveness working principle, each financial statement has similar subtotals. An illustration of those common subtotals is presented in the following table:

<b>Statement of financial position</b>	<b>Statement of cash flows</b>	<b>Statement of comprehensive income</b>
<b>BUSINESS</b>	<b>BUSINESS</b>	<b>BUSINESS</b>
Operating assets and liabilities	Cash flows from operating activities	Operating income and expenses
<i>Subtotal (A1)</i>	<i>Subtotal (A1)</i>	<i>Subtotal (A1)</i>
Investing assets and liabilities	Cash flows from investing activities	Investing income and expenses
<i>Subtotal (A2)</i>	<i>Subtotal (A2)</i>	<i>Subtotal (A2)</i>
<b>TOTAL (A) = Subtotals (A1) + (A2)</b>	<b>TOTAL (A) = Subtotals (A1) + (A2)</b>	<b>TOTAL (A) = Subtotals (A1) + (A2)</b>
<b>FINANCING</b>	<b>FINANCING</b>	<b>FINANCING</b>
Financing assets	Cash flows from financing assets	Financing asset income/expense
<i>Subtotal (B1)</i>	<i>Subtotal (B1)</i>	<i>Subtotal (B1)</i>
Financing liabilities	Cash flows from financing liabilities	Financing liabilities income/expense
<i>Subtotal (B2)</i>	<i>Subtotal (B2)</i>	<i>Subtotal (B2)</i>
<b>TOTAL (B) = Subtotals (B1) + (B2)</b>	<b>TOTAL (B) = Subtotals (B1) + (B2)</b>	<b>TOTAL (B) = Subtotals (B1) + (B2)</b>
<b>DISCONTINUED OPERATIONS</b>	<b>DISCONTINUED OPERATIONS</b>	<b>DISCONTINUED OPERATIONS</b>
Assets held for sale (disposal group)		
Liabilities (disposal group)		
<b>TOTAL (C) —∑ Net assets of Discontinued operations</b>	<b>TOTAL (C) —∑ cash flows from Discontinued operations</b>	<b>TOTAL (C) —∑ income/expense of Discontinued operations</b>
<b>INCOME TAXES</b>	<b>INCOME TAXES</b>	<b>INCOME TAXES</b>
Income tax assets		
Income tax liabilities		
<b>TOTAL (D) —∑ income tax asset/liability</b>	<b>TOTAL (D) —∑ cash flows from income taxes</b>	<b>TOTAL (D) —∑ income tax expense/benefit</b>
<b>EQUITY</b>	<b>EQUITY</b>	--
<b>TOTAL (E) —∑ equity</b>	<b>TOTAL (E) —∑ equity</b>	--
<b>Total Assets and Total Liabilities will be presented in notes</b>	<b>BOTTOM LINE = ∑Totals A + B + C + D + E (Net change in cash)</b>	<b>BOTTOM LINE = ∑Totals A + B + C + D (Total comprehensive income)</b>

### Subtotals Unique to the Statement of Comprehensive Income

30. Alternatives 1 and 2 are presented side-by-side on pages 1 (manufacturing) and 2 (bank) of the Appendix. In addition to the “common” subtotals and the bottom line totals (illustrated in the table above), the statement of comprehensive income will have subtotals unique to that statement. The following possible additional subtotals could be presented in either Alternatives 1 or 2, or both (as appropriate) (refer to shaded lines in the appendices):

- a. Gross profit
- b. Other comprehensive income for each category (operating, investing)
- c. Comprehensive income before tax
- d. Total comprehensive income.

31. Alternative 2 also could present subtotals for:
- a. Total income before other comprehensive income (and taxes—depending on order of sections)
  - b. Total other comprehensive income.
32. Alternative 3 would present the common subtotals (subtotals for each section (business, financing) and category (operating, investing)) in both the short-term and long-term sections along with a subtotal (or total) for short-term income and long-term income, and possibly a total for comprehensive income. Alternative 3 would not include the additional subtotals contemplated in Alternatives 1 and 2 except for gross profit. Alternative 3 also could include a subtotal in both the short-term and long-term for income before taxes (depending on how taxes are presented).
33. Alternative 4 would have all of the common subtotals, a total for comprehensive income, and no unique subtotals expect for gross profit.
34. The staff notes that a subtotal equal to current net income could not be presented under any of the Alternatives because all items on the statement of comprehensive income, including OCI items, would be presented on a pre-tax basis under the preliminary model.

### **DISCUSSION QUESTIONS**

- 1) Do advisory group members have any comments on the disaggregation by function and nature or any suggestions for further improvement (particularly whether and when the by-nature information should be presented in the statement as opposed to the notes)?**
- 2) Should the income tax section on the statement of comprehensive income include income taxes that are currently credited or charged directly to equity? If not, how should the tax amount allocated to those items be determined?**

- 3) Are the four Alternatives presented reasonable given the Boards' expressed interim view and long-term goal described in paragraph 14? Which of the two interim views (Alternatives 1 and 2) do you prefer and why? Which of the two long-term views (Alternatives 3 and 4) do you prefer and why?**
  
- 4) Do you find the subtotals proposed for each of the Alternatives useful (as illustrated in the Appendix)? Should any subtotals be eliminated or added? Do you have any suggestions for the order in which the sections are presented (this could impact the subtotals that are drawn)?**

## Manufacturing Co.

### Alternative 1

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
Total	(1,987,194)	(1,801,590)
Gross profit on sales	787,806	779,160
Selling expenses		
Compensation expense	(85,000)	(79,050)
Pension expense	(2,000)	(1,860)
Bad debt expense (decreased allowance)	(6,278)	(15,412)
Other operating expenses	(70,000)	(65,100)
Total	(163,278)	(161,422)
General and administrative expenses		
Rent expense	(120,000)	(111,600)
Pension expense	(1,600)	(1,488)
Stock compensation expense	(7,500)	(6,975)
Depreciation expense	(77,000)	(71,610)
Accretion expense on ARO	(500)	(465)
Total	(206,600)	(192,138)
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	-
Interest expense on lease liability	(2,378)	-
Loss on sale of receivables	(200)	-
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	-
Other operating expenses	(80,000)	(74,400)
Total	(99,298)	(89,392)
Total operating income	318,630	336,208
Other comprehensive income		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Total other comprehensive operating income	160,000	153,380
Comprehensive operating income	478,630	489,588
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale	450	-
Dividend income	9,250	8,603
Total investing income	22,790	20,776
Other comprehensive income		
Unrealized gain on available-for-sale sec.	10,650	1,247
Total comprehensive investing income	10,650	1,247
Comprehensive investing income	33,440	22,023
Comprehensive business income	512,070	511,611
<b>DISCONTINUED OPERATIONS (before tax)</b>		
Loss on discontinued operations	(30,000)	
<b>FINANCING</b>		
Interest expense	(225,000)	-
Comprehensive financing expense	(225,000)	-
Comprehensive income before tax	257,070	511,611
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

### Alternative 2

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
Total	(1,987,194)	(1,801,590)
Gross profit on sales	787,806	779,160
Selling expenses		
Compensation expense	(85,000)	(79,050)
Pension expense	(2,000)	(1,860)
Bad debt expense (decreased allowance)	(6,278)	(15,412)
Other operating expenses	(70,000)	(65,100)
Total	(163,278)	(161,422)
General and administrative expenses		
Rent expense	(120,000)	(111,600)
Pension expense	(1,600)	(1,488)
Stock compensation expense	(7,500)	(6,975)
Depreciation expense	(77,000)	(71,610)
Accretion expense on ARO	(500)	(465)
Total	(206,600)	(192,138)
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	-
Interest expense on lease liability	(2,378)	-
Loss on sale of receivables	(200)	-
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	-
Other operating expenses	(80,000)	(74,400)
Total	(99,298)	(89,392)
Total operating income	318,630	336,208
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale	450	-
Dividend income	9,250	8,603
Total investing income	22,790	20,776
Total business income	341,420	356,984
<b>DISCONTINUED OPERATIONS (before tax)</b>		
Loss on discontinued operations	(30,000)	
<b>FINANCING</b>		
Interest expense	(225,000)	-
Total financing expense	(225,000)	-
Income before other comprehensive income and taxes	116,420	356,984
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Operating Income</b>		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
<b>Investing Income</b>		
Unrealized gain on available-for-sale sec.	10,650	1,247
Total Other Comprehensive Income	170,650	154,627
Comprehensive income before tax	257,070	511,611
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

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## Financial Institution

## Alternative 1

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Interest		
Interest Revenue	750,000	697,500
Interest Expense	(175,000)	(162,750)
Total Interest income	575,000	(162,750)
Noninterest Revenues		
Investment Banking Fees	155,000	144,150
Lending & deposit related fees	30,000	27,900
Asset management fees	57,000	53,010
Mortgage fees	208,000	193,440
Other income	-	-
Security gains (losses)	74,500	69,285
Dividend Income	9,250	
Total Noninterest Revenues	533,750	487,785
Total Revenues net of interest expense	1,108,750	325,035
Noninterest expenses		
Bad debt expense	(50,000)	
General and administrative expenses		
Rent expense	(120,000)	
Pension expense	(3,600)	(3,348)
Compensation expense	(210,000)	
Stock compensation expense	(7,500)	(6,975)
Total general and administrative expenses	(341,100)	
Other Expenses		
Litigation expense	(2,600)	-
Loss on sale of receivables	(200)	-
Other operating expenses	(150,000)	(139,500)
Total other operating expenses	(152,800)	(139,500)
Total operating income	564,850	185,535
Other comprehensive income		
Actuarial gain on pension obligation	-	4,580
Unrealized gain on AFS securities	20,500	
Total operating other comprehensive income	20,500	4,580
Comprehensive operating income	585,350	190,115
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Total investing income	13,090	12,174
Comprehensive business income	598,440	202,289
<b>FINANCING</b>		
Interest expense on Bonds Payable	(125,000)	
Total Financing Income	(125,000)	
Comprehensive income before tax	473,440	202,289
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	364,869	101,318

## Alternative 2

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Interest		
Interest Revenue	750,000	697,500
Interest Expense	(175,000)	(162,750)
Total Interest income	575,000	(162,750)
Noninterest Revenues		
Investment Banking Fees	155,000	144,150
Lending & deposit related fees	30,000	27,900
Asset management fees	57,000	53,010
Mortgage fees	208,000	193,440
Other income	-	-
Security gains (losses)	74,500	69,285
Dividend Income	9,250	
Total Noninterest Revenues	533,750	487,785
Total Revenues net of interest expense	1,108,750	325,035
Noninterest expenses		
Bad debt expense	(50,000)	
General and administrative expenses		
Rent expense	(120,000)	
Pension expense	(3,600)	(3,348)
Compensation expense	(210,000)	
Stock compensation expense	(7,500)	(6,975)
Total general and administrative expenses	(341,100)	
Other Expenses		
Litigation expense	(2,600)	-
Loss on sale of receivables	(200)	-
Other operating expenses	(150,000)	(139,500)
Total other operating expenses	(152,800)	(139,500)
Total operating income	564,850	185,535
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Net investing income	13,090	12,174
<b>FINANCING</b>		
Interest expense on Bonds Payable	(125,000)	
Total Financing Income	(125,000)	
Income before other comprehensive income and tax	452,940	197,709
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Operating</b>		
Actuarial gain on pension obligation	-	4,580
Unrealized gain on AFS securities	20,500	
Total other comprehensive income	20,500	4,580
Comprehensive income before tax	473,440	202,289
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Comprehensive income tax (expense)	(108,571)	(100,971)
Total comprehensive income	364,869	101,318

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## Manufacturing Co.

### Alternative 3

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>SHORT TERM</b>		
<b>BUSINESS</b>		
<b>Operating Income</b>		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
Total	(1,987,194)	(1,801,590)
Gross profit on sales	787,806	779,160
Selling expenses		
Compensation expense	(85,000)	(79,050)
Pension expense	(2,000)	(1,860)
Bad debt expense (decreased allowance)	(6,278)	(15,412)
Other operating expenses	(70,000)	(65,100)
Total	(163,278)	(161,422)
General and administrative expenses		
Rent expense	(120,000)	(111,600)
Pension expense	(1,600)	(1,488)
Stock compensation expense	(7,500)	(6,975)
Depreciation expense	(77,000)	(71,610)
Accretion expense on ARO	(500)	(465)
Total	(206,600)	(192,138)
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Interest expense on lease liability	(2,378)	-
Loss on sale of receivables	(200)	-
Research and development	(1,120)	(1,042)
Litigation expense	(2,600)	-
Other operating expenses	(80,000)	(74,400)
Total	(101,298)	(89,392)
Total short-term operating income	316,630	336,208
<b>Investing income</b>		
Short-term		
Realized gain on available-for-sale	450	-
Dividend income	9,250	8,603
Total short-term investing income	9,700	8,603
Total short-term business income	326,330	344,810
<b>DISCONTINUED OPERATIONS (before tax)</b>		
Loss on discontinued operations	(30,000)	
<b>FINANCING</b>		
Short term		
Interest expense	(225,000)	-
Financing expense	(225,000)	-
Total short-term income before tax	71,330	344,810
<b>LONG TERM</b>		
Long -term operating		
Gain on sale of building	2,000	-
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Total long-term operating income	162,000	153,380
Long -term investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Unrealized gain on available-for-sale sec.	10,650	1,247
Long-term investing income	23,740	13,421
long-term business income	185,740	166,801
Total Long-term income before tax	185,740	166,801
<b>INCOME TAXES</b>		
Comprehensive income before tax	257,070	511,611
Provisions for income taxes		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax expense	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

### Alternative 4

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
Total	(1,987,194)	(1,801,590)
Gross profit on sales	787,806	779,160
Selling expenses		
Compensation expense	(85,000)	(79,050)
Pension expense	(2,000)	(1,860)
Bad debt expense (decreased allowance)	(6,278)	(15,412)
Other operating expenses	(70,000)	(65,100)
Total	(163,278)	(161,422)
General and administrative expenses		
Rent expense	(120,000)	(111,600)
Pension expense	(1,600)	(1,488)
Stock compensation expense	(7,500)	(6,975)
Depreciation expense	(77,000)	(71,610)
Accretion expense on ARO	(500)	(465)
Total	(206,600)	(192,138)
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	-
Interest expense on lease liability	(2,378)	-
Loss on sale of receivables	(200)	-
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	-
Other operating expenses	(80,000)	(74,400)
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Total	60,702	63,988
Comprehensive operating income	478,630	489,588
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale	450	-
Dividend income	9,250	8,603
Unrealized gain on available-for-sale sec.	10,650	1,247
Comprehensive investing income	33,440	22,023
Comprehensive business income	512,070	511,611
<b>DISCONTINUED OPERATIONS (before tax)</b>		
Loss on discontinued operations	(30,000)	
<b>FINANCING</b>		
Interest expense	(225,000)	-
Comprehensive financing expense	(225,000)	-
Comprehensive income before tax	257,070	511,611
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

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## Financial Institution

## Alternative 3

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>SHORT TERM</b>		
<b>BUSINESS</b>		
<b>Operating</b>		
Interest		
Interest Revenue	750,000	697,500
Interest Expense	(175,000)	(162,750)
Total Interest income	575,000	(162,750)
Noninterest Revenues		
Investment Banking Fees	155,000	144,150
Lending & deposit related fees	30,000	27,900
Asset management fees	57,000	53,010
Mortgage fees	208,000	193,440
Other income	-	-
Security gains (losses)	74,500	69,285
Dividend Income	9,250	
Total Noninterest Revenues	533,750	487,785
Total Revenues net of interest expense	1,108,750	325,035
Noninterest expenses		
Bad debt expense	(50,000)	
General and administrative expenses		
Rent expense	(120,000)	
Pension expense	(3,600)	(3,348)
Compensation expense	(210,000)	
Stock compensation expense	(7,500)	(6,975)
Total general and administrative expenses	(341,100)	
Other Expenses		
Litigation expense	(2,600)	-
Loss on sale of receivables	(200)	-
Other operating expenses	(150,000)	(139,500)
Total other operating expenses	(152,800)	(139,500)
Total operating income	564,850	185,535
Other comprehensive income		
<b>FINANCING</b>		
Interest expense on Bonds Payable	(125,000)	
Total Financing Income	(125,000)	
Total short-term income before tax	439,850	185,535
<b>LONG-TERM</b>		
Long-term operating		
Unrealized gain on AFS securities	20,500	
Actuarial gain on pension obligation	-	4,580
Total long-term operating income	20,500	4,580
Long-term investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Total long-term investing income	13,090	12,174
Total long-term business income	33,590	16,754
Total long-term income before tax	33,590	16,754
<b>INCOME TAXES</b>		
Comprehensive income before tax	473,440	202,289
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Comprehensive income tax (expense)	(108,571)	(100,971)
Total comprehensive income	364,869	101,318

## Alternative 4

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
<b>BUSINESS</b>		
<b>Operating</b>		
Interest		
Interest Revenue	750,000	697,500
Interest Expense	(175,000)	(162,750)
Total Interest income	575,000	(162,750)
Noninterest Revenues		
Investment Banking Fees	155,000	144,150
Lending & deposit related fees	30,000	27,900
Asset management fees	57,000	53,010
Mortgage fees	208,000	193,440
Other income	-	-
Security gains (losses)	74,500	69,285
Dividend Income	9,250	
Total Noninterest Revenues	533,750	487,785
Total Revenues net of interest expense	1,108,750	325,035
Noninterest expenses		
Bad debt expense	(50,000)	
General and administrative expenses		
Rent expense	(120,000)	
Pension expense	(3,600)	(3,348)
Compensation expense	(210,000)	
Stock compensation expense	(7,500)	(6,975)
Total general and administrative expenses	(341,100)	
Other Expenses		
Litigation expense	(2,600)	-
Loss on sale of receivables	(200)	-
Other operating expenses	(150,000)	(139,500)
Actuarial gain on pension obligation	-	4,580
Unrealized gain on AFS securities	20,500	
Total other operating expenses	(132,300)	(134,920)
Comprehensive operating income	585,350	190,115
<b>Investing</b>		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Comprehensive investing income	13,090	12,174
Comprehensive business income	598,440	202,289
<b>FINANCING</b>		
Interest expense on Bonds Payable	(125,000)	
Total Financing Income	(125,000)	
Comprehensive income before tax	473,440	202,289
<b>INCOME TAXES</b>		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Comprehensive income tax (expense)	(108,571)	(100,971)
Total comprehensive income	364,869	101,318

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have expressed a desire for line item cohesiveness in the financial statements wherever possible. Thus, the staff plans to ask the Boards whether the level of disaggregation for the operating and financing segment information should be the same as what is presented in each of the financial statements (as illustrated in the appendix) or whether some amount of line item aggregation is acceptable. In May 2007, the Boards indicated that the additional segment information disclosed should be more than the operating, investing, and financing category subtotals by segment.

5. Another issue the staff plans to discuss with the Boards is how the information in the segment disclosures should relate to the amounts in the consolidated statements. The FASB expressed the view that assets and liabilities that are managed by a reportable segment should be allocated to that segment and measured on a basis consistent with the amounts reported in the consolidated financial statements (to the extent practicable).
6. The staff also plans to ask the Boards if the additional segment disclosures should include information about activities in categories other than operating and financing (that is, investing, discontinued operations, and income taxes).

### **DISCUSSION QUESTIONS (Agenda Paper 3)**

- 1) Should operating and financing segment information be required for all entities?**
- 2) How much detail about segment operating and financing activities should be provided from each primary statement—only subtotals for each category, significant line items, enough to line up with consolidated statements?**
- 3) Should reported segment information be measured on a basis consistent with that in the consolidated financial statements (to the extent practicable)?**
- 4) Should segment information about activities in the investing, discontinued operations, and income tax sections be presented?**

<b>STATEMENT OF FINANCIAL POSITION</b>		<b>SEGMENT DISCLOSURE</b>				
		<b>2006</b>				
	<b>Segment A</b>	<b>Segment B</b>	<b>Segment C</b>	<b>Unallocated/Eliminations</b>	<b>Total</b>	
<b>BUSINESS</b>						
<b>Operating assets and liabilities</b>						
Short term						
Accounts receivable	160,650	214,200	367,750	(100,000)	642,600	
Less: Allowance for bad debts	(6,320)	(8,426)	(10,533)		(25,278)	
Inventory	33,438	44,583	55,729		133,750	
Accounts payable	(68,750)	(91,667)	(164,583)	50,000	(275,000)	
Accrued liabilities	(14,500)	(19,333)	(24,167)		(58,000)	
Advances from customers	(47,500)	(63,333)	(79,167)		(190,000)	
Current portion of lease liability	(2,302)	(3,069)	(3,837)		(9,208)	
Share-based compensation liability			-	(13,500)	(13,500)	
Long term						
Leased asset	6,439	8,585	10,732		25,756	
Building	1,058,189	1,410,918	1,763,648		4,232,755	
Less: Accumulated depreciation	(64,125)	(85,500)	(106,875)		(256,500)	
Asset retirement obligation	(9,255)		-		(9,255)	
Loss contingency	(650)	(867)	(1,083)		(2,600)	
Interest payable	-	-	(25,000)		(25,000)	
Lease liability (excl current portion)	(6,218)	(8,290)	(10,363)		(24,870)	
Accrued pension liability	(1,200)	(1,600)	(2,000)		(4,800)	
Net operating assets	1,037,896	1,396,202	1,770,252	(63,500)	4,140,850	
<b>FINANCING</b>						
<b>Financing assets</b>						
Short term						
Cash	1,480,248	1,973,664	2,467,080		5,920,991	
Total financing assets	1,480,248	1,973,664	2,467,080	-	5,920,991	
<b>Financing liabilities</b>						
Short term						
Dividends Payable				(35,000)	(35,000)	
Short-term debt	(125,000)	(166,667)	(208,333)		(500,000)	
Long term						
Interest payable	(25,000)	(33,333)	(61,667)	20,000	(100,000)	
Bonds payable	(625,000)	(833,333)	(1,041,667)		(2,500,000)	
Total financing (liabilities)	(775,000)	(1,033,333)	(1,311,667)	(15,000)	(3,135,000)	
Net financing assets	705,248	940,330	1,155,413	(15,000)	2,785,991	

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Alternative 1 STATEMENT OF COMPREHENSIVE INCOME	SEGMENT DISCLOSURE				
2006	Segment A	Segment B	Segment C	Unallocated/Eliminations	Total
<b>BUSINESS</b>					
<b>Operating</b>					
Sales	693,750	925,000	1,456,250	(300,000)	2,775,000
Cost of goods sold					
Change in inventory	(111,563)	(148,750)	(235,938)	50,000	(446,250)
Materials	(318,750)	(425,000)	(671,250)	140,000	(1,275,000)
Labor	(27,500)	(36,667)	(55,833)	10,000	(110,000)
Overhead - depreciation of building	(25,000)	(33,333)	(41,667)		(100,000)
Overhead - depreciation of leased asset	(1,486)	(1,981)	(2,477)		(5,944)
Interest expense			(50,000)		(50,000)
Total cost of goods sold	(484,299)	(645,731)	(1,057,164)	200,000	(1,987,194)
Gross profit on sales	209,452	279,269	399,086	(100,000)	787,806
Selling expenses					
Compensation expense	(21,250)	(28,333)	(35,417)		(85,000)
Pension expense	-	-	-	(2,000)	(2,000)
Bad debt expense (decreased allowance)	(1,570)	(2,093)	(2,616)		(6,278)
Other operating expenses	(17,500)	(23,333)	(29,167)		(70,000)
Total selling expenses	(40,320)	(53,759)	(67,199)	(2,000)	(163,278)
General and administrative expenses					
Rent expense	(30,000)	(40,000)	(50,000)		(120,000)
Pension expense	-	-	-	(1,600)	(1,600)
Stock compensation expense	-	-	-	(7,500)	(7,500)
Depreciation expense	(19,250)	(25,667)	(32,083)		(77,000)
Accretion expense on ARO	(500)				(500)
Total G&A expenses	(49,750)	(65,667)	(82,083)	(9,100)	(206,600)
Other operating expenses					
Compensation expense	(3,750)	(5,000)	(6,250)		(15,000)
Litigation expense	-	(2,600)	-		(2,600)
Interest expense on lease liability	(595)	(793)	(991)		(2,378)
Loss on sale of receivables	(50)	(67)	(83)		(200)
Research and development	(1,120)	-	-		(1,120)
Gain on sale of building	-	2,000	-		2,000
Other operating expenses	(20,000)	(26,667)	(33,333)		(80,000)
Total other operating expenses	(25,515)	(33,126)	(40,658)	-	(99,298)
Net operating income	93,868	126,717	209,146	(111,100)	318,630
Other comprehensive income					
Gain on revaluation of building	-	160,000	-		160,000
Actuarial gain on pension obligation	-	-	-		-
Comprehensive operating income	93,868	286,717	209,146	(111,100)	478,630
<b>FINANCING</b>					
Interest expense	(56,250)	(75,000)	(143,750)	50,000	(225,000)
Comprehensive financing (expense)	(56,250)	(75,000)	(143,750)	50,000	(225,000)

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Appendix to Agenda Paper 3

SEGMENT DISCLOSURE					
STATEMENT OF CASH FLOWS	2006				
Cash flows from business activities	Segment A	Segment B	Segment C	Unallocated/Eliminations	Total
Operating (INDIRECT)					
Net cash provided by operating activities	4,180	24,567	113,833	(131,200)	11,380
Adjustments to reconcile comprehensive operating income to net cash provided by operating activities:					
Change in operating assets/liabilities:					
Accounts receivable	61,900	82,533	128,167	(25,000)	247,600
Less: Allowance for bad debts	(1,320)	(1,759)	(2,199)	-	(5,278)
Accounts payable	118,750	158,333	192,917	5,000	475,000
Accrued liabilities	(12,500)	(16,667)	(20,833)	-	(50,000)
Interest payable			25,000		(25,000)
Advances from customers	(43,750)	(58,333)	(72,917)	-	(175,000)
Current portion of lease liability	(2,302)	(3,069)	(3,837)	-	(9,208)
Inventory	(111,563)	(148,750)	(185,938)	-	(446,250)
Share-based compensation liability	-	-	-	(7,500)	(7,500)
Asset retirement obligation	(9,255)	-	-	-	(9,255)
Loss contingency	(650)	(867)	(1,083)	-	(2,600)
Leased asset	6,439	8,585	10,732	-	25,756
Lease liability (excl current portion)	(6,218)	(8,290)	(10,363)	-	(24,870)
Accrued pension liability	(600)	(800)	(1,000)	-	(2,400)
Building	158,189	210,918	263,648	-	632,755
Less: Accumulated depreciation	(39,125)	(52,167)	(65,208)	-	(156,500)
Comprehensive operating income	122,176	194,235	370,919	(158,700)	478,630
<b>Cash flows from financing activities</b>					
<b>Financing liabilities</b>					
Dividends paid				(35,000)	(35,000)
Interest paid	(25,000)	(33,333)	(91,667)	50,000	(100,000)
Proceeds from issuance of short-term debt	-	-	-	500,000	500,000
Proceeds from issuance of bonds	-	-	-	2,500,000	2,500,000
Net cash provided by financing activities	(25,000)	(33,333)	(91,667)	3,015,000	2,865,000

SEGMENT DISCLOSURE					
STATEMENT OF CASH FLOWS	2006				
Cash flows from business activities	Segment A	Segment B	Segment C	Unallocated/Eliminations	Total
Operating (DIRECT)					
Cash received from sales	675,000	900,000	1,400,000	(275,000)	2,700,000
Cash paid for goods sold					
Inventory purchases	(437,500)	(583,333)	(804,167)	75,000	(1,750,000)
Labor	(27,500)	(36,667)	(95,833)	50,000	(110,000)
Interest paid			(25,000)		(25,000)
Total	(465,000)	(620,000)	(925,000)	125,000	(1,885,000)
Cash paid for selling activities					
Compensation	(21,250)	(28,333)	(35,417)		(85,000)
Contributions to pension plan	-	-	-	(700)	(700)
Other expenses	(11,250)	(15,000)	(38,750)	20,000	(45,000)
Total	(32,500)	(43,333)	(74,167)	19,300	(130,700)
Cash paid for general and admin activities					
Rent	(30,000)	(40,000)	(50,000)		(120,000)
Contributions to pension plan				(500)	(500)
Total	(30,000)	(40,000)	(50,000)	(500)	(120,500)
Other operating activities					
Compensation	(3,750)	(5,000)	(6,250)		(15,000)
Sale of receivables	300	400	500		1,200
Research and development	(1,120)	-	-		(1,120)
Capital expenditures	(125,000)	(166,667)	(208,333)		(500,000)
Sale of building	-	17,500	-		17,500
Other expenses	(13,750)	(18,333)	(22,917)		(55,000)
Total	(143,320)	(172,100)	(237,000)	-	(552,420)
Net cash provided by operating activities	4,180	24,567	113,833	(131,200)	11,380
<b>Cash flows from financing activities</b>					
<b>Financing liabilities</b>					
Dividends paid				(35,000)	(35,000)
Interest paid	(25,000)	(33,333)	(91,667)	50,000	(100,000)
Proceeds from issuance of short-term debt	-	-	-	500,000	500,000
Proceeds from issuance of bonds	-	-	-	2,500,000	2,500,000
Net cash provided by financing activities	(25,000)	(33,333)	(91,667)	3,015,000	2,865,000

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**TOPIC: THE STATEMENT OF CASH FLOWS AND THE RECONCILIATION FROM THE STATEMENT OF CASH FLOWS TO THE STATEMENT OF COMPREHENSIVE INCOME**

**AGENDA PAPER 4**

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**INTRODUCTION**

1. This paper describes the reconciliation (from the statement of cash flows to the statement of comprehensive income) that was discussed by the Boards in June 2007 and the Boards' preliminary views on preparing and presenting the statement of cash flows. For discussion purposes, the following terms are used in this paper with the meanings specified:

**Reconciliation schedule** refers to a schedule that reconciles line items in the statement of cash flows (prepared based on cash receipts and payments) to the line items in the statement of comprehensive income.

**Indirect schedule** refers to a schedule that reconciles operating income to cash flow from operating activities in a manner similar to the indirect method in existing guidance.

**RECONCILIATION SCHEDULE**

2. One of the project's working principles states that the financial statements should help investors and other users of the financial statements understand the causes of a change in reported amounts of individual assets and liabilities. For example, a change in an asset or liability recognized as income or expense could be due to a change in price, a transaction, or a change in estimate. An investor or other user might weigh each of those changes differently in their analysis, particularly in their assessment of the amounts, timing, and uncertainty of future cash flows.
3. The Boards have been discussing the application of that working principle since October 2006. In June 2007, the Boards considered three alternatives for presenting this information, taking into consideration the following two working principles in addition to the working principle mentioned above:

Financial statements should present information in a manner that:

- (a) Portrays a cohesive financial picture of an entity
- (b) Helps a user assess the differences between cash transactions and accrual accounting.

Those three alternatives are described below.

### **Alternative A: Reconciliation of Statements of Financial Position**

4. A columnar reconciliation of the beginning and ending statements of financial position that would disaggregate the changes in each line item on the statement of financial position into a number of components. The reconciliation would include a column for
  - a. Various components of comprehensive income (those components are based on whether the change was a fair value change and whether it had predictive value) (such as those in paragraph 9(b)-(e))
  - b. Cash transactions
  - c. Captions from the statement of cash flows and statement of comprehensive income that would “link” the statement of financial position line items to the statement of comprehensive income and the statement of cash flows
  - d. Non-cash, non-income changes (to reconcile to ending balances).

### **Alternative B: Comprehensive Income Matrix**

5. A comprehensive income statement matrix that begins with the statement of comprehensive income and includes a column for each of the components of comprehensive income. There would be no linkage to the statement of financial position or the statement of cash flows.

### **Alternative C: Reconciliation of Statements of Cash Flows and Comprehensive Income**

6. A reconciliation of the statement of cash flows to the statement of comprehensive income would start with the amounts and line items in the statement of cash flows (based on cash receipts and payments, that is, the direct method), provide details about the items needed to reconcile to the statement of comprehensive income (disaggregated into the various components), and end with the amounts and line items presented in the statement of comprehensive income. This format would link the two change statements and would provide information about the changes in assets and liabilities.

### **The Boards’ Preliminary View - Reconciliation Schedule**

7. As described in the paragraphs below, the Boards prefer Alternative C—a reconciliation of the statement of cash flows to the statement of comprehensive income. However, the Boards decided that all three Alternatives should be discussed in the forthcoming preliminary views document.

8. In order to reconcile to the statement of comprehensive income, both Boards agreed that the reconciliation must begin with a statement of cash flows that presents cash receipts and cash payments (the direct method). However, the Boards differed on the reconciling items (columns). Their views are described below and illustrated in the Appendix.

**FASB View**

9. The FASB would include the following reconciling items (items b-e are non-cash items affecting income) (see page 3 of the Appendix (manufacturing company)):
- a. Cash (cash flows not affecting income)
  - b. Contractual accruals (for example, payables and receivables; those primarily due to timing differences)
  - c. Other accruals, systematic allocations, and other non-remeasurements (for example, depreciation expense and bad debt provisions)
  - d. Recurring fair value changes (as defined in FASB Statement No. 157, *Fair Value Measurements*; this category would include Level 1-3 changes in the Statement 157 hierarchy and would consist of marks of assets and liabilities to fair value from fair value)
  - e. Remeasurements other than recurring fair value changes (remeasurements are changes in the carrying amount of an asset or a liability due to a change in a price or an estimate).
10. In addition, the FASB would require an entity to present as part of that note disclosure information about amounts related to an unusual or infrequent event or transaction (as those concepts are used in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*).

**IASB View**

11. The IASB would include the following reconciling items (items b and c are non-cash items affecting income) (see page 4 of the Appendix (manufacturing company)):
- a. Cash (cash flows not affecting income)
  - b. Valuation adjustments (a change due to subsequent measurement of an asset or liability to a current value, which would include fair value)
  - c. All other changes.
12. Because valuation adjustments can behave more like other changes in assets and liabilities for certain types of businesses, in preparing the reconciliation schedule the IASB would permit an entity, as a matter of accounting policy, to classify valuation

adjustments as “other changes.” For example, management may consider it more useful to present inventory impairments in the same category as other costs of goods sold and not separately as a valuation adjustment.

## **THE STATEMENT OF CASH FLOWS**

13. In preparing a statement of cash flows, an entity would classify cash flows from its operating, investing, financing, discontinued operation, and income tax activities consistent with the classification of related items on the statements of financial position and comprehensive income. However, because the Boards agreed to eliminate the notion of cash equivalents, an entity would prepare the statement of cash flows based on the notion of cash only.

### **Use of the Direct and Indirect Method**

14. The Boards have different views on whether, in reporting cash flows from operating activities, an entity should be encouraged (IASB preference) or required (FASB preference) to report major classes of gross cash receipts and gross cash payments (that is, use the direct method). They do agree that an entity that does so would disaggregate and present operating cash receipts and payments in a manner consistent with the line items on the statement of comprehensive income. That is, the line-item descriptions in the operating category of the statement of cash flows would parallel the related line-item descriptions in the statement of comprehensive income to the extent practical. A statement of cash flows prepared using the direct method is illustrated on pages 1 (manufacturing) and 2 (financial institution) of the Appendix.

15. The Boards also agree that an entity should continue to report cash flow information related to investing, financing, discontinued operations, and income tax activities in a similar direct manner.

16. Similar to what is required in current practice, an entity that chooses **not** to provide information about major classes of *operating* cash receipts and payments by the direct method would present that information using the indirect method. That is, the entity would indirectly determine and present in the statement of cash flows the same amount for net cash flow from operating activities by adjusting operating income to

reconcile it to net cash flow from operating activities (the indirect method). An entity would label and present the reconciling information in a manner that is consistent with the related line items in the statements of financial position and comprehensive income. A statement of cash flows prepared using the indirect method is illustrated on pages 1 (manufacturing) and 2 (financial institution) of the Appendix (along side the direct method cash flow statement).

#### **Indirect Schedule**

17. The Boards agreed that if a statement of cash flows is prepared based on cash receipts and payments (the direct method), a separate schedule that reconciles operating income to cash flow from operating activities should also be presented (the indirect schedule).

#### **Information about Noncash Investing and Financing Activities**

18. Consistent with existing guidance, an entity would disclose in the notes information about all investing and financing activities of an entity during a period that affect recognized assets or liabilities but that do not result in cash receipts or cash payments in the period in the notes to financial statements. Those disclosures could be either narrative or summarized in a schedule, and they would clearly relate the cash and noncash aspects of transactions involving similar items. Some transactions are part cash and part noncash; only the cash portion would be reported in the statement of cash flows.

#### **Offsetting Cash Receipts and Payments**

19. The Boards are of the view that, in general, an entity should present information in each of the financial statements on a gross basis except when:
  - a. Net presentation is required or permitted by the authoritative accounting literature; or
  - b. There is no incremental value in the additional information provided in a gross presentation – that is, there is no benefit in a user of the financial statements knowing the two amounts; the net amount provides all of the information that is necessary. For example, an entity would present a gain on the sale of a piece of equipment that is ancillary to the business net of its cost rather than present the fair value (price paid) and its cost.

20. At an upcoming meeting, the Boards will address whether the cash flow “netting” provisions in FASB Statement No. 95, *Statement of Cash Flows*, and IAS 7 *Cash Flow Statements*, should be retained or if the general principle (b above) is adequate. For example, IAS 7 states that (Statement 95 includes similar provisions):

Cash flows arising from the following, investing or financing activities may be reported on a net basis:

- (a) cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- (b) cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.

[Paragraph 22]

Cash flows arising from each of the following activities of a financial institution may be reported on a net basis:

- (a) cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;
- (b) the placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) cash advances and loans made to customers and the repayment of those advances and loans.

[Paragraph 24]

#### **DISCUSSION QUESTIONS (Agenda Paper 4)**

- 1) **Which breakdown of reconciling items do you support (FASB view or IASB view) for the reconciliation schedule?**
  
- 2) The reconciliation schedule essentially would include the statement of cash flows prepared under the direct method. Historically, the Boards have encouraged but not required the use of the direct method to prepare the statement of cash flows mainly because it was not considered to be cost beneficial (that is, the costs were too large, the benefits were too small, or both).
  - a. **Would the statement of cash flows prepared under the direct method and reconciliation schedule provide information that is cost beneficial?**
  - b. **Should the direct method be required or encouraged when preparing the statement of cash flows?**
  
- 3) Assume that the reconciliation schedule is required. **If the statement of cash flows is required or permitted to be presented under the direct method, should an indirect schedule be required in addition to the reconciliation schedule?**

- 4) The Boards have tentatively agreed that the reconciliation schedule should be provided as a note disclosure. However, the reconciliation essentially would include the statement of cash flows prepared under the direct method. **If the statement of cash flows is presented under the direct method, should the reconciliation schedule replace the statement of cash flows as one of the statements that constitutes a complete set of financial statements?**
- 5) **Is the general principle for net presentation (paragraph 19b) sufficient or should specific guidance (paragraph 20) continue to be provided for the statement of cash flows?**

**Manufacturing Co.****STATEMENT OF CASH FLOWS**

	2006	2005
<b>Cash flows from business activities</b>		
<b>Operating (DIRECT)</b>		
Cash received from sales	2,700,000	2,511,000
Cash paid for goods sold		
Inventory purchases	(1,750,000)	(1,627,500)
Labor	(110,000)	(102,300)
Interest expense	(25,000)	
Total	(1,885,000)	(1,729,800)
Cash paid for selling activities		
Compensation	(85,000)	(79,050)
Contributions to pension plan	(700)	(651)
Other expenses	(45,000)	(41,850)
Total	(130,700)	(121,551)
Cash paid for general and admin activities		
Rent	(120,000)	(111,600)
Contributions to pension plan	(500)	(465)
Total	(120,500)	(112,065)
Cash flows from other operating activities		
Compensation	(15,000)	(13,950)
Sale of receivables	1,200	-
Research and development	(1,120)	(845)
Capital expenditures	(500,000)	(250,000)
Received from sale of building	17,500	-
Other expenses	(55,000)	(51,150)
Total	(552,420)	(315,945)
Net cash provided by operating activities	11,380	231,639
<b>Investing</b>		
Purchase of investment in affiliates	(710,000)	-
Purchase of available-for-sale securities	(185,000)	-
Sale of available-for-sale securities	5,000	-
Dividends received	9,250	8,603
Net cash used in investing activities	(880,750)	8,603
Net cash used in business activities	(869,370)	240,242
<b>Cash flows from Discontinued Operations</b>		
Net cash flow from disc. Ops. (pre-tax)	(20,000)	
<b>Cash flows from financing activities</b>		
<b>Financing liabilities</b>		
Dividends paid	(35,000)	(32,550)
Interest paid	(100,000)	-
Proceeds from issuance of short-term debt	500,000	-
Proceeds from issuance of bonds	2,500,000	-
Net cash provided by financing activities	2,865,000	(32,550)
<b>Cash flows from income taxes</b>		
Net cash used in income tax activities	(54,639)	(50,814)
<b>Change in cash</b>	1,920,991	156,877
<b>Beginning cash</b>	4,000,000	3,843,123
<b>Ending cash</b>	5,920,991	4,000,000

**STATEMENT OF CASH FLOWS**

	2006	2005
<b>Cash flows from business activities</b>		
<b>Operating (INDIRECT)</b>		
Net cash provided by operating activities	11,380	231,639
Adjustments to reconcile		
Net cash provided by operating activities to comprehensive operating income		
Change in operating assets/liabilities:		
Accounts receivable	247,600	207,984
Less: Allowance for bad debts	(5,278)	(4,434)
Accounts payable	475,000	412,599
Accrued liabilities	(50,000)	(42,000)
Advances from customers	(175,000)	(147,000)
Current portion of lease liability	(9,208)	(7,735)
Inventory	(446,250)	(274,850)
Interest payable	(25,000)	
Share-based compensation liability	(7,500)	(6,300)
Asset retirement obligation	(9,255)	(7,774)
Loss contingency	(2,600)	(2,184)
Leased asset	25,756	21,635
Lease liability (excl current portion)	(24,870)	(20,891)
Accrued pension liability	(2,400)	(2,016)
Building	632,755	262,512
Less: Accumulated depreciation	(156,500)	(131,598)
Comprehensive operating income	478,630	489,588
<b>Investing</b>		
Purchase of investment in affiliates	(710,000)	-
Purchase of available-for-sale securities	(185,000)	-
Sale of available-for-sale securities	5,000	-
Dividends received	9,250	8,603
Net cash used in investing activities	(880,750)	8,603
Net cash used in business activities	(869,370)	240,242
<b>Cash flows from Discontinued Operations</b>		
Net cash flow from disc. Ops. (pre-tax)	(20,000)	
<b>Cash flows from financing activities</b>		
<b>Financing liabilities</b>		
Dividends paid	(35,000)	(32,550)
Interest paid	(100,000)	-
Proceeds from issuance of short-term debt	500,000	-
Proceeds from issuance of bonds	2,500,000	-
Net cash provided by financing activities	2,865,000	(32,550)
<b>Cash flows from income taxes</b>		
Net cash used in income tax activities	(54,639)	(50,814)
<b>Change in cash</b>	1,920,991	189,427
<b>Beginning cash</b>	4,000,000	3,843,123
<b>Ending cash</b>	5,920,991	4,000,000

Note: the operating section of this statement can be seen as the indirect schedule that is provided if the direct method is used

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## Financial Institution

## STATEMENT OF CASH FLOWS

	2,006	2,005
<b>Cash flows from business activities</b>		
<b>Operating (DIRECT)</b>		
Cash flows from cash and credit revenues:		
Investment Banking Fees	77,500	72,075
Lending & deposit related fees	20,000	18,600
Asset management fees	35,500	33,015
Mortgage fees	117,000	108,810
Total cash received from revenues	<u>250,000</u>	<u>232,500</u>
General and admin activities		
Cash paid for rent	(120,000)	(111,600)
Cash paid for compensation expense	(210,000)	(195,300)
Cash payment for credit purchases of services	(100,000)	(93,000)
Cash paid for pension contribution	(1,200)	(1,116)
Total cash flows from general and admin	<u>(431,200)</u>	<u>(401,016)</u>
Other operating activities		
Cash purchase of trading securities	(97,500)	(90,675)
Cash Sale of trading securities	145,000	134,850
Cash purchases of HTM securities	(165,000)	(153,450)
Cash received from sale of HTM securities	150,000	
Cash paid for purchases of AFS securities	(185,000)	(172,050)
Cash received for sale of AFS securities	45,500	42,315
Cash dividends received	9,250	8,603
Cash received from deposits (net)	3,000,000	2,790,000
Cash paid at loan inception	(4,850,000)	(4,510,500)
Cash received from repayment of loans	2,500,000	2,325,000
Cash received from advances from customers	200,000	186,000
Cash received from sale of acct. receivable	1,200	1,116
Total cash flows from other operating activities	<u>753,450</u>	<u>561,209</u>
Net cash provided by operating activities	<u>572,250</u>	<u>392,693</u>
<b>Investing</b>		
Purchase of affiliate	(710,000)	(660,300)
Net cash flows from investing activities	<u>(710,000)</u>	<u>(660,300)</u>
Net cash flows from business activities	<u>(137,750)</u>	<u>(267,608)</u>
<b>Cash flows from financing activities</b>		
<b>Financing liabilities</b>		
Cash received from issuance of bonds	2,500,000	
Cash received from issuance of s/t debt	500,000	
Net cash flows from financing activities	<u>3,000,000</u>	<u>-</u>
<b>Cash flows from income taxes</b>		
Payment of taxes	(54,639)	(50,814)
Net cash flows from acts with non-equity holders	<u>2,807,611</u>	<u>(318,422)</u>
<b>Cash flows from equity activities</b>		
Cash Payment of Dividends	(35,000)	(32,550)
<b>Change in cash</b>	2,772,611	(350,972)
<b>Beginning cash</b>	4,000,000	4,350,972
<b>Ending cash</b>	<u>6,772,611</u>	<u>4,000,000</u>

## STATEMENT OF CASH FLOWS

	2,006	2,005
<b>Cash flows from business activities</b>		
<b>Operating (INDIRECT)</b>		
Comprehensive operating income	585,350	489,588
Adjustments to reconcile		
net cash provided by operating activities		
to comprehensive operating income:		
Change in operating assets/liabilities:		
Accounts receivable	(13,600)	(207,984)
Less: Allowance for bad debts	40,000	4,434
Trading securities	27,500	(412,599)
Available for sale securities	(164,500)	
Held to maturity securities	(65,000)	
Accrued liabilities	50,000	42,000
Advances from customers	175,000	147,000
Loans	(3,250,000)	
Interest bearing deposits	2,250,000	
Non-interest bearing deposits	750,000	
Borrowed funds	-	
Share-based compensation liability	7,500	6,300
Loss contingency	2,600	2,184
Interest Payable	175,000	
Accrued pension liability	2,400	2,016
Net cash provided by operating activities	<u>572,250</u>	<u>72,939</u>
<b>Investing</b>		
Purchase of affiliate	(710,000)	(660,300)
Net cash flows from investing activities	<u>(710,000)</u>	<u>(660,300)</u>
Net cash flows from business activities	<u>(137,750)</u>	<u>(587,361)</u>
<b>Cash flows from financing activities</b>		
<b>Financing liabilities</b>		
Cash received from issuance of bonds	2,500,000	-
Cash received from issuance of s/t debt	500,000	-
Net cash flows from financing activities	<u>3,000,000</u>	<u>-</u>
<b>Cash flows from income taxes</b>		
Payment of taxes	(54,639)	(50,814)
Net cash flows from acts with non-equity holders	<u>2,807,611</u>	<u>(638,176)</u>
<b>Cash flows from equity activities</b>		
Cash Payment of Dividends	(35,000)	(32,550)
<b>Change in cash</b>	2,772,611	(670,726)
<b>Beginning cash</b>	4,000,000	4,670,726
<b>Ending cash</b>	<u>6,772,611</u>	<u>4,000,000</u>

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Appendix to Agenda Paper 4

RECONCILIATION OF THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS								
FASB view	A	B	C	D	E	F	G	H
	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-Remeasurements	Fair Value Changes	Remeasurements Other than Fair Value Changes	Comprehensive Income (A-B+C+D+E+F)	Caption in Statement of Comprehensive Income
								Unusual or Infrequent Events or Transactions
<b>CASH FLOWS FROM BUSINESS</b>								<b>BUSINESS</b>
<b>Operating</b>								<b>Operating</b>
Cash received from sales	2,700,000		75,000				2,775,000	Sales
Cash paid for goods sold				(446,250)			(446,250)	Cost of goods sold
Inventory purchases	(1,750,000)		475,000				(1,275,000)	Change in inventory
Labor	(110,000)			(100,000)			(110,000)	Materials
				(5,944)			(5,944)	Labor
Interest expense	(25,000)		(25,000)				(50,000)	Overhead - depreciation of building
Total	(1,885,000)		450,000	(552,194)			(1,987,194)	Overhead - depreciation of leased asset
							787,806	Interest expense
								Total
Cash paid for selling activities								Gross profit on sales
Compensation	(85,000)						(85,000)	Selling expenses
Contributions to pension plan	(700)			(1,300)			(2,000)	Compensation expense
				(9,358)		3,080	(6,278)	Pension expense
Operating expenses	(45,000)		(25,000)				(70,000)	Bad debt expense (decreased allowance)
Total	(130,700)		(25,000)	(10,658)		3,080	(163,278)	Other operating expenses
Cash paid for general and admin activities								Total
Rent	(120,000)			(1,100)			(121,100)	General and administrative expenses
Contributions to pension plan	(500)				(7,500)		(8,000)	Rent expense
							(77,000)	Pension expense
							(500)	Stock compensation expense
Total	(120,500)			(78,600)	(7,500)		(206,600)	Depreciation expense
Cash paid for other operating activities								Accretion expense on ARO
Compensation	(15,000)			(2,600)			(17,600)	Total
			(2,378)				(2,378)	Other operating expenses
Sale of receivables	1,200			(1,600)		200	(200)	Compensation expense
Research and development	(1,120)						(1,120)	Litigation expense
Sale of building	17,500					(15,500)	2,000	Interest expense on lease liability
Capital expenditures	(500,000)	500,000						Loss on sale of receivables
Other expenses	(55,000)		(25,000)				(80,000)	Research and development
Total	(552,420)	500,000	(27,378)	(4,200)		(15,300)	(99,298)	Gain on sale of building
Net cash provided by operating activities	11,380	500,000	472,622	(645,652)	(7,500)	(12,220)	318,630	Other operating expenses
							160,000	Compensation expense
								Litigation expense
								Interest expense on lease liability
								Loss on sale of receivables
								Research and development
								Gain on sale of building
								Other operating expenses
								Total
								Total operating income
								Other comprehensive income
								Gain on revaluation of building
								Total other comprehensive income
								Comprehensive operating income
<b>Investing</b>								<b>Investing</b>
Sale of available-for-sale securities	5,000			12,250	840		18,090	Equity in earnings of affiliate
Dividends received	9,250			(5,000)	450		4,700	Fair value adjustment on affiliate
Purchase of investment in affiliates	(710,000)	(710,000)					(1,420,000)	Realized gain on available-for-sale
Purchase of AFS securities	(185,000)	(185,000)					(370,000)	Dividend income
Net cash used in operating activities	(880,750)	(895,000)		7,250	1,290		(1,667,210)	Net investing income
								Other comprehensive income
Net cash used in operating activities	(880,750)	(895,000)		7,250	11,940		(1,659,560)	Unrealized gain on available-for-sale sec.
Net cash used in business activities	(869,370)	(395,000)	472,622	(638,402)	4,440	147,780	512,070	Comprehensive investing income
								Comprehensive business income
<b>CASH FLOWS FROM DISC OPS</b>								<b>Loss from discontinued operations</b>
Cash flows from discontinued operations	(20,000)		(10,000)			(50,000)	(80,000)	
<b>CASH FLOWS FROM FINANCING</b>								<b>FINANCING</b>
Dividends paid	(35,000)	(35,000)					(70,000)	Interest expense
Interest paid	(100,000)		(125,000)				(225,000)	
Proceeds from issuance of st debt	500,000	500,000					1,000,000	
Proceeds from issuance of bonds	2,500,000	2,500,000					5,000,000	
Net cash provided by financing activities	2,865,000	2,965,000	(125,000)				5,645,000	Comprehensive financing (expense)
								Comprehensive income before tax and disc ops
<b>CASH FLOWS FROM INCOME TAXES</b>								<b>INCOME TAXES</b>
Income taxes paid	(54,639)		(20,812)				(75,451)	Current tax expense
				(33,120)			(108,571)	Deferred tax expense
Net cash used for income taxes	(54,639)		(20,812)	(33,120)			(108,571)	Comprehensive income tax (expense)
Net cash flows	1,920,991	2,570,000	326,810	(671,522)	4,440	147,780	3,194,489	Total comprehensive income
<b>Change in cash</b>	1,920,991						1,920,991	
<b>Beginning cash</b>	4,000,000						4,000,000	
<b>Ending cash</b>	5,920,991						5,920,991	

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Appendix to Agenda Paper 4

RECONCILIATION OF THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS							
IASB view	A	B	C		D	E	F
	Cash Flows	Cash Flows Not Affecting Income	Non Cash Items Affecting Income		All Other Transactions	Comprehensive Income (A-B+C+D+E+F)	Caption in Statement of Comprehensive Income
			Valuation Adjustments				
<b>CASH FLOWS FROM BUSINESS</b>							<b>BUSINESS</b>
<b>Operating</b>							<b>Operating</b>
Cash received from sales	2,700,000				75,000	2,775,000	Sales
Cash paid for goods sold							Cost of goods sold
Inventory purchases	(1,750,000)				(446,250)	(446,250)	Change in inventory
Labor	(110,000)				475,000	(1,275,000)	Materials
					(100,000)	(110,000)	Labor
Interest expense	(25,000)				(5,944)	(5,944)	Overhead - depreciation of building
Total	(1,885,000)	-	-		(25,000)	(50,000)	Overhead - depreciation of leased asset
							Interest expense
Cash paid for selling activities							Total cost of goods sold
Compensation	(85,000)						Gross profit on sales
Pension plan	(700)						Selling expenses
							Compensation expense
Cash paid for other operating expenses	(45,000)		3,080		(9,358)	(6,278)	Pension expense
Total	(130,700)	-	3,080		(25,000)	(70,000)	Bad debt expense
							Other operating expenses
Cash paid for general and admin activities							Total selling expenses
Rent	(120,000)						General and administrative expenses
Contributions to pension plan	(500)						Rent expense
							Pension expense
							Stock compensation expense
Total	(120,500)	-	(7,500)		(77,000)	(77,000)	Depreciation expense
							Accretion expense on ARO
Cash flows from other operating activities							Total G&A expenses
Compensation	(15,000)				(500)	(500)	Other operating expenses
							Compensation expense
Sale of receivables	1,200			200	(2,600)	(2,600)	Litigation expense
Research and development	(1,120)				(2,378)	(2,378)	Interest expense on lease liability
Sale of building	17,500		(15,500)		(1,600)	(200)	Loss on sale of receivables
Capital expenditures	(500,000)	(500,000)					Research and development
Other expenses	(55,000)						Gain on sale of building
Total	(552,420)	(500,000)	(15,300)		(31,578)	(99,298)	Other operating expenses
							Total other operating expenses
Net cash provided by operating activities	11,380	(500,000)	(19,720)		(173,030)	318,630	Net operating income
							Other comprehensive income
							Gain on revaluation of building
Net cash provided by operating activities	11,380	(500,000)	140,280		(173,030)	478,630	Total other comprehensive income
							Comprehensive operating income
<b>Investing</b>							<b>Investing</b>
Sale of available-for-sale securities	5,000		840			12,250	Equity in earnings of affiliate
Dividends received	9,250		450		(5,000)	840	Fair value adjustment on affiliate
Purchase of investment in affiliates	(710,000)	(710,000)				450	Realized gain on available-for-sale
Purchase of available-for-sale securities	(185,000)	(185,000)				9,250	Dividend income
Net cash used in operating activities	(880,750)	(895,000)	1,290		7,250	22,790	Net investing income
							Other comprehensive income
Net cash used in operating activities	(880,750)	(895,000)	10,650			10,650	Unrealized gain on available-for-sale sec.
Net cash used in business activities	(869,370)	(1,395,000)	152,220		7,250	33,440	Comprehensive investing income
							Comprehensive business income
<b>CASH FLOWS FROM DISC OPS</b>							Loss from discontinued operations
Cash flows from discontinued operations	(20,000)		(50,000)		(10,000)	(80,000)	
<b>CASH FLOWS FROM FINANCING</b>							<b>FINANCING</b>
Dividends paid	(35,000)	(35,000)					Interest expense
Interest paid	(100,000)				(125,000)	(225,000)	
Proceeds from issuance of short-term debt	500,000	500,000					
Proceeds from issuance of bonds	2,500,000	2,500,000					
Net cash provided by financing activities	2,865,000	3,000,000	-		(125,000)	(225,000)	Comprehensive financing (expense)
							Comprehensive income before tax and disc ops
<b>CASH FLOWS FROM INCOME TAXES</b>							<b>INCOME TAXES</b>
Income taxes paid	(54,639)				(20,812)	(75,451)	Current tax expense
							Deferred tax expense
Net cash used in income tax activities	(54,639)	-	-		(53,932)	(108,571)	Comprehensive income tax (expense)
Net cash provided by acts with non-equity holders	1,920,991	1,605,000	152,220		(344,712)	98,499	Total comprehensive income
<b>Change in cash</b>	1,920,991						
<b>Beginning cash</b>	4,000,000						
<b>Ending cash</b>	5,920,991						

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**TOPIC: RECASTING EXERCISE**  
**AGENDA PAPER 5**

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7. During August 2007, the staff conducted a limited recasting exercise with nine different companies (six core; three shadow). The main purpose of the exercise was to test the preliminary model from an understandability perspective. We wanted to determine whether the working staff draft of the document was clear in terms of how to apply the preliminary model and if that model can be operationalized.
8. We provided each of the participants with the following:
  - a. A paper describing the current views of the Boards (working staff draft of the preliminary model) and the basic principles underpinning those views
  - b. Sample financial statements illustrating the preliminary model
  - c. A recasting work program with questions regarding process, assumptions, and outcomes
  - d. A participant confidentiality agreement.
9. The participants were asked to recast any single year of their choice to include:
  - a. Classification of assets and liabilities into the categories and sections in the preliminary model
  - b. Recast the four primary financial statements
  - c. Prepare a disclosure reconciling the Statement of Cash Flows to the Statement of Comprehensive Income
  - d. Prepare a segment disclosure that incorporated operating and financing information
  - e. An assessment of the cost/benefit of providing each line item in the recast financial statements.
10. Additionally, we asked the participants to keep a running log of comments, observations, or questions that arose during the exercise to facilitate discussions and analysis after completing the recasting.
11. The core participants were:
  - a. Novartis (pharmaceuticals, JIG member)
  - b. McCormick & Company (food/manufacturing, JIG member)
  - c. Shell (oil)

- d. UBS (banking, FIAG member)
- e. Two local Connecticut banks.

The shadow participants were Allianz and Aviva (multinational insurance companies, FIAG members) and Roche (pharmaceuticals). Unfortunately, the two local Connecticut banks did not complete the recasting exercise, presumably due to resource issues.

12. On September 5, 2007, the staff held a conference call with the four core recasting participants to discuss issues encountered during the recasting exercise. At the JIG/FIAG meeting, the staff will present a brief report on their findings and recasting results. The JIG/FIAG members from the recasting companies will provide their overall comments on the exercise (they may share their comments on specific aspects of the preliminary model during the course of the JIG/FIAG meeting) and answer any questions that advisory group or Board members may have.

13. Our plans related to the recasting exercise going forward are as follows:

- a. Early October: Provide Board members with a package of materials that will include a summary of key points resulting from the recasting exercise and examples from recast financial statements that illustrate those points.
- b. October 22-24: Discuss the recasting exercise with both Boards at their joint meeting, including which aspects of the preliminary model, if any, they want to change prior to issuing the discussion paper.
- c. November/December: Board meetings to discuss possible changes to the preliminary model due to input from and results of the recasting exercise.



## **THE STATEMENT OF FINANCIAL POSITION**

3. Assets or liabilities that are measured differently would be presented in separate line items on the statement of financial position (that is, an entity would not be able to combine items with different measurement bases and present them in a single line item).
4. An entity would present a classified statement of financial position (that is classify all assets and liabilities into short-term and long-term subcategories) (see the illustration on page 1 of the Appendix) except:
  - a. If the entity is a financial institution (such as a bank, investment bank, or insurance company) (FASB view).
  - b. When a presentation based on liquidity provides information that is reliable and is more relevant (IASB view—as in IAS 1 *Presentation of Financial Statements*) (see the illustration on page 2 of the Appendix).
5. Total assets and total liabilities would be disclosed in the notes to financial statements.

## **THE STATEMENT OF COMPREHENSIVE INCOME**

*See Agenda Paper 2*

6. **Extraordinary items** would not be presented as a separate section or category in the financial statements and the concept of extraordinary items would be eliminated.

## **THE STATEMENT OF CASH FLOWS**

*See Agenda Paper 4*

## **THE STATEMENT OF CHANGES IN EQUITY**

7. The statement of changes in equity should include details of the change in the beginning and ending balance of each component of equity (except for accumulated OCI, which would be presented in the aggregate on the statement of changes in equity and the details for each OCI item in the notes to financial statements). In addition, proceeds from capital transactions should be presented in the aggregate on the

statement of changes in equity. See page 3 of the Appendix for an illustrative statement of changes in equity for both a manufacturing company and a bank.

## **NOTES TO FINANCIAL STATEMENTS**

### **Liquidity Information**

8. An entity that does not present a classified statement of financial position would present a detailed maturity schedule for short-term contractual assets and liabilities. An entity should use its judgment to determine the appropriate level of detail (such as on demand; less than one month; more than one month and not more than three months; and more than three months and not more than one year).
9. An entity would present a maturity schedule for long-term contractual assets and liabilities.
10. An entity would disclose qualitative and quantitative capital management information.

### **Measurement Information**

11. Information about the measurement basis (or bases) of the assets and liabilities presented on the statement of financial position would be disclosed in the summary of significant accounting policies. In deciding whether a particular accounting policy should be disclosed, management would consider whether disclosure would assist users in understanding how transactions, other events, and conditions are reflected in the financial statements.
12. The notes to financial statements should include a description of any significant uncertainty in the current measure of assets and liabilities and an explanation of why the measured amount was selected. Individual accounting standards would include more specific disclosures about measurement uncertainty as appropriate.

**Manufacturing Co.**

<b>STATEMENT OF FINANCIAL POSITION</b>		
	<b>2006</b>	<b>2005</b>
<b>BUSINESS</b>		
<b>Operating assets and liabilities</b>		
Short term		
Accounts receivable	642,600	395,000
Less: Allowance for bad debts	(25,278)	(20,000)
Inventory	133,750	580,000
Accounts payable	(275,000)	(750,000)
Accrued liabilities	(58,000)	(8,000)
Advances from customers	(190,000)	(15,000)
Interest payable	(25,000)	
Current portion of lease liability	(9,208)	-
Share-based compensation liability	(13,500)	(6,000)
Total short term	<u>180,364</u>	<u>176,000</u>
Long term		
Leased asset	25,756	-
Building	4,232,755	3,600,000
Less: Accumulated depreciation	(256,500)	(100,000)
Asset retirement obligation	(9,255)	-
Loss contingency	(2,600)	-
Lease liability (excl current portion)	(24,870)	-
Accrued pension liability	(4,800)	(2,400)
Total long term	<u>3,960,486</u>	<u>3,497,600</u>
Net operating assets	<u>4,140,850</u>	<u>3,673,600</u>
<b>Investing assets and liabilities</b>		
Long term		
Available-for-sale securities	191,100	-
Investment in affiliate--equity method	412,250	-
Investment in affiliate--at fair value	310,840	-
Total investing assets	<u>914,190</u>	<u>-</u>
Net business assets	<u>5,055,040</u>	<u>3,673,600</u>
<b>FINANCING</b>		
<b>Financing assets</b>		
Short term		
Cash	5,920,991	4,000,000
Total financing assets	<u>5,920,991</u>	<u>4,000,000</u>
<b>Financing liabilities</b>		
Short term		
Dividends payable	(35,000)	-
Short-term debt	(500,000)	-
Long term		
Interest payable	(100,000)	-
Bonds payable	(2,500,000)	-
Total financing (liabilities)	<u>(3,135,000)</u>	<u>-</u>
Net financing assets	<u>2,785,991</u>	<u>4,000,000</u>
<b>DISCONTINUED OPERATIONS</b>		
Assets classified as held for sale	410,000	420,000
Liabilities classified as held for sale	(120,000)	(120,000)
Net assets held for sale	<u>290,000</u>	<u>300,000</u>
<b>INCOME TAXES</b>		
Short term		
Income tax payable	(75,451)	(54,639)
Long term		
Deferred tax liability	(56,819)	(23,699)
Net income tax (liabilities)	<u>(132,270)</u>	<u>(78,338)</u>
Total net assets	<u>7,998,761</u>	<u>7,895,262</u>
<b>EQUITY</b>		
Common stock and APIC	(5,000,000)	(5,000,000)
Treasury stock	100,000	100,000
Retained earnings	(2,773,484)	(2,840,635)
Accumulated OCI	(325,277)	(154,627)
Total (equity)	<u>(7,998,761)</u>	<u>(7,895,262)</u>

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**Financial Institution****STATEMENT OF FINANCIAL POSITION**

	<u>2006</u>	<u>2005</u>
<b>BUSINESS</b>		
<b>Operating assets and liabilities</b>		
Short term		
Cash	6,772,611	4,000,000
Trading Assets	2,472,500	2,500,000
Available for Sale Securities	664,500	500,000
Accounts receivable	608,600	595,000
Less: Allowance for bad debts	(60,000)	(20,000)
Accrued liabilities	(78,000)	(28,000)
Advances from customers	(190,000)	(15,000)
Interest payable	(175,000)	-
Share-based compensation liability	(13,500)	(6,000)
Long term		
Held-to-maturity securities	915,000	850,000
Loans	4,750,000	1,500,000
Interest bearing deposits	(6,750,000)	(4,500,000)
Non-interest bearing deposits	(1,750,000)	(1,000,000)
Borrowed Funds	(750,000)	(750,000)
Loss contingency	(2,600)	-
Accrued pension liability	(4,800)	(2,400)
Net operating assets	<u>6,409,311</u>	<u>3,623,600</u>
<b>Investing assets and liabilities</b>		
Long term		
Investment in affiliate--equity method	422,250	-
Investment in affiliate--at fair value	300,840	-
Total investing assets	<u>723,090</u>	<u>-</u>
Net business assets	<u>7,132,401</u>	<u>3,623,600</u>
<b>FINANCING</b>		
<b>Financing assets</b>		
Short term		
Dividends payable	(35,000)	-
Interest payable	(125,000)	-
Short-term Debt	(500,000)	-
Long term		
Bonds payable	(2,500,000)	-
Total financing (liabilities)	<u>(3,160,000)</u>	<u>-</u>
Net financing assets	<u>(3,160,000)</u>	<u>-</u>
<b>INCOME TAXES</b>		
Short term		
Income tax payable	(75,451)	(54,639)
Long term		
Deferred tax liability	(56,819)	(23,699)
Net income tax (liabilities)	<u>(132,270)</u>	<u>(78,338)</u>
Total net assets	<u>3,840,131</u>	<u>3,545,262</u>
<b>EQUITY</b>		
Common stock and APIC	(2,500,000)	(2,500,000)
Treasury stock	100,000	100,000
Retained earnings	(1,265,004)	(990,635)
Accumulated OCI	(175,127)	(154,627)
Total (equity)	<u>(3,840,131)</u>	<u>(3,545,262)</u>

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<b>STATEMENT OF SHAREHOLDERS' EQUITY - MANUFACTURING CO.</b>					
	<b>Common Stock</b>			<b>Accumulated Other Comprehensive Income</b>	<b>Total Sharholders' Equity</b>
	<b>and APIC</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>		
<b>Balance at December 31, 2004</b>	<b>5,000,000</b>	<b>(100,000)</b>	<b>2,654,622</b>	<b>-</b>	<b>7,554,622</b>
Comprehensive Income	-	-	256,013	154,627	410,640
Dividends	-	-	(70,000)	-	(70,000)
<b>Balance at December 31, 2005</b>	<b>5,000,000</b>	<b>(100,000)</b>	<b>2,840,635</b>	<b>154,627</b>	<b>7,895,262</b>
Comprehensive Income	-	-	2,849	170,650	173,499
Dividends	-	-	(70,000)	-	(70,000)
<b>Balance at December 31, 2006</b>	<b>5,000,000</b>	<b>(100,000)</b>	<b>2,773,484</b>	<b>325,277</b>	<b>7,998,761</b>

<b>STATEMENT OF SHAREHOLDERS' EQUITY - FINANCIAL INSTITUTION</b>					
	<b>Common Stock</b>			<b>Accumulated Other Comprehensive Income</b>	<b>Total Sharholders' Equity</b>
	<b>and APIC</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>		
<b>Balance at December 31, 2004</b>	<b>2,500,000</b>	<b>(100,000)</b>	<b>963,897</b>	<b>150,047</b>	<b>3,513,944</b>
Comprehensive Income	-	-	96,738	4,580	101,318
Dividends	-	-	(70,000)	-	(70,000)
<b>Balance at December 31, 2005</b>	<b>2,500,000</b>	<b>(100,000)</b>	<b>990,635</b>	<b>154,627</b>	<b>3,545,262</b>
Comprehensive Income	-	-	344,369	20,500	364,869
Dividends	-	-	(70,000)	-	(70,000)
<b>Balance at December 31, 2006</b>	<b>2,500,000</b>	<b>(100,000)</b>	<b>1,265,004</b>	<b>175,127</b>	<b>3,840,131</b>

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**TOPIC: COMMUNICATION STRATEGY**  
**AGENDA PAPER 7**

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**INTRODUCTION**

1. In January 2007, the Boards met in separate administrative meetings to discuss a communication plan for the financial statement presentation project and how much “testing” of the Boards’ preliminary views should be done before and/or after issuing the initial discussion document containing those preliminary views. The following paragraphs summarize the Boards decisions.

**COMMUNICATION PLAN**

2. The Boards agreed to the following project communication goals:
  - a. Shape our message in a way such that constituents will understand why the current set of financial statements fail to meet user needs and can assess whether the preliminary model would.
  - b. Identify a handful of key preparers and users who support the notion that the current presentation model is outdated and needs reviewing.
  - c. Encourage broad participation in the consultation process to ensure that the best ideas are given due consideration by the Boards.
3. The tactics discussed included the following:
  - a. Developing key talking points
  - b. Revamping the project webpage to more clearly explain why we’re doing the project and the decisions to date
  - c. Engaging key users and preparers in the process
  - d. Drafting the preliminary views document so that it is as understandable (plain English) as possible
  - e. Including quotes from influential constituents from both the preparer and user community in the press release announcing the start of the consultation period and publication of the Board’s preliminary views
  - f. Making the comment period two months longer (that is, a minimum of 6 months) to promote an active and vibrant consultation on the presentation of financial statements and allow due consideration of the Board’s preliminary views (this will also allow time for a recasting exercise during the comment period)
  - g. Holding meetings/forums with constituent groups to explain and seek feedback on the Boards’ preliminary views, whilst discussing other ideas on how the presentation of financial statements can be improved
  - h. Posting a PowerPoint package and a frequently asked questions document on the Boards’ websites concurrent with publication of the document.

4. The Boards' communication teams are working together on many of those steps along with the project team. A UK freelance business journalist is drafting an article describing the problems with the current reporting model that the Boards are aiming to resolve. We plan to have the article published before year end.

#### **APPLYING THE BOARDS' PRELIMINARY VIEWS**

5. In January, the Boards agreed to undertake the recasting exercise just completed. Questions we discussed asking participants (and ourselves) include:
  - a. Do the recast financial statements look like we thought they would?
  - b. Will the recast financial statements help you better communicate your results to analysts and other users of your financial statements?
  - c. What stumbling blocks did you encounter in applying the model?
  - d. What might it cost to apply the model? What information needed to apply the model is not available and would be difficult to get?
  - e. Was the staff draft easy to understand?
6. In January, the Boards also agreed to undertake a more extensive exercise after issuance of the preliminary views document. The Board did not discuss the specifics of that subsequent exercise, but noted that having participants from similar industries (for example, six pairs of companies, each pair from a different industry) apply the preliminary model would help us address any comparability concerns—do similar companies get similar results? Similar to the recent recasting exercise, we would expect participants to make a number of estimates and take some shortcuts in applying the preliminary model, as we would not expect them to revamp any of their accounting systems for recasting purposes. One difference might be that we'd ask them to recast two years of financials rather than one.
7. The Boards discussed meeting with both FASB and IASB user advisory groups to get their input on the recast financial statements. Questions could include:
  - a. Do the recast financial statements meet your information needs better than the current financial statements? Is there any significant information that you currently need and receive that is missing from the recast financial information? Is there a significant unmet need?
  - b. How much comparability is lost because of the flexibility in the model? Is that loss of comparability of concern to you?

- c. Does the reconciliation schedule provide you with new information or is it merely repackaging information that is already available?
  - d. Do you foresee incurring significant costs to adapt to the preliminary model? If so, would you expect that the benefits would exceed those costs?
8. In addition, the Boards discussed holding focus groups with users and preparers (moderated by an outside facilitator) to discuss the recasting results. An outside facilitator (unbiased third party) could be used to moderate the focus group so that Board members would be able to sit back and listen (that is, Board members would be observers rather than active participants). Because those discussions would bring together a variety of the Boards' constituents to discuss the preliminary model, one could view those meetings as a supplement or possibly an alternative to the public roundtable meetings that are usually held prior to redeliberations.

### **Discussion Questions**

- 1) What are your reactions (positive and negative) to the communication and recasting plans?**
- 2) What other activities should the Boards or staff be engaged in to promote the project and communicate the Boards' preliminary views?**
- 3) How can JIG and FIAG members be of assistance to the Boards and staff in its communications about this project?**