FASB-IASB 1630-100
DP Financial Statement Presentation
Comments by Torben.Thomsen@sonoma.edu [April, 2009]
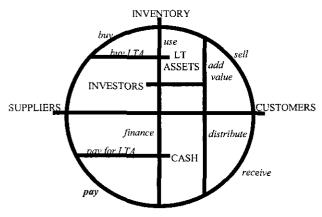School of Business and Economics
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The world-wide accounting profession has been engaged in the difficult task of faithfully modeling the financial world for hundreds of years. My comments relate to the general philosophical framework for making accounting relevant in a complex modern world while staying true to the honorable traditions of the past.

Since financial statements are the outputs of an **accounting information system**, the FASB-IASB can not be silent about the structure or that information system [by addressing only real-world events and the financial statements]. If an information system is properly structured, it will yield a variety of outputs with minimal effort.

I applaud the cohesiveness objective [2.5]. I would add the word **complete**, so that it would read "… a cohesive and **complete** financial picture…" Completeness would mean that **ALL STATES** and **ALL FLOWS** in the system would be reported at the appropriate level of aggregation. In the statement of financial position ALL the relevant STATES are listed. But even with the other three statements added, **all** the **flows** in the system are **NOT** reported.
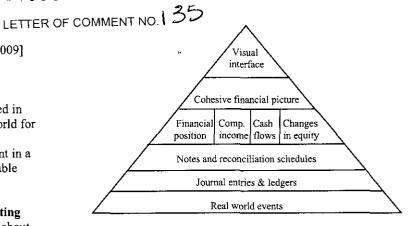
The cohesiveness objective may be achieved by means other than a list of supposedly cohesive statements. As shown in the very simple case study at the end of this comment, one such alternative is the use of "flow networks." Such networks are ubiquitous in nature and society [carbon cycle, water cycle, circulatory system, electrical grids, monetary system, internet, streets, etc.]

A rudimentary flow network for accounting could be structured with 6 states [resources & obligations named in CAPITAL LETTERS] and 10 flows [named in *italics*]:
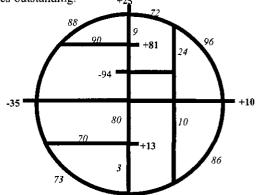

The network can be drawn by 7 strokes of the pen [one circle and six straight lines]. Value in the network will flow **from** one state **to** another. I suggest that such a network is more cohesive than 4 separate financial statements. For the network the following will hold:

$$\Sigma flows = \Sigma inflows = \Sigma outflows; \text{ and } \Sigma states = 0$$

This is so because each flow is **both** an inflow and an outflow.

The middle of the above information pyramid is the present state of accounting with four separate statements. The next step above is a cohesive financial picture in the form of a "flow network" diagram, where numbers would be shown at the defined places within the diagram [See case example below.]. The final step would be a completely graphical interface where an entity would be presented by ONE cohesive picture without numbers. The numbers, names, and relevant details could be available by successively pointing to portions of the diagram.

CASE EXAMPLE OF A VERY SIMPLE FLOW NETWORK
Once upon a time a miller had the bright idea to improve her own and society's lot by building a windmill. She persuaded friends to buy 5 shares of stock at 16 CU per share, retaining 5 shares for herself. She arranged with the farmers to build the windmill to her specifications for 90 CU to be paid later. At the next harvest the farmers brought to the mill 11 sacks of grain, for which they expected to be paid 8 CU per sack eventually. In milling 9 sack of grain into 9 sacks of flour an estimated 10% of the windmill was worn out. The miller sold 8 sacks of flour to the baker for 12 CU per sack. She recorded the 24 CU value, that the windmill had added to the flour sold. The baker paid the miller in part 86 CU. The miller paid the farmers in part 70 CU of what was owed them for building the windmill and 73 CU of what was owed them for the grain. Finally the miller paid a dividend of 1 CU per share for all shares outstanding.

The signed numbers at the ends of the open "driveways" represent the ending balance sheet. There are two more numbers than defined in the diagram on the left: the 3 toward the bottom is the operating cash flow; the 72 toward the top is total expenses.