

APPENDIX A: DETAILS OF RECENT DEVELOPMENT OF AUTHORITATIVE GUIDANCE ON FINANCIAL STATEMENT PRESENTATION

Appendix A presents a detailed discussion on recent development of authoritative guidance on financial statement presentation.

According to the Memorandum of Understanding between the FASB and the IASB on “*A Roadmap for Convergence between IFRSs and US GAAP⁵⁰ – 2006 - 2008*”, the short-term convergence projects include the following topics to be examined and revised by 2008 as depicted in Figure A-1 below.

Figure A-1: Topics included in the Short-term Convergence Project of the FASB and the IASB

Topics to be examined by the FASB
1. Fair value option
2. Impairment
3. Income tax
4. Investment properties
5. Research and development
6. Subsequent events
Topics to be examined by the IASB
1. Borrowing costs
2. Impairment
3. Income tax
4. Government grants
5. Joint ventures
6. Segment reporting

Note: The impairment and income tax are examined jointly by both the FASB and the IASB.

Source: A Roadmap for Convergence between IFRSs and US GAAP – 2006-2008: Memorandum of Understanding between the FASB and the IASB (February 27, 2006)

⁵⁰ The FASB-IASB Joint Project is an upshot of the joint meeting of the FASB and IASB in September 2002. Note that IFRSs stand for International Financial Reporting Standards and are formerly known as IASs or International Accounting Standards. IFRSs are issued by International Accounting Standard Board. Note that “US GAAP” stands for US Generally Accepted Accounting Principles and are issued by Financial Accounting Standard Board.

In addition, the topics that are already on an active agenda of the Boards are (1) Business combination, (2) Consolidation, (3) Fair value measurement guidance, (4) Liabilities and equity distinctions, (5) ***Performance reporting***, (6) Post-retirement benefits (including pensions), and (7) Revenue recognition. Moreover, the topics that are already being researched, but not yet on an active agenda are (1) Derecognition, (2) Financial instruments, (3) Intangible assets, and (4) Leases.

Performance reporting project is later extended to financial statement presentation, which is jointly amended by the Boards. In fact, this project is initiated since 2004. By the end of 2008, the Boards completed the deliberation on Phase B issues and started on Phase C issues. The meeting dates and the issues on financial statement presentation discussed by FASB and IASB are summarized in Figure A-2 below.

Figure A-2: Meeting Dates of IASB and FASB on Financial Statement Presentation Project

<u>Topic</u>	<u>IASB</u>	<u>FASB</u>
The statement of comprehensive income, presentation of other comprehensive income, presentation of income taxes, and the impact on presentation of earnings per share	June 18, 2008	June 18, 2008
Presentation of income tax, and additional income tax disclosure	March 12, 2008	March 12, 2008
The statement of cash flows, the reconciliation schedule, and totals and subtotals	November 14, 2007	November 14, 2007
Classified statement of financial position, capital management disclosures, “net” presentation of cash flows, classification of common dividends payable, and basket transactions	October 17, 2007	October 31, 2007
Joint IASB/FASB board meeting	October 22, 2007	October 22, 2007
JIG & FIAG Meeting		September 14, 2007
Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities	June 19, 2007	June 21, 2007
Presentation of Liquidity Information, Classification Issues Related to Diversified Entities, and Segment Reporting	May 17, 2007	May 16, 2007
Agenda Decision: Discontinued Operations	April 17, 2007	April 18, 2007
Disaggregating Changes in Assets and Liabilities, Presentation of Other Comprehensive Income Items, and Cash Equivalents	March 22, 2007	March 21, 2007
Presenting Liquidity Information	February 22, 2007	
Disaggregation on the Statement of Comprehensive Income	January 25, 2007	January 30, 2007
Discontinued Operations, Hybrid Entities, and Equity-Related Issues	January 25, 2007	January 24, 2007

<u>Topic</u>	<u>IASB</u>	<u>FASB</u>
Application of Working Principles (continued)	December 14, 2006	December 13, 2006
Joint Meeting—Application of Working Principles (continued)	October 24, 2006	October 24, 2006
Application of Working Principles (continued)	September 19, 2006	September 20, 2006
Application of Working Principles	July 21, 2006	July 19, 2006
Scope, Objectives, and Principles	March 28, 2006	April 5, 2006
Discussion of Segment A issues	January 24, 2006 November 16, 2005 October 20, 2005	December 7, 2005
Discussion of a financing category on the statement of earnings and comprehensive income	October 24, 2005	October 24, 2005
Discussion of interim financial reporting		August 31, 2005
Discussion of earnings per share and comprehensive income per share	May 17, 2005	May 25, 2005
Discussion of project update, required financial statements, and comparative financial statements	April 21, 2005	April 21, 2005
Discussion of Joint Working Group's revised project plan	April 22, 2004	April 22, 2004
Discussion of proposed project plan	March 16, 2004	March 31, 2004
Discussion of FASB and IASB previous models and future project plans	October 23, 2003	October 23, 2003

Preliminary view and discussion paper on financial statement presentation are published towards the end of 2008. Tentative view resulting from Phase B deliberations is summarized below.

A-1. Statement of Comprehensive Income (Statement of Profit and Other Recognized Income and Expenses)

Statement of comprehensive income (term used by FASB) or statement of profit and other recognized income and expenses (term used by IASB) present the changes in net assets during the accounting period resulting from non-owner transactions (i.e. financial performance). The major components presented on the face of statement of comprehensive income are (a) net income or profit or loss for the period and (b) other comprehensive income items or other recognized income and expenses. The proposed changes related to statement of comprehensive income focus on the following issues (but not limited to): (1) classification of revenues and expenses, (2) disaggregation of items by function and by nature, and (3) presentation of other comprehensive income items⁵¹.

⁵¹See (1) Minutes of the January 30, 2006 FASB/IASB Meeting on Financial Statement Presentation – Disaggregation on the Statement of Comprehensive Income (FASB Memorandum No. 47 and IASB Agenda Paper No. 13B), (2) Minutes of the March 21, 2007 FASB Meeting on Financial Statement Presentation – Disaggregating Changes in Assets and Liabilities, Presentation of Other Comprehensive Income Items, and Cash Equivalents, (3) Minutes of the May 25, 2005 FASB/IASB Meeting on Earnings Per Share and Comprehensive Income Per Share (FASB Memorandum dated May 5, 2005 and IASB Agenda Paper No. 6), (4) Information for Observers for the October 24, 2006 IASB/FASB Meeting on Measurement; OCI and Recycling; the Statement of Comprehensive Income (IASB Agenda Paper No. 6C and FASB Memorandum No. 44C), (5) Information for Observers for the March 22, 2007 IASB Meeting on Other Comprehensive Income Presentation (IASB Agenda Paper No. 9B), (6) Information for Observers for the January 25, 2007 IASB Meeting on Disaggregation on the Statement of Comprehensive Income (IASB Agenda Paper No. 13B), (7) Information for Observers for the December 14, 2006 IASB Meeting on Other Comprehensive Income (IASB Agenda Paper No. 15A), and (8) Information for Observers for the July 24, 2008 IASB Meeting on Paragraph Describing the Boards' Long Term View on Other Comprehensive Income (IASB Agenda Paper No. 16), for more details on the proposed changes on the Statement of Comprehensive Income.

Issue 1: Classification of Revenues and Expenses

Under the proposed working format financial statements, the statement of comprehensive income must strictly adhere to the cohesiveness principle. Generally, the main sections and totals and subtotals presented on the face of the statement of comprehensive income must be consistent with those of other financial statements. That is, the main sections comprise (a) Business, (b) Financing, (c) Discontinued Operations, (d) Income Taxes, and (e) Equity (if applicable).

The subtotals and totals unique to statement of comprehensive income depend on the alternative presentation formats chosen (as a result of the Boards' deliberations in a later stage). The usual subtotals are, for instances, gross profit, operating/investing/financing income before other comprehensive income, other comprehensive operating/investing/financing income, pre-tax income before other comprehensive income, other comprehensive income, pre-tax comprehensive income, and net/total comprehensive income. Some alternative formats (later discussed in detail in this section) might not have some of the subtotals due to differential order of presentation. The list of major categories on the statement of comprehensive income is presented in Figure A-3 below.

Figure A-3: List of Major Categories of Statement of Comprehensive Income Statement

Statement of Comprehensive income
<i>Business</i>
Operating income and expense
Investment income and expense
<i>Financing</i>
Financing asset income
Financing liability expense
<i>Income taxes</i> (related to business and financing)
<i>Discontinued operations</i> , net of tax
<i>Other comprehensive income</i> , net of tax

Issue 2: Disaggregation of Items By Nature and By Function

Speaking of disaggregation principle, the statement of comprehensive income presented must be disaggregated **by function** and, also, **by nature**. **Functions** are defined as primary activities that an entity engages (e.g. manufacturing, selling, and administrative). Those functions would then be further segregated based on their nature (e.g. materials, labor, transportation). Specifically, **nature** is defined as the inputs or costs required to carry out the aforementioned activities. Level of disaggregation is bounded by the usefulness of information; that is, the information should be disaggregation until the disaggregation would harm rather than be useful to the users.

Issue 3: Presentation of Other Comprehensive Income Items

In a matter of presentation of other comprehensive income (OCI) items, the Boards decided that they would not alter the existing authoritative guidance on the requirements related to what constitutes the OCI items. Thus, the OCI will continue to be presented in a separate section of the statement of comprehensive income. Under current accounting standards, the examples of OCI items are unrealized gain or loss from available-for-sale securities, revaluation surplus on PPE, foreign currency translation adjustments, actuarial gain or loss on pension plan, unrealized gain or loss from hedging instruments.

In fact, during the Boards' deliberation process, the staff proposed several presentation alternatives both for short-term and long-term time frames. Actually, the Boards' long-term goal is to present all changes in assets and liabilities (non-OCI and OCI items) in their corresponding sections, without discriminating non-OCI from OCI items. Thus, the recycling mechanism of OCI items⁵² is unnecessary. The OCI items are currently recognized outside net income or profit or loss; thus, later when those items are realized, they will be presented as part of net income or profit or loss.

⁵² Net income and other comprehensive income constitute comprehensive income. The other comprehensive income would, at the end, be recognized in net income when realized. This refers to as “**recycling**” of other comprehensive income items. To avoid double counting the gains or losses, the reclassification adjustments are required.

However, to achieve the Boards' long-term goal, the current accounting standards need to be amended. Since the scope of FSP project focuses mainly on form and presentation, not recognition issues, the long-term goal would not be attained at this stage. The presentation alternatives proposed by staff are discussed below in turn.

Alternative 1: Alternative 1 is considered to be one of the interim views. Under Alternative 1, OCI items are presented in corresponding sections (i.e. Business, Financing, Discontinued Operations, and Income Taxes). There is an OCI subsection in every main section to differentiate all other changes in assets and liabilities from the OCI items and the OCI subsection is presented towards the end of every main section. Figure A-4 presents list of sections and subsections for Alternative 1.

Figure A-4: List of Sections and Subsections for Statement of Comprehensive Income under Alternative 1

Alternative 1
BUSINESS
Operating
<i>OCI - Operating</i>
Investing
<i>OCI - Investing</i>
DISCONTINUED OPERATIONS
FINANCING
INCOME TAXES

Alternative 1 is in harmony with cohesiveness principle under the working format proposed by the Boards. Nonetheless, under Alternative 1, the OCI items are allotted to corresponding sections, which make it difficult to analyze the OCI items separately or analyze business and financing activities extracting the impact of OCI items. Moreover, the needs for recycling mechanism still exist under this alternative. That is, the entity must reclassify the OCI items into corresponding category when actually realized. Figure A-5 presents an example of statement of comprehensive income under Alternative 1.

**Figure A-5: An Example of Statement of Comprehensive Income under
Alternative 1**

ALTERNATIVE 1		
Statement of Comprehensive Income		
	2006	2005
BUSINESS		
Operating		
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)	0
Total	<u>(1,987,194)</u>	<u>(1,801,591)</u>
Gross profit on sales	<u>787,806</u>	<u>779,159</u>
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	<u>(163,278)</u>	<u>(161,422)</u>
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	<u>(206,600)</u>	<u>(192,138)</u>
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	0
Interest expense on lease liability	(2,378)	0
Loss on sale of receivables	(200)	0
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	0
Other operating expenses	(80,000)	(74,400)
Total	<u>(99,298)</u>	<u>(89,392)</u>
Total operating income	<u>318,630</u>	<u>336,207</u>
Other comprehensive income		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	0	4,580
Total other comprehensive operating income	<u>160,000</u>	<u>153,380</u>
Comprehensive operating income	<u>478,630</u>	<u>489,587</u>
Investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale securities	450	0
Dividend income	9,250	8,603
Total Investing income	<u>22,790</u>	<u>20,777</u>
Other comprehensive income		
Unrealized gain on available-for-sale securities	10,650	1,247
Total other comprehensive investing income	<u>10,650</u>	<u>1,247</u>
Comprehensive investing income	<u>33,440</u>	<u>22,024</u>
Comprehensive business income	<u>512,070</u>	<u>511,611</u>

Figure A-5 (Continued)

ALTERNATIVE 1		
Statement of Comprehensive Income		
	2006	2005
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	0
FINANCING		
Interest expense	(225,000)	0
Comprehensive financing income	(225,000)	0
Comprehensive income before tax	257,070	511,611
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

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

Alternative 2: Under the second alternative of OCI presentation, OCI section is presented in a separate section with equal prominence following the financing section and before the income taxes section. Within OCI section, the items would be further classified into (1) operating, (2) investing, and (3) financing subcategories. Even so, the general presentation of OCI section is not consistent with the working formats due to the fact that it violates the cohesiveness principle. Figure A-6-6 below is the list of sections and subsections for Alternative 2.

Figure A-6: List of Sections and Subsections for Statement of Comprehensive Income under Alternative 2

Alternative 2
BUSINESS
Operating
Investing
DISCONTINUED OPERATIONS
FINANCING
OCI
<i>OCI - Operating</i>
<i>OCI - Investing</i>
INCOME TAXES

Again, the OCI section is presented as one of the main categories under this alternative. There is no such section in Statement of Financial Position and Statement of Cash Flows. Besides, the needs for recycling mechanism still exist and the items would be reclassified *across* sections, not within same section as in Alternative 1. Alternative 2 overcomes the shortfall of Alternative 1 in that it allows the users of financial statements to analyze OCI items separately. Figure A-7 shows an example of Alternative 2 OCI presentation.

**Figure A-7: An Example of Statement of Comprehensive Income under
Alternative 2**

ALTERNATIVE 2		
Statement of Comprehensive Income		
	2006	2005
BUSINESS		
Operating		
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)	0
Total	<u>(1,987,194)</u>	<u>(1,801,591)</u>
Gross profit on sales	<u>787,806</u>	<u>779,159</u>
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	<u>(163,278)</u>	<u>(161,422)</u>
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	<u>(206,600)</u>	<u>(192,138)</u>
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	0
Interest expense on lease liability	(2,378)	0
Loss on sale of receivables	(200)	0
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	0
Other operating expenses	(80,000)	(74,400)
Total	<u>(99,298)</u>	<u>(89,392)</u>
Total operating income	<u>318,630</u>	<u>336,207</u>
Investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale securities	450	0
Dividend income	9,250	8,603
Total Investing income	<u>22,790</u>	<u>20,777</u>
Total business income	<u>341,420</u>	<u>356,984</u>

Figure A-7 (Continued)

ALTERNATIVE 2		
Statement of Comprehensive Income		
	2006	2005
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	0
FINANCING		
Interest expense	(225,000)	0
Total financing expense	(225,000)	0
Income before other comprehensive income and taxes	86,420	356,984
OTHER COMPREHENSIVE INCOME		
Operating Income		
<i>Gain on revaluation of building</i>	<i>160,000</i>	<i>148,800</i>
<i>Actuarial gain on pension obligation</i>	<i>0</i>	<i>4,580</i>
Investing Income		
<i>Unrealized gain on available-for-sale securities</i>	<i>10,650</i>	<i>1,247</i>
Total other comprehensive income	170,650	154,627
Comprehensive income before tax	257,070	511,611
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

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

Alternative 3: The Statement of Comprehensive Income is first partitioned into short-term (or trading) and long-term (or non-trading) section, and then further divided into functional activities in accordance with the working format. The entity is required to classify all changes in assets and liabilities in long-term section or in short-term section based on whether those changes related to short-term or long-term assets/liabilities. The list of sections and subsections for Alternative 3 is presented in Figure A-8 below.

Figure A-8: List of Sections and Subsections for Statement of Comprehensive Income under Alternative 3

Alternative 3
SHORT-TERM
BUSINESS
Operating
Investing
DISCONTINUED OPERATIONS
FINANCING
LONG-TERM
Operating (<i>including OCI items</i>)
Investing (<i>including OCI items</i>)
INCOME TAXES

One of the exceptions to classification principle is the treatment of depreciation expense, which is required to be presented in a short-term section, rather than long-term section. Although, depreciation expense is resulting from the property, plant, and equipment, it relates closely to day-to-day operations of the firm. The gain or loss affecting the firm's financial position in near-term would be classified in the short-term section, whereas the gain or loss resulting from price changes with no immediate impact would be presented in a long-term section. Most of the OCI items are presented under the long-term classification of income and expenses. They are presented along with all other long-term income, expenses, gains and losses. Under Alternative 3, the recycling mechanism still exists and the analysis of financial performance with exclusion of OCI items is difficult. However, the users can observe that there are items other than OCI items that share the same nature as OCI items in the long-term section. Note that the OCI definition is derived from rule-based, rather than principle-based of accounting. An example of Alternative 3 presentation is presented in Figure A-9.

**Figure A-9: An Example of Statement of Comprehensive Income under
Alternative 3**

ALTERNATIVE 3		
Statement of Comprehensive Income		
	2006	2005
SHORT-TERM		
BUSINESS		
Operating		
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)	0
Total	<u>(1,987,194)</u>	<u>(1,801,591)</u>
Gross profit on sales	<u>787,806</u>	<u>779,159</u>
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	<u>(163,278)</u>	<u>(161,422)</u>
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	<u>(206,600)</u>	<u>(192,138)</u>
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	0
Interest expense on lease liability	(2,378)	0
Loss on sale of receivables	(200)	0
Research and development	(1,120)	(1,042)
Other operating expenses	(80,000)	(74,400)
Total	<u>(101,298)</u>	<u>(89,392)</u>
Total short-term operating income	<u>316,630</u>	<u>336,207</u>
Investing		
Realized gain on available-for-sale securities	450	0
Dividend income	9,250	8,603
Total short-term investing income	<u>9,700</u>	<u>8,603</u>
Total short-term business income	<u>326,330</u>	<u>344,810</u>
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	0
FINANCING		
Interest expense	(225,000)	0
Comprehensive financing income	<u>(225,000)</u>	<u>0</u>
Total short-term income before tax	<u>71,330</u>	<u>344,810</u>

Figure A-9 (Continued)

ALTERNATIVE 3		
Statement of Comprehensive Income		
	2006	2005
LONG-TERM		
Long-term operating		
Gain on sale of building	2,000	0
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	0	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 securities	10,650	1,247
Total long-term investing income	23,740	13,421
Total long-term business income	185,740	166,801
Total long-term income before tax	257,070	511,611
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

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

Alternative 4: Under the fourth alternative, OCI items are classified into one of the main sections in accordance with working format, like any other changes in assets and liabilities. This is consistent with the Boards' long-term view and strictly adheres to the working formats. In addition, the recycling is unnecessary because the OCI items would be reported and impacted the comprehensive income or total recognized income and expenses just once. The Boards considered this to be an ultimate goal; however, to achieve this goal, the related accounting standards that currently allow the bypass presentation need to be amended. This relates to the recognition issue, not the presentation issue; thus, the Boards decided not to pursue this goal at this point. The list of major categories and subcategories for Alternative 4 is presented in Figure A-10 and an example of Alternative 4 presentation is presented in Figure A-11.

Figure A-10: List of Sections and Subsections for Statement of Comprehensive Income under Alternative 4

Alternative 4
BUSINESS
Operating (<i>including OCI items</i>)
Investing (<i>including OCI items</i>)
DISCONTINUED OPERATIONS
FINANCING
INCOME TAXES

Figure A-11: An example of statement of comprehensive income under Alternative 4

ALTERNATIVE 4		
Statement of Comprehensive Income		
	2006	2005
BUSINESS		
Operating		
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)	0
Total	<u>(1,987,194)</u>	<u>(1,801,591)</u>
Gross profit on sales	<u>787,806</u>	<u>779,159</u>
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	<u>(163,278)</u>	<u>(161,422)</u>
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	<u>(206,600)</u>	<u>(192,138)</u>
Other operating expenses		
Compensation expense	(15,000)	(13,950)
Litigation expense	(2,600)	0
Interest expense on lease liability	(2,378)	0
Loss on sale of receivables	(200)	0
Research and development	(1,120)	(1,042)
Gain on sale of building	2,000	0
Other operating expenses	(80,000)	(74,400)
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	0	4,580
Total	<u>60,702</u>	<u>63,988</u>
Comprehensive operating income	<u>478,630</u>	<u>489,587</u>

Figure A-11 (Continued)

ALTERNATIVE 4		
Statement of Comprehensive Income		
	2006	2005
Investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
Realized gain on available-for-sale securities	450	0
Dividend income	9,250	8,603
Unrealized gain on available-for-sale securities	10,650	1,247
Comprehensive investing income	33,440	22,024
Comprehensive business income	512,070	511,611
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	0
FINANCING		
Interest expense	(225,000)	0
Comprehensive financing income	(225,000)	0
Comprehensive income before tax	257,070	511,611
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

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

Recall that, initially, the two boards separately pursue the performance reporting project. Later, the scope of project extends to the presentation format of other financial statements; i.e. statement of financial position, statement of changes in equity, and statement of cash flows. Even though the focus of this present study is on the financial performance reporting, the description of the proposed changes on other financial statements would enhance the understanding of the overall changes in financial statement presentation. The summary of alternative presentations and proposed changes related to statement of financial position, statement of changes in equity, and statement of cash flows is discussed in the following section.

A-2. Statement of Financial Position

Statement of Financial Position (formerly known as balance sheet) presents financial position of the firm at a given point in time. Recall that one of the objectives of presenting financial statements is to display present and past financial position of the firm. The issues discussing by the Boards related to statement of financial position are (1) classification of assets and liabilities, (2) totals and subtotals on the statement of financial position, and (3) disclosure of liquidity information⁵³.

Issue 1: Classification of Assets and Liabilities

In line with the working principle, the statement of financial position is classified into main sections similar to those of statement of comprehensive income (i.e. Business, Discontinued Operations, Financing, Income taxes, and Equity). The tentative list of sections presented on the face of statement of financial position is presented below in Figure A-12. Figure A-13 presents an example of statement of financial position presentation.

Figure A-12: List of Sections of Statement of Financial Position

Statement of Financial Position (also known as balance sheet)
<i>Business</i>
Operating assets and liabilities
Investing assets and liabilities
<i>Financing</i>
Financing assets
Financing liabilities
<i>Income taxes</i>
<i>Discontinued operations</i>
<i>Equity</i>

⁵³ See (1) Minutes of the May 16, 2007 FASB Meeting on Financial Statement Presentation – Presentation of Liquidity Information, Classification Issues Related to Diversified Entities, and Segment Reporting (FASB Memoranda No. 51A-C), (2) Information for Observers for the May 17, 2007 IASB Meeting on Presentation of Liquidity Information (IASB Agenda Paper No. 6A), and (3) Information for Observers for the October 24, 2006 IASB/FASB Meeting on Presenting Information about the Short and Long-term Nature of Assets and Liabilities (IASB Agenda Paper No. 6B and FASB Memorandum No. 44B), for more details on the proposed changes on the Statement of Financial Position.

Figure A-13: An Example of Statement of Financial Position

Statement of Financial Position		
	2006	2005
BUSINESS		
Operating assets and liabilities		
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)	0
Current portion of lease liability	(9,208)	0
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	0
Building	4,232,755	3,600,000
Less: Accumulated depreciation	(256,500)	(100,000)
Asset retirement obligation	(9,255)	0
Loss contingency	(2,600)	0
Lease liability (excluding current portion)	(24,870)	0
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>
Investing assets and liabilities		
Long-term		
Available-for-sale securities	191,100	0
Investment in affiliate -- equity method	412,250	0
Investment in affiliate -- at fair value	310,840	0
Total investing assets	<u>914,190</u>	<u>0</u>
Net business assets	<u>5,055,040</u>	<u>3,673,600</u>

Figure A-13 (Continued)

Statement of Financial Position		
	2006	2005
FINANCING		
Financing assets		
Short-term		
Cash	5,920,991	4,000,000
Total financing assets	5,920,991	4,000,000
Financing liabilities		
Short-term		
Dividends payable	(35,000)	0
short-term debt	(500,000)	0
Long-term		
Interest payable	(100,000)	0
Bonds payable	(2,500,000)	0
Total financing liabilities	(3,135,000)	0
Net financing assets	2,785,991	4,000,000
DISCONTINUED OPERATIONS		
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	290,000	300,000
INCOME TAXES		
Short-term		
Income tax payable	(75,451)	(54,639)
Long-term		
Deferred tax liability	(56,819)	(23,699)
Net income tax (liabilities)	(132,270)	(78,338)
Total net assets	7,998,761	7,895,262
EQUITY		
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	(7,998,761)	(7,895,262)

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

Issue 2: Totals and Subtotals on Statement of Financial Position

In addition to the required totals for main categories stated above, totals and subtotals unique to the statement of financial position are short-term and long-term operating assets and operating liabilities. The Boards consider two alternatives, namely “*Net assets/Equity*” format or “*Value creating/Funding*” format, in presenting additional subtotals on the face of statement of financial position.

First, “*Net assets/Equity*” format presents the sum of total net assets and balances it with total equity. Second, “*Value creating/Funding*” format presents the sum of value-creating and balances it with sum of funding. This “*Value creating/Funding*” format would suffer from the complications in presenting of income taxes because the effect of income taxes should be allocated to both value creating section and funding section. An excerpt presenting the two formats is presented in Figure A-14 below.

Figure A-14: Net Assets/Equity Format and Value Creating/Funding Format

Net Assets/Equity Format	Value Creating/Funding Format
BUSINESS	BUSINESS
Operating A/L	Operating A/L
Short-term subtotal	Short-term subtotal
Long-term subtotal	Long-term subtotal
Net operating A/L	Net operating A/L
Investing A/L	Investing A/L
Short-term subtotal	Short-term subtotal
Long-term subtotal	Long-term subtotal
Net investing A/L	Net investing A/L
SNet business activities	SNet business activities
DISCONTINUED OPERATIONS	DISCONTINUED OPERATIONS
SNet A/L held for sale	SNet A/L held for sale
INCOME TAXES	INCOME TAXES
Short-term subtotal	Short-term subtotal
Long-term subtotal	Long-term subtotal
Net income tax A/L	Net income tax A/L
	STotal Value-Creating
FINANCING	FINANCING
Financing assets	Financing assets
Short-term subtotal	Short-term subtotal
Long-term subtotal	Long-term subtotal
Total financing assets	Total financing assets
Financing liabilities	Financing liabilities
Short-term subtotal	Short-term subtotal
Long-term subtotal	Long-term subtotal
Total financing liabilities	Total financing liabilities
Net financing A/L	Net financing A/L
STotal Net Assets	
EQUITY	EQUITY
STotal Equity	STotal Funding

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper 7B: Totals and subtotals in the financial statements).

Issue 3: Disclosure of Liquidity Information

Additionally, the Boards discuss the issues related to the classification of assets and liabilities into short-term and long-term subcategories and the disclosure of information about liquidity. The liquidity information would help financial statement users assessing ability of an entity to fulfill the obligations and commitments.

The Boards tentatively agree that the short-term and long-term classifications should be presented on the face of the statement of financial position. However, their views on procedures used to classify the assets and liabilities differ. In classifying assets and liabilities, the FASB favors “*one-year*” approach, whereas the IASB prefers “*operating cycle*” approach. Summarized in FASB/IASB observers’ note on Presenting Information about the Short and Long-term Nature of Assets and Liabilities, “***Operating cycle***” is defined by FASB as “*the average time intervening between the acquisition of materials or services entering the process and the final cash realization*” and IASB defines it as “*the time between the acquisition of assets for processing and their realization in cash or cash equivalents*”. Moreover, IASB further states that if the normal operating cycle is not easily determinable, twelve-month period is assumed.

From the staff analysis, the proponents of “*one-year*” approach consider this approach appropriate due to the following reasons. First, one-year yardstick is objective cut-off for classifying short-term and long-term assets and liabilities; thus, it can be easily applied to all entities. Second, due to its objectivity, the financial statement classification resulting from such a benchmark would enhance comparability of the financial statements across firms. This approach would not cause problems to the firms with several different lines of business in classifying the assets and liabilities. Third, even though one-year period is arbitrary, it is consistent with the regular reporting period. However, the opponents of “*one-year*” approach and also proponents of “*operating cycle*” approach believe that operating cycle is a better cut-off because it can convey the private information about the actual realization time that a given firm expects.

Using “*one-year*” approach, some assets might appear in both short-term and long-term sections. For instance, for the business with operating cycle longer than one year, some of the inventories might be presented in short-term section, and the remaining amount in long-term section, which might confuse the financial statement users. The practical problem with “*operating cycle*” approach is the consistency in treating the assets and liabilities. To be exact, some firms classify assets using operating cycle cut-off, but they present the debts with maturity of shorter than one year as short-term liabilities.

On the matter of assets and liabilities, another question is should the contractual maturity or time of realization be considered. This is a concern because, in some cases, the debt might be contractually matured within one year from the reporting date; but the actual time of settlement might be longer than one year due to the intent to refinance. The use of “*shorter of*” approach might be appropriate in this case; that is, the cut off should be stated as the shorter of contractual maturity or expected realization or settlement is applied when classifying the assets and liabilities. Overall, “*one-year*” approach is preferable; however, the information regarding operating cycle should also be disclosed in the notes to financial statements.

The financial statement presentation project addresses whether and how the information about liquidity should be disclosed or presented. The presentation or disclosure of liquidity information would enhance the capability of the financial statement users to assess the ability of the firm to meet the obligations that will be matured in the near term as well as assess the associated liquidity risk. The Boards tentatively agree that the information about liquidity should be disclosed in the notes to financial statements. But they have not reached the decision as to how the information is disclosed. The maturity schedule regarding long-term contractual maturities should also be disclosed to exhibit the expected time of realization or settlement. The three alternative disclosure formats are as follows.

1. Alternative A: Short- and long-term assets and liabilities by line item in order of liquidity
2. Alternative B: Short- and long-term assets and liabilities by category
3. Alternative C: Short- and long-term assets and liabilities by line item (operating assets and liabilities aggregated on one line)

First, in *Alternative A*, assets and liabilities are disaggregated at a line item level and arranged in the order of liquidity. Second, in *Alternative B*, the assets and liabilities are classified into short-term section and long-term section and, within those sections, the assets and liabilities are further divided into main categories according to the working format (i.e. Business, Financing, Discontinued operations, and income taxes). Third, in *Alternative C*, the assets and liabilities are decomposed at the line item level, except for the operating section. The asset and liability lines are disclosed either in the short-term or long-term section based on the liquidity level. In all alternatives, the subtotals of short-term assets, long-term assets, short-term liabilities, long-term liabilities are also disclosed. The examples of alternative disclosure formats for liquidity information are presented in Figure A-15 through A-17 below.

Figure A-15: An Example of Liquidity Disclosure Format under Alternative A

Alternative A: Short and Long-term Assets and Liabilities by Line Item in Order of Liquidity			
	2006	2005	2004
ASSETS			
Short-term assets			
Cash and cash equivalents	180	100	110
Accounts receivable	140	120	125
Inventory	50	40	40
Short-term portion of deferred tax assets	90	70	110
Short-term discontinued operation assets	35	0	0
Total short-term assets	495	330	385
Long-term assets			
Long-term inventory	20	20	20
Long-term portion of deferred tax asset	25	10	10
PP&E	530	510	445
Identifiable intangible assets	30	20	10
AFS securities	20	15	10
Equity method investment	80	70	90
Goodwill	90	90	90
Long-term discontinued operation assets	30	0	0
Total long-term assets	825	735	675
Total assets	1,320	1,065	1,060
LIABILITIES			
Short-term liabilities			
Accounts payable	120	80	100
Income tax payable	25	20	15
Commercial paper payable	80	60	74
Short-term portion of deferred tax liability	5	10	15
Short-term discontinued operation liabilities	105	0	0
Total short-term liabilities	335	170	204
Long-term liabilities			
Long-term portion of deferred tax liability	45	40	105
Bank loan payable	240	300	360
Pension liabilities	170	130	86
Total long-term liabilities	455	470	551
Total liabilities	790	640	755
EQUITY			
Total liabilities and equity	1,320	1,065	1,060

Note: Excerpt from Information for Observers for IASB Meeting on February 22, 2007 (Agenda Paper No. 9: Presentation of Liquidity Information).

Figure A-16: An Example of Liquidity Disclosure Format under Alternative B**Alternative B: Short and Long-term Assets and Liabilities by Category**

	2,006	2,005	2,004
ASSETS			
Short-term assets			
Business assets	190	160	165
Financing assets	180	100	110
Discontinued operation assets	35	0	0
Income tax, including deferred	90	70	110
Total short-term assets	495	330	385
Long-term assets			
Business assets	770	725	665
Financing assets	0	0	0
Discontinued operation assets	30	0	0
Income tax, including deferred	25	10	10
Total long-term assets	825	735	675
Total assets	1,320	1,065	1,060
LIABILITIES			
Short-term liabilities			
Business liabilities	120	80	100
Financing liabilities	0	0	0
Discontinued operation liabilities	105	0	0
Income tax, including deferred	30	30	30
Total short-term liabilities	255	110	130
Long-term liabilities			
Business liabilities	170	130	86
Financing liabilities	320	360	434
Income tax, including deferred	45	40	105
Total long-term liabilities	535	530	625
Total liabilities	790	640	755
EQUITY			
Total liabilities and equity	1,320	1,065	1,060

Note: Excerpt from Information for Observers for IASB Meeting on February 22, 2007 (Agenda Paper No. 9: Presentation of Liquidity Information).

Figure A-17: An Example of Liquidity Disclosure Format under Alternative C

Alternative C: Short and Long-term Assets and Liabilities by Line Item (Operating Assets and Liabilities Aggregated)			
	2,006	2,005	2,004
ASSETS			
Short-term assets			
Cash and cash equivalents	180	100	110
Short-term investments	0	0	0
Operating assets	190	160	165
Short-term portion of deferred tax assets	90	70	110
Short-term discontinued operation assets	35	0	0
Total short-term assets	495	330	385
Long-term assets			
Operating assets	670	640	565
Long-term portion of deferred tax asset	25	10	10
Investing assets	100	85	100
Long-term discontinued operation assets	30	0	0
Total long-term assets	825	735	675
Total assets	1,320	1,065	1,060
LIABILITIES			
Short-term liabilities			
Operating liabilities	120	80	100
Income tax payable	25	20	15
Commercial paper payable	80	60	74
Short-term portion of deferred tax liability	5	10	15
Short-term discontinued operation liabilities	105	0	0
Total short-term liabilities	335	170	204
Long-term liabilities			
Long-term portion of deferred tax liability	45	40	105
Bank loan payable	240	300	360
Operating liabilities	170	130	86
Total long-term liabilities	455	470	551
Total liabilities	790	640	755
EQUITY			
Total liabilities and equity	1,320	1,065	1,060

Note: Excerpt from Information for Observers for IASB Meeting on February 22, 2007 (Agenda Paper No. 9: Presentation of Liquidity Information).

In addition to the disclosure of liquidity information, the note disclosure on measurement basis of assets and liabilities is required. The measurement bases applied to assets and liabilities are disclosed as part of summary of significant accounting policies and the uncertainty associated with those measurements should also be disclosed in the notes to financial statements.

A-3. Statement of Changes in Equity⁵⁴

Statement of changes in equity is required to constitute a complete set of financial statements. The statement of changes in equity presents all owner-related changes during the accounting period. The beginning and ending balances of all equity-related accounts are presented with the detail of changes occurred during the accounting period. All other changes resulting from non-owner transactions are presented in statement of comprehensive income. The statement of changes in equity does not adhere to cohesiveness principle under working principle. Furthermore, the dividend declared to owners is required to present on the face of statement of change in equity. The Boards might consider whether to require the presentation of dividend per share should also be disclosed. An example of statement of changes in equity is presented below in Figure A-18.

Figure A-18: An Example of Statement of Changes in Equity

Statement of Changes in Equity					
	Common Stock and APIC	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2004	5,000,000	(100,000)	2,654,622	0	7,554,622
Comprehensive income	0	0	256,013	154,627	410,640
Dividends	0	0	(70,000)	0	(70,000)
Balance at December 31, 2005	5,000,000	(100,000)	2,840,635	154,627	7,895,262
Comprehensive income	0	0	2,849	170,650	173,499
Dividends	0	0	(70,000)	0	(70,000)
Balance at December 31, 2006	5,000,000	(100,000)	2,773,484	325,277	7,998,761

Note: Excerpt from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

⁵⁴See Information for Observers for the January 25, 2007 IASB Meeting on Statement of Changes in Equity and Other Equity-Related Issues (IASB Agenda Paper No. 13D) for more details on the proposed changes on the Statement of Changes in Equity.

A-4. Statement of Cash Flows

The statement of cash flows exhibits the cash inflows and outflows resulting from the business transactions during the accounting period. The financial statement presentation project addresses two issues related to the statement of cash flows⁵⁵. The first issue is whether the statement of cash flows should be prepared using direct method as opposed to indirect method. The second matter is on the presentation of the reconciliation schedule accompanying the statement of cash flows.

Issue 1: Direct vs. Indirect Methods of Statement of Cash Flows

The FASB's proposition is to *require* an entity to report the statement of cash flows using direct method, whereas the IASB's proposition is to *encourage*, not require, an entity to present direct-method statement of cash flows (IASB 2007). The Board tentatively agrees that even though the direct method is presented on the face of the statement of cash flows, the indirect schedule to reconcile cash flows from operating activities to net income or profit or loss should be disclosed in the notes to financial statements. Besides, the significant non-cash transactions should continue to be disclosed as a supplement to the statement of cash flows.

The Boards tentatively agree that the main categories presented on the statement of cash flows should be consistent with those of statement of comprehensive income and statement of financial position. That is, the cohesiveness principle is still a focus of the Boards. This would help the investors to better observe the interconnection among the financial statement items.

The statement of cash flows portrays the changes in cash balance⁵⁶ resulting from the changes in financial position and operating results. The cohesiveness working principle recommends that, to the extent possible, the line items should be consistently labeled across all the financial statements. The list of major categories and subcategories for statement of cash flows is presented in Figure A-19 below.

⁵⁵ See (1) Information for Observers for the November 15, 2007 IASB Meeting on the Statement of Cash Flows and the Reconciliation Schedule (IASB Agenda Paper No. 7A), (2) Information for Observers for the March 22, 2007 IASB Meeting on Cash Equivalents (IASB Agenda Paper No. 9C), (3) Information for Observers for the December 14, 2006 IASB Meeting on the Statement of Cash Flows (IASB Agenda Paper 15B), for more details on the proposed changes on the Statement of Cash Flows.

⁵⁶ The Boards propose that the definition of cash should limit to the notion of cash only and that the notion of cash equivalents should be eliminated (IASB 2007).

Figure A- 19: List of Sections for Statement of Cash Flows

Statement of Cash Flows
<i>Business</i>
Operating cash flows
Investing cash flows
<i>Financing</i>
Financing asset cash flows
Financing liability cash flows
<i>Income taxes</i>
<i>Discontinued operations</i>
<i>Equity</i>

In the September 14, 2007 Joint International Group (JIG) and Financial Institutions Advisory Group (FIAG) meeting, the advisory groups discussed the cost and benefits of preparing the statement of cash flows using direct method. The two approaches to prepare direct-method statement of cash flows are (1) “**Direct-Direct**” method and (2) “**Indirect-Direct**” method.

The “*direct-direct*” method prepares the cash flows from operating activities using “*bottom-up*” or “*cash ledger*” approach. The preparers must summarize the cash flows amount by thoroughly examining the transactions affecting the cash ledger. This would give detailed records on the cash transactions throughout the reporting period. The “*direct-direct*” method is more accurate in presenting the transactions affecting cash flows; however, the cost of preparing such a statement is extremely high. The “*indirect-direct*” method, on the contrary, determines cash flows from operations using “*top-down*” or “*financial statement*” approach. That is, the preparers determine the cash inflows and outflows by reconciling the revenues and expenses with changes in related accruals during that reporting period. The cost of preparing “*indirect-direct*” method statement of cash flows should not be significantly different from that of indirect method. More specifically, compared to “*direct-direct*” method, the “*indirect-direct*” method costs less to prepare; but, the accuracy and exactness must be sacrificed.

The Boards tentatively decide that, in the forthcoming preliminary views, the Boards' conceptual preference for the direct method statement of cash flows should be discussed. Moreover, the two alternatives ("direct-direct" method vs. "indirect-direct" method) would also be discussed. The examples of statement of cash flows under direct and indirect method are presented in Figure A-20 and Figure A-21, respectively.

Figure A-20: An Example of Statement of Cash Flows under Direct Method

Statement of Cash Flows		
	2006	2005
CASH FLOWS FROM BUSINESS ACTIVITIES		
Operating (DIRECT)		
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)	0
Total	<u>(1,885,000)</u>	<u>(1,729,800)</u>
Cash paid for selling activities		
Compensation	(85,000)	(79,050)
Contributions to pension plan	(700)	(651)
Other expenses	(45,000)	(41,850)
Total	<u>(130,700)</u>	<u>(121,551)</u>
Cash paid for general and administrative activities		
Rent	(120,000)	(111,600)
Contributions to pension plan	(500)	(465)
Total	<u>(120,500)</u>	<u>(112,065)</u>
Cash flows from other operating activities		
Compensation	(15,000)	(13,950)
Sales of receivables	1,200	0
Research and development	(1,120)	(845)
Capital expenditures	(500,000)	(250,000)
Received from sale of building	17,500	0
Other expenses	(55,000)	(51,150)
Total	<u>(552,420)</u>	<u>(315,945)</u>
Net cash provided by operating activities	<u>11,380</u>	<u>231,639</u>
Investing		
Purchase of investment in affiliates	(710,000)	0
Purchase of available-for-sale securities	(185,000)	0
Sale of available-for-sale securities	5,000	0
Dividends received	9,250	8,603
Net cash used in investing activities	<u>(880,750)</u>	<u>8,603</u>
Net cash used in business activities	<u>(869,370)</u>	<u>240,242</u>
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Net cash flow from discontinued operations (pre-tax)	<u>(20,000)</u>	<u>0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing liabilities		
Dividends paid	(35,000)	(32,550)
Interest paid	(100,000)	0
Proceeds from issuance of short-term debt	500,000	0
Proceeds from issuance of bonds	2,500,000	0
Net cash provided by financing activities	<u>2,865,000</u>	<u>(32,550)</u>
CASH FLOWS FROM INCOME TAXES		
Net cash used in income tax activities	<u>(54,639)</u>	<u>(50,814)</u>
Change in cash	<u>1,920,991</u>	<u>156,878</u>
Beginning cash	<u>4,000,000</u>	<u>3,843,123</u>
Ending cash	<u>5,920,991</u>	<u>4,000,001</u>

Figure A-21: An Example of Statement of Cash Flows under Indirect Method

Statement of Cash Flows	2006	2005
CASH FLOWS FROM BUSINESS ACTIVITIES		
Operating (INDIRECT)		
Net cash provided by operating activities	11,380	231,639
Adjustments to reconcile net cash provided by operating activities to comprehensive 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)	0
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 (excluding 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	489,587
Investing		
Purchase of investment in affiliates	(710,000)	0
Purchase of available-for-sale securities	(185,000)	0
Sale of available-for-sale securities	5,000	0
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
CASH FLOWS FROM DISCONTINUED OPERATIONS		
Net cash flow from discontinued operations (pre-tax)	(20,000)	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing liabilities		
Dividends paid	(35,000)	(32,550)
Interest paid	(100,000)	0
Proceeds from issuance of short-term debt	500,000	0
Proceeds from issuance of bonds	2,500,000	0
Net cash provided by financing activities	2,865,000	(32,550)
CASH FLOWS FROM INCOME TAXES		
Net cash used in income tax activities	(54,639)	(50,814)
Change in cash	1,920,991	156,878
Beginning cash	4,000,000	3,843,123
Ending cash	5,920,991	4,000,001

Note: Figure A-20 and 21 are excerpts from Information for Observers for Joint International Group (JIG) and Financial Institution Advisory Group (FIAG) on Financial Statement Presentation on September 14, 2007 (Agenda Paper No. 1: Overview of Preliminary Model).

*Issue 2: Reconciliation Schedule of Statement of Cash Flows*⁵⁷

In addition, the Boards are of the view that the reconciliation schedule should be presented together with the statement of cash flows. The Boards consider the three proposed presentation alternatives for the reconciliation schedule: (a) *Statement of Financial Position (FP) Reconciliation*, (b) *Statement of Cash Flows to Statement of Comprehensive Income (CF-CI) Reconciliation*, and (c) *Comprehensive Income (CI) Matrix*. These three alternatives are discussed in order as follows.

Under “*FP reconciliation*” alternative, the reconciliation of beginning and ending balances of assets, liabilities, and equity is presented. The following columns are proposed to be presented in the FP reconciliation.

- (1) Beginning assets/liabilities/equity balance
- (2) Total cash flows (inflows/outflows)
- (3) Cash flows not affecting income
- (4) Accruals and systematic allocation
- (5) Recurring valuation changes
- (6) Remeasurements other than recurring valuation changes
- (7) Total comprehensive income
- (8) Non-cash/non-income
- (9) Ending assets/liabilities/equity balance

In terms of the main sections, the presentation of FP reconciliation schedule has the main sections similar to those of statement of comprehensive income discussed above (i.e. Business, Discontinued Operations, Financing, Income Taxes, and Equity). An example of “*FP reconciliation*” schedule is presented in Figure A-22.

⁵⁷ See (1) Minutes of the June 21, 2007 FASB Meeting on Financial Statement Presentation – Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities (FASB Memoranda No. 52B and No. 53), (2) Information for Observers for the June 19, 2007 IASB Meeting on Presenting Information about the Cause of Change in Reported Amounts of Assets and Liabilities (IASB Agenda Paper No. 3B), (3) Information for Observers for the March 22, 2007 IASB Meeting on Presentation of Changes in Assets and Liabilities, for more details on the presentation of changes in financial positions.

Under “*CI matrix*” alternative, there are three main columns presenting (a) comprehensive income items, (2) cash flows items, and (3) non-cash items affecting income. The non-cash items affecting income is further classified into accruals and systematic allocations, recurring valuation changes, and remeasurements other than recurring valuation changes. An example of CI matrix is presented in Figure A-23.

Figure A-22: An Example of FP Reconciliation Schedule

Statement of Financial Position Reconciliation

	A	B	C	D	E	F	G	H	I	J	
	2006 Beginning Balance	Total Cash Flows -- Inflows (Outflows)	Caption of Statement of Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals and Systematic Allocation	Recurring Valuation Changes	Remeasurements Other than Recurring Valuation Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Non-cash/ Non-income	2006 Ending Balance
BUSINESS			CASH FLOWS FROM BUSINESS								
Operating assets and liabilities			Operating								
Accounts receivable	395,000	2,500,000	Cash received from sales		250,000			2,750,000	Sales		
		1,200	Cash received from sale of receivable		(1,600)		200	(200)	Loss on sale of receivable	(1,000)	
Less: Allowance for bad debts	(20,000)				(9,358)		3,080	(6,278)	Bad debt expense	1,000	
Inventory	580,000				(446,250)			(446,250)	COGS - Change in inventory		
		(110,000)	Cash paid for labor					(110,000)	COGS - Labor		
		(300,000)	Cash paid for inventory purchases					(300,000)	COGS - Materials		
Accounts payable	(750,000)	(1,450,000)	Cash paid for inventory purchases		475,000			(975,000)	COGS - Materials		
Accrued liabilities	(8,000)	(100,000)	Cash paid for other expenses		(50,000)			(150,000)	Other expenses		
Advanced from customers	(15,000)	200,000	Cash received from sales		(175,000)			25,000			
Interest payable			Interest expense		(50,000)			(50,000)	Interest expense		
Current portion of lease liability					(2,378)			(2,378)		(6,830)	
Share-based compensation liability	(6,000)				(5,944)	(7,500)		(7,500)	Stock compensation expense		
Leased asset								(5,944)	COGS - MOH dep of lease asset	31,700	
Building	3,600,000	(500,000)	Cash paid for capital expenditures	(500,000)				160,000	Gain on revaluation of building	8,755	
		17,500	Cash received from sale of building					(15,500)	Gain on sale of building	(20,500)	
Less: Accumulated depreciation	(100,000)				(177,000)			(177,000)	Depreciation expense	20,500	
Asset retirement obligation					(500)			(500)	Accretion expense on ARO	(8,755)	
Loss contingency					(2,600)			(2,600)	Litigation expense		
Lease liability (excluding current portion)								0		(24,870)	
Accrued pension liability	(2,400)	(1,200)	Cash contributions to pension plan	(1,200)	(3,600)			(3,600)	Pension expense		
Net operating assets	3,673,600	257,500		(501,200)	(199,230)	(7,500)	147,780	699,750		0	3,077,450
		(1,120)	Cash paid for research and development					(1,120)	Research and development		
		(100,000)	Cash paid for compensation					(100,000)	Compensation expense		
		(120,000)	Cash paid for rental expenses					(120,000)	Rent expense		
	3,673,600	36,380	Net cash provided by operating activities	(501,200)	(199,230)	(7,500)	147,780	478,630	Comprehensive operating income	0	3,077,450
Investing assets and liabilities			Investing						Investing		
Available-for-sale securities		(185,000)	Purchase of available-for-sale securities	(185,000)				0			
		5,000	Sale of available-for-sale securities		(5,000)	450		450	Realized gain on available-for-sale securities	10,650	
Investment in affiliate -- equity method	(400,000)		Purchase of investment in affiliates	(400,000)	12,250			12,250	Equity in earnings of affiliate	(387,750)	
Investment in affiliate -- at fair value	(310,000)		Purchase of investment in affiliates	(310,000)		840		840	Fair value adjustment on affiliate	(309,160)	
		9,250	Dividends received					9,250	Dividend income	0	
	0	(880,750)	Net cash used in investing activities	(895,000)	7,250	1,290	0	22,790	Net investing income	10,650	(875,810)
								0	Other comprehensive income		
								10,650	Unrealized gain on available-for-sale securities		
	0	(880,750)	Net cash used in investing activities	(895,000)	7,250	11,940	0	33,440	Comprehensive investing income	10,650	(865,160)
	3,673,600	(844,370)	Net cash used in business activities	(1,396,200)	(191,980)	4,440	147,780	512,070	Comprehensive business income	10,650	2,212,290

Table A-22 (Continued)

Statement of Financial Position Reconciliation											
	A	B	C	D	E	F	G	H		I	J
	2006 Beginning Balance	Total Cash Flows -- Inflows (Outflows)	Caption of Statement of Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals and Systematic Allocation	Recurring Valuation Changes	Remeasurements Other than Recurring Valuation Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Non-cash/ Non-income	2006 Ending Balance
DISCONTINUED OPERATIONS			CASH FLOWS FROM DISCONTINUED OPERATIONS						DISCONTINUED OPERATIONS		
Assets classified as held for sale	420,000	(20,000)			(10,000)		(50,000)	(80,000)	Loss from discontinued operations		360,000
Liabilities classified as held for sale	(120,000)		Cash flows from discontinued operations					0			(120,000)
Net assets held for sale	300,000	(20,000)		0	(10,000)	0	(50,000)	(80,000)	Loss from discontinued operations	0	240,000
FINANCING			CASH FLOWS FROM FINANCING						FINANCING		
Financing assets											
Short-term											
Cash	4,000,000										
Total financing assets	4,000,000	0		0	0	0	0	0			
Financing liabilities											
Short-term											
Dividend payable	(37,450)	(35,000)	Dividends paid	(35,000)				0		(70,000)	(142,450)
Short-term debt		500,000		500,000							500,000
Long-term											
Interest payable		(125,000)	Interest paid		(100,000)			(225,000)	Interest expense		(100,000)
Bonds payable		2,500,000	Proceeds from issuance of bonds	2,500,000				0			2,500,000
Total financing liabilities	(37,450)	2,840,000		2,965,000	(100,000)	0	0	(225,000)			2,827,550
Net financing assets	3,962,550	2,840,000	Net cash provided by financing activities	2,965,000	(100,000)	0	0	(225,000)	Comprehensive financing expense		2,757,550
	7,936,150	1,975,630		1,568,800	(301,980)	4,440	97,780	207,070	Comprehensive income before tax	(59,350)	5,209,840
INCOME TAXES			CASH FLOWS FROM INCOME TAXES						INCOME TAXES		
Short-term											
Income tax payable	(54,639)	(54,639)	Income taxes paid		(20,812)			(75,451)	Current tax expense		
Deferred tax liability	(23,699)				(33,120)			(33,120)	Deferred tax expense		
Net income tax (liabilities)	(78,338)	(54,639)	Net cash used for income taxes	0	(53,932)	0	0	(108,571)	Comprehensive income tax expense	0	0
Total net assets	7,857,812	1,920,991	Net cash flows	1,568,800	(355,912)	4,440	97,780	98,499	Total comprehensive income	(59,350)	5,209,840
EQUITY											
Common stock and APIC	(5,000,000)										(5,000,000)
Treasury stock	100,000										100,000
Retained earnings	(2,803,185)			1,568,800	(355,912)	(6,210)	(62,220)	(1,993,142)	Income before OCI		(1,658,727)
Accumulated OCI	(154,627)					10,650	160,000	170,650	Other comprehensive income		16,023
Total equity	(7,857,812)	0	Net cash used in equity activities	1,568,800	(355,912)	4,440	97,780	(1,822,492)	Comprehensive income	(59,350)	(1,332,864)

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper No. 7A: The Statement of Cash Flows and the Reconciliation Schedule).

Figure A-23: An Example of CI Matrix Schedule

Statement of Comprehensive Income Matrix					
Converged View	A	B	C	D	E
	Comprehensive Income	Cash Flows	Noncash Items Affecting Income		
			Accruals and Systematic Allocation	Recurring Valuation Changes	Remeasurements Other than Recurring Valuation Changes
BUSINESS					
Operating					
Sales	2,775,000	2,700,000	75,000		
Cost of goods sold					
Change in inventory	(446,250)		(446,250)		
Materials	(1,275,000)	(1,750,000)	475,000		
Labor	(110,000)	(110,000)			
Overhead - Depreciation of building	(100,000)		(100,000)		
Overhead - Depreciation of leased asset					
	(5,944)		(5,944)		
Interest expense	(50,000)	(125,000)	75,000		
Total	(1,987,194)	(1,985,000)	(2,194)		
Gross profit on sales	787,806				
Selling expenses					
Compensation expense	(85,000)	(85,000)			
Pension expense	(2,000)	(700)	(1,300)		
Bad debt expense (decreased allowance)					3,080
	(6,278)		(9,358)		
Other operating expenses	(70,000)	(45,000)	(25,000)		
Total	(163,278)	(130,700)	(35,658)		3,080
General and administrative expenses					
	0				
Rent expense	(120,000)	(120,000)			
Pension expense	(1,600)	(500)	(1,100)		
Stock compensation expense	(7,500)			(7,500)	
Depreciation expense	(77,000)		(77,000)		
Accretion expense on ARO	(500)		(500)		
Total	(206,600)	(120,500)	(78,600)	(7,500)	
Other operating expenses					
Compensation expense	(15,000)	(15,000)			
Litigation expense	(2,600)		(2,600)		
Interest expense on lease liability	(2,378)		(2,378)		
Loss on sale of receivables	(200)	1,200	(1,600)		200
Research and development	(1,120)	(1,120)			
Gain on sale of building	2,000	17,500			(15,500)
Other operating expenses	(80,000)	(55,000)	(25,000)		
Total	(99,298)	(52,420)	(31,578)		(15,300)
Total operating income	318,630	411,380	(73,030)	(7,500)	(12,220)
Other comprehensive income					
Gain on revaluation of building	160,000				160,000
Total other comprehensive income	160,000				
Comprehensive operating income	478,630	411,380	(73,030)	(7,500)	147,780
Investing					
Equity in earnings of affiliate	12,250		12,250		
Fair value adjustment on affiliate	840			840	
Realized gain on available-for-sale securities					
	450	5,000	(5,000)	450	
Dividend income	9,250	9,250			
Net investing income	22,790	14,250	7,250	1,290	
Other comprehensive income					
Unrealized gain on available-for-sale securities	10,650			10,650	
Comprehensive investing income	33,440	14,250		11,940	
Comprehensive business income	512,070	425,630	(73,030)	4,440	147,780
DISCONTINUED OPERATIONS					
Loss from discontinued operations	(80,000)	(20,000)	(10,000)		(50,000)
FINANCING					
Interest expense	(225,000)	(125,000)	(125,000)		
Comprehensive financing expense	(225,000)	(125,000)	(125,000)		
Comprehensive income before tax and discontinued operations	207,070				
INCOME TAXES					
Current tax expense	(75,451)	(54,639)	(20,812)		
Deferred tax expense	(33,120)		(33,120)		
Comprehensive income tax expense	(108,571)	(54,639)	(53,932)		
Total comprehensive income	98,499	225,991			

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper No. 7A: The Statement of Cash Flows and the Reconciliation Schedule).

The “*CF-CI reconciliation*” schedule starts with the cash flow items presented on the statement of cash flows and then adjusted and reconciled to revenue-expense items presented on the statement of comprehensive income. The adjustments are disaggregated into various elements.

The Boards express the preference for the statement of cash flows to statement of comprehensive income (CF-CI) reconciliation. Although, the Boards tentatively agree on the CF-CI reconciliation schedule, the decomposition is not agreed upon at the present moment. Currently, there are three alternatives under FASB view, IASB view and Converged view. From the FASB perspective, the adjustments should be decomposed into 5 elements.

- (1) Cash flows not affecting income
- (2) Contractual accruals
- (3) Other accruals, systematic allocations, and other non-remeasurements
- (4) Recurring fair value changes
- (5) Remeasurements other than recurring fair value changes

Column (1) (Cash flows not affecting income) presents the transactions that result in the changes in cash flows but not affect the comprehensive income. Column (2) (Contractual accruals) consists of changes in accrual/deferral adjustments such as changes in payables/receivables and prepaid expenses/unearned revenues. Column (3) (Other accruals, systematic allocations, and other non-remeasurements) comprises non-cash expenses and revenues such as depreciation expenses, uncollectible accounts provision. Column (4) (Recurring fair value changes) relates to the application of mark-to-market adjustments under current authoritative guidance. Column (5) (Remeasurements other than recurring fair value changes) relates to the changes in the carrying amount of book value resulting from changes in a price or an estimate. In addition to the aforementioned adjustment columns, the FASB proposes that the unusual or infrequent events should also be disclosed. Figure A-24 presents an example of CF-CI reconciliation schedule under FASB view.

The IASB, on the other hand, prefers the following 3 adjustments. An example of reconciliation schedule under IASB view is presented in Figure A-25.

- (1) Cash flows not affecting income
- (2) Valuation adjustments (i.e. valuation adjustments resulting from the subsequent measurements under current pronouncements)
- (3) All other changes

JIG/FIAG suggests that the financial statement users are indifferent to the different levels of decomposition. Plus, the preparers are having difficulty in distinguishing the contractual accruals from other accruals in the FASB view. The Board tentatively agree that, at minimum, the reconciling items should consist of (1) cash flows not affecting income, (2) accruals and systematic allocations, (3) recurring valuation changes, and (4) remeasurements other than those in (3). This is referred to as a “converged” view of reconciliation schedule (see Figure A-26 below for an example). The Comparison of all reconciliation schedules proposed in the financial statement presentation project is depicted in Figure A-27.

Figure A-24: An Example of CF-CI Reconciliation Schedule under FASB View

Reconciliation of the Statements of Comprehensive Income and Cash Flows									
FASB View	A	B	C	D	E	F	G	H	I
	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-remeasurement	Fair Value Changes	Remeasurements Other than Fair Value Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Unusual or Infrequent Events or Transactions
CASH FLOWS FROM BUSINESS									
Operating								Operating	
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	
							(100,000)	Labor	
				(5,944)			(5,944)	Overhead - Depreciation of building	
							(5,944)	Overhead - Depreciation of leased asset	
Interest expense	(25,000)		(25,000)				(50,000)	Interest expense	
Total	(1,885,000)		450,000	(552,194)			(1,987,194)	Total	
							787,806	Gross profit on sales	
Cash paid for selling activities								Selling expenses	
Compensation	(85,000)						(85,000)	Compensation expense	
Contributions to pension plan	(700)			(1,300)			(2,000)	Pension expense	
				(9,358)		3,080	(6,278)	Bad debt expense (decreased allowance)	
Operating expenses	(45,000)		(25,000)				(70,000)	Other operating expenses	
Total	(130,700)		(25,000)	(10,658)		3,080	(163,278)	Total	
Cash paid for general and administrative activities								General and administrative expenses	
Rent	(120,000)						(120,000)	Rent expense	
Contributions to pension plan	(500)			(1,100)			(1,600)	Pension expense	
				(77,000)		(7,500)	(77,000)	Stock compensation expense	
				(500)			(500)	Depreciation expense	
Total	(120,500)			(78,600)	(7,500)		(206,600)	Accretion expense on ARO	
Cash paid for other operating activities								Total	
Compensation	(15,000)			(2,600)			(17,600)	Other operating expenses	
			(2,378)				(2,600)	Compensation expense	
				(1,600)			(2,378)	Litigation expense	(2,600)
Sale of receivables	1,200					200	(200)	Interest expense on lease liability	
Research and development	(1,120)						(1,120)	Loss on sale of receivables	
Sale of building	17,500					(15,500)	2,000	Research and development	
Capital expenditures	(500,000)	500,000						Gain on sale of building	
Other expenses	(55,000)		(25,000)				(80,000)	Other operating expenses	
Total	(552,420)	500,000	(27,378)	(4,200)		(15,300)	(99,298)	Total	
Net cash provided by operating activities	11,380	500,000	472,622	(645,652)	(7,500)	(12,220)	318,630	Total operating income	
							160,000	Other comprehensive income	
							160,000	Gain on revaluation of building	
							160,000	Total other comprehensive income	
Net cash provided by operating activities	11,380	500,000	472,622	(645,652)	(7,500)	147,780	478,630	Comprehensive operating income	

Table A-24 (Continued)

Reconciliation of the Statements of Comprehensive Income and Cash Flows									
FASB View	A	B	C	D	E	F	G	H	I
	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-remeasurement	Fair Value Changes	Remeasurements Other than Fair Value Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Unusual or Infrequent Events or Transactions
Investing								Investing	
				12,250			12,250	Equity in earnings of affiliate	
Sale of available-for-sale securities					840		840	Fair value adjustment on affiliate	
	5,000			(5,000)	450		450	Realized gain on available-for-sale securities	
Dividends received	9,250						9,250	Dividend income	
Purchase of investment in affiliates	(710,000)	(710,000)							
Purchase of available-for-sale securities	(185,000)	(185,000)							
Net cash used in investing activities	(880,750)	(895,000)		7,250	1,290		22,790	Net investing income	
								Other comprehensive income	
								Unrealized gain on available-for-sale securities	
Net cash used in investing activities	(880,750)	(895,000)		7,250	11,940		33,440	Comprehensive investing income	
Net cash used in business activities	(869,370)	(395,000)	472,622	(638,402)	4,440	147,780	512,070	Comprehensive business income	
CASH FLOWS FROM DISCONTINUED OPERATIONS								DISCONTINUED OPERATIONS	
Cash flows from discontinued operations	(20,000)		(10,000)			(50,000)	(80,000)	Loss from discontinued operations	
CASH FLOWS FROM FINANCING								FINANCING	
Dividends paid	(35,000)	(35,000)							
Interest paid	(100,000)		(125,000)				(225,000)	Interest expense	
Proceeds from issuance of 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	2,965,000	(125,000)				(225,000)	Comprehensive financing expense	
								Comprehensive income before tax and discontinued operations	
							207,070		
CASH FLOWS FROM INCOME TAXES								INCOME TAXES	
Income taxes paid	(54,639)		(20,812)				(75,451)	Current tax expense	
				(33,120)			(33,120)	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	316,810	(671,522)	4,440	97,780	98,499	Total comprehensive income	
Change in cash	1,920,991								
Beginning cash	4,000,000								
Ending cash	5,920,991								

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper No. 7A: The Statement of Cash Flows and the Reconciliation Schedule).

Figure A-25: An Example of CF-CI Reconciliation Schedule under IASB View

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	Valuation Adjustments	All Other Transactions	Comprehensive Income	Caption in Statement of Comprehensive Income
CASH FLOWS FROM BUSINESS	BUSINESS					
Operating	Operating					
Cash received from sales	2,700,000			75,000	2,775,000	Sales
Cash paid for goods sold						Cost of goods sold
				(446,250)	(446,250)	Change in inventory
Inventory purchases	(1,750,000)			475,000	(1,275,000)	Materials
Labor	(110,000)				(110,000)	Labor
				(100,000)	(100,000)	Overhead - Depreciation of building
						Overhead - Depreciation of leased asset
Interest expense	(25,000)			(5,944)	(5,944)	Interest expense
Total	(1,885,000)			(102,194)	(1,987,194)	Total
					787,806	Gross profit on sales
Cash paid for selling activities	Selling expenses					
Compensation	(85,000)				(85,000)	Compensation expense
Contributions to pension plan	(700)			(1,300)	(2,000)	Pension expense
						Bad debt expense (decreased allowance)
Operating expenses	(45,000)		3,080	(9,358)	(6,278)	Other operating expenses
Total	(130,700)		3,080	(25,000)	(70,000)	Total
Cash paid for general and administrative activities	General and administrative expenses					
Rent	(120,000)				(120,000)	Rent expense
Contributions to pension plan	(500)			(1,100)	(1,600)	Pension expense
			(7,500)		(7,500)	Stock compensation expense
				(77,000)	(77,000)	Depreciation expense
				(500)	(500)	Accretion expense on ARO
Total	(120,500)		(7,500)	(78,600)	(206,600)	Total
Cash paid for other operating activities	Other operating expenses					
Compensation	(15,000)				(15,000)	Compensation expense
				(2,600)	(2,600)	Litigation expense
				(2,378)	(2,378)	Interest expense on lease liability
Sale of receivables	1,200		200	(1,600)	(200)	Loss on sale of receivables
Research and development	(1,120)				(1,120)	Research and development
Sale of building	17,500		(15,500)		2,000	Gain on sale of building
Capital expenditures	(500,000)	(500,000)				
Other expenses	(55,000)			(25,000)	(80,000)	Other operating expenses
Total	(552,420)	(500,000)	(15,300)	(31,578)	(99,298)	Total
Net cash provided by operating activities	11,380	(500,000)	(19,720)	(173,030)	318,630	Total operating income
			160,000		160,000	Other comprehensive income
					160,000	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

Figure A-25 (Continued)

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	Valuation Adjustments	All Other Transactions	Comprehensive Income	Caption in Statement of Comprehensive Income
Investing						Investing
			840	12,250	12,250	Equity in earnings of affiliate
Sale of available-for-sale securities			450	(5,000)	450	Fair value adjustment on affiliate
Dividends received	5,000				450	Realized gain on available-for-sale securities
Purchase of investment in affiliates	9,250				9,250	Dividend income
Purchase of available-for-sale securities	(710,000)	(710,000)				
Net cash used in investing activities	(880,750)	(895,000)	1,290	7,250	22,790	Net investing income
						Other comprehensive income
			10,650		10,650	Unrealized gain on available-for-sale securities
Net cash used in investing activities	(880,750)	(895,000)	11,940	7,250	33,440	Comprehensive investing income
Net cash used in business activities	(869,370)	(1,395,000)	152,220	(165,780)	512,070	Comprehensive business income
CASH FLOWS FROM DISCONTINUED OPERATIONS						DISCONTINUED OPERATIONS
Cash flows from discontinued operations						Loss from discontinued operations
	(20,000)		(50,000)	(10,000)	(80,000)	
CASH FLOWS FROM FINANCING						FINANCING
Dividends paid	(35,000)	(35,000)				
Interest paid	(100,000)			(125,000)	(225,000)	Interest expense
Proceeds from issuance of 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	2,965,000		(125,000)	(225,000)	Comprehensive financing expense
						Comprehensive income before tax and discontinued operations
					207,070	
CASH FLOWS FROM INCOME TAXES						INCOME TAXES
Income taxes paid	(54,639)			(20,812)	(75,451)	Current tax expense
				(33,120)	(33,120)	Deferred tax expense
Net cash used for income taxes	(54,639)			(53,932)	(108,571)	Comprehensive income tax expense
Net cash flows	1,920,991	1,570,000	102,220	(354,712)	98,499	Total comprehensive income
Change in cash	1,920,991					
Beginning cash	4,000,000					
Ending cash	5,920,991					

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper No. 7A: The Statement of Cash Flows and the Reconciliation Schedule).

Figure A-26: An Example of CF-CI Reconciliation Schedule under Converged View

Reconciliation of the Statements of Comprehensive Income and Cash Flows								
Converged View	A	B	C	D	E	F	G	
	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals and Systematic Allocation	Recurring Valuation	Remeasurements Other than Recurring Valuation Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Unusual or Infrequent Events or Transactions
CASH FLOWS FROM BUSINESS								
Operating							Operating	
Cash received from sales	2,700,000		75,000			2,775,000	Sales	
Cash paid for goods sold							Cost of goods sold	
			(446,250)			(446,250)	Change in inventory	
Inventory purchases	(1,750,000)		475,000			(1,275,000)	Materials	
Labor	(110,000)					(110,000)	Labor	
			(100,000)			(100,000)	Overhead - Depreciation of building	
			(5,944)			(5,944)	Overhead - Depreciation of leased asset	
Interest expense			(50,000)			(50,000)	Interest expense	
Total	(1,860,000)		(127,194)			(1,987,194)	Total	
						787,806	Gross profit on sales	
Cash paid for selling activities							Selling expenses	
Compensation	(85,000)					(85,000)	Compensation expense	
Contributions to pension plan	(700)		(1,300)			(2,000)	Pension expense	
			(9,358)		3,080	(6,278)	Bad debt expense (decreased allowance)	
Operating expenses	(45,000)		(25,000)			(70,000)	Other operating expenses	
Total	(130,700)		(35,658)		3,080	(163,278)	Total	
Cash paid for general and administrative activities							General and administrative expenses	
Rent	(120,000)					(120,000)	Rent expense	
Contributions to pension plan	(500)		(1,100)			(1,600)	Pension expense	
			(77,000)	(7,500)		(7,500)	Stock compensation expense	
			(500)			(500)	Depreciation expense	
Total	(120,500)		(78,600)	(7,500)		(206,600)	Accretion expense on ARO	
Cash paid for other operating activities							Total	
Compensation	(15,000)					(15,000)	Other operating expenses	
			(2,600)			(2,600)	Compensation expense	
			(2,378)			(2,378)	Litigation expense	(2,600)
Sale of receivables	1,200		(1,600)			(200)	Interest expense on lease liability	
Research and development	(1,120)				200	(200)	Loss on sale of receivables	
Sale of building	17,500				(15,500)	(1,120)	Research and development	
Capital expenditures	(500,000)	500,000				2,000	Gain on sale of building	
Other expenses	(55,000)		(25,000)			(80,000)	Other operating expenses	
Total	(552,420)	500,000	(31,578)		(15,300)	(99,298)	Total	
Net cash provided by operating activities	36,380	500,000	(198,030)	(7,500)	(12,220)	318,630	Total operating income	
						160,000	Other comprehensive income	
						160,000	Gain on revaluation of building	
Net cash provided by operating activities	36,380	500,000	(198,030)	(7,500)	147,780	478,630	Total other comprehensive income	
							Comprehensive operating income	

Table A-26 (Continued)

Reconciliation of the Statements of Comprehensive Income and Cash Flows								
Converged View	A	B	C	D	E	F	G	
	Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals and Systematic Allocation	Recurring Valuation	Remeasurements Other than Recurring Valuation Changes	Comprehensive Income	Caption in Statement of Comprehensive Income	Unusual or Infrequent Events or Transactions
Investing							Investing	
			12,250			12,250	Equity in earnings of affiliate	
				840		840	Fair value adjustment on affiliate	
Sale of available-for-sale securities							Realized gain on available-for-sale securities	
	5,000		(5,000)	450		450		
Dividends received	9,250					9,250	Dividend income	
Purchase of investment in affiliates	(710,000)	(710,000)						
Purchase of available-for-sale securities	(185,000)	(185,000)						
Net cash used in investing activities	(880,750)	(895,000)	7,250	1,290		22,790	Net investing income	
							Other comprehensive income	
				10,650		10,650	Unrealized gain on available-for-sale securities	
Net cash used in investing activities	(880,750)	(895,000)		11,940		33,440	Comprehensive investing income	
Net cash used in business activities	(844,370)	(395,000)	(198,030)	4,440	147,780	512,070	Comprehensive business income	
CASH FLOWS FROM DISCONTINUED OPERATIONS							DISCONTINUED OPERATIONS	
Cash flows from discontinued operations							Loss from discontinued operations	
	(20,000)		(10,000)		(50,000)	(80,000)		
CASH FLOWS FROM FINANCING							FINANCING	
Dividends paid	(35,000)	(35,000)						
Interest paid	(125,000)		(125,000)			(250,000)	Interest expense	
Proceeds from issuance of debt	500,000	500,000						
Proceeds from issuance of bonds	2,500,000	2,500,000						
Net cash provided by financing activities	2,840,000	2,965,000	(125,000)			(250,000)	Comprehensive financing expense	
							Comprehensive income before tax and discontinued operations	
						182,070		
CASH FLOWS FROM INCOME TAXES							INCOME TAXES	
Income taxes paid	(54,639)		(20,812)			(75,451)	Current tax expense	
			(33,120)			(33,120)	Deferred tax expense	
Net cash used for income taxes	(54,639)		(53,932)			(108,571)	Comprehensive income tax expense	
Net cash flows	1,920,991	2,570,000	(386,962)	4,440	97,780	73,499	Total comprehensive income	
Change in cash	1,920,991							
Beginning cash	4,000,000							
Ending cash	5,920,991							

Note: Excerpt from Information for Observers for IASB Meeting on November 15, 2007 (Agenda Paper No. 7A: The Statement of Cash Flows and the Reconciliation Schedule).

Figure A-27: Comparison of Various Reconciliation Alternatives Accompanying Statement of Cash Flows

CF-CI Reconciliation - FASB View	Cash flows	Cash flows not affecting income	Non-cash items affecting income				Comprehensive income	Unusual or infrequent transactions	
			Contractual accruals	Other accruals, systematic allocation, and other non-remeasurements	Recurring fair valuation changes	Remeasurements other than recurring fair valuation changes			
CF-CI Reconciliation - IASB View	Cash flows	Cash flows not affecting income	Non-cash items affecting income				Comprehensive income	Unusual or infrequent transactions	
			Valuation adjustments and Other Changes						
CF-CI Reconciliation - Converged View	Cash flows	Cash flows not affecting income	Non-cash items affecting income			Comprehensive income			
			Accruals and systematic allocation	Recurring fair value changes	Remeasurements other than recurring fair valuation changes				
CI Matrix	Comprehensive income	Cash flows	Cash flows not affecting income	Non-cash items affecting income					
				Accruals and systematic allocation	Recurring fair value changes	Remeasurements other than recurring fair valuation changes			
FP Reconciliation	Beginning balance	Total cash flows	Cash flows not affecting income	Non-cash items affecting income			Total Comprehensive Income	Non-cash /Non-income	Ending balance
				Accruals and systematic allocation	Recurring valuation changes	Remeasurements other than recurring valuation changes			