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Financial Accounting Series

DISCUSSION PAPER

Preliminary Views on
Financial Statement Presentation

This Discussion Paper is issued by the Financial Accounting Standards Board for public comment as a step preceding the development of an Exposure Draft of a proposed Statement of Financial Accounting Standards.

Written comments should be addressed to:

Technical Director
File Reference No. 1630-100

Comments are requested by April 14, 2009.

Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Discussion Paper must be *received* in writing by April 14, 2009. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1630-100. Those without email may send their comments to the "Technical Director—File Reference No. 1630-100" at the address below. Responses should *not* be sent by fax. Please send only one comment letter to either the FASB or the International Accounting Standards Board (IASB), which is also requesting comments on this jointly issued Discussion Paper. The FASB and the IASB will share and consider jointly all comment letters received.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB's website and will be included in the project's public record.

Any individual or organization may obtain one copy of this Discussion Paper without charge until April 14, 2009, on written request only. *Please ask for our Product Code No. DP01.* For information on applicable prices for additional copies and copies requested after April 14, 2009, contact:

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INVITATION TO COMMENT

This Discussion Paper invites comments on the preliminary views of the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) on the presentation of information in the financial statements.

In the course of their joint project on financial statement presentation, the Boards have considered many approaches to presenting financial information. Many of those approaches are described in this Discussion Paper and some are illustrated in the appendices to this Discussion Paper.

The Boards are seeking comment on whether the presentation model proposed in this Discussion Paper would improve the usefulness of the information provided in an entity's financial statements and help users make decisions in their capacity as capital providers. Thus, this Discussion Paper does not include all the guidance that would be provided in a fully developed standard.

The Boards invite comments on all matters addressed in this Discussion Paper. Respondents need not comment on all issues and are encouraged to comment on additional issues the Boards should consider. Comments are most helpful if they:

a. Respond to the issues as stated and indicate the specific paragraph or paragraphs to which the comments relate
b. Contain a clear rationale
c. Include any alternative the Boards should consider.

The Discussion Paper includes specific questions for respondents, which are set out throughout the paper and are listed below. In addition to responses to those questions, the Boards are interested in comments on the fundamental objectives and principles proposed in this Discussion Paper as well as potential issues related to the benefits from using the resulting information or the costs of implementing and maintaining the proposed presentation model. Those comments will help the Boards when they develop an Exposure Draft of a proposed standard on financial statement presentation.

Respondents should submit one comment letter to either the IASB or the FASB. The Boards will share and consider jointly all comment letters received. Respondents must submit comments in writing by April 14, 2009.

Questions for Respondents

Chapter 2: Objectives and Principles of Financial Statement Presentation

1. Would the **objectives of financial statement presentation** proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the Boards consider any other objectives of

financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper? If so, please describe and explain.

2. Would the **separation of business activities from financing activities** provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

3. Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52–2.55)? Why or why not?

4. In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37, and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?

5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34, and 2.39–2.41).

   a. Would a management approach provide the most useful view of an entity to users of its financial statements?
   b. Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position.** Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required

today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

10. Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

Chapter 3: Implications of the Objectives and Principles for Each Financial Statement

11. Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

    a. What types of entities would you expect **not** to present a classified statement of financial position? Why?
    b. Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity?** If so, what additional guidance is needed?

12. Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

13. Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

14. Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

16. Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues,

expenses, gains, and losses **by their function, by their nature,** or **both** if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?

17. Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users? Please explain.

18. Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses,** including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

    a. Would this provide decisions-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.
    b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

19. Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

    a. Would a direct method of presenting operating cash flows provide information that is decision useful?
    b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
    c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

20. What **costs** should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

21. On the basis of the discussion in paragraphs 3.88–3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

Chapter 4: Notes to Financial Statements

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

    a. Would the proposed **reconciliation schedule** increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
    b. Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
    c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

24. Should the Boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

25. Should the Boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B.10–B.22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

a. Would this information be decision useful to users in their capacity as capital providers? Why or why not?
b. APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?
c. Should an entity have the option of presenting the information in narrative format only?

Question Specific to the FASB

27. As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to nonpublic entities.** What issues should the FASB consider about the application of the proposed presentation model to nonpublic entities? If you are a user of financial statements for a nonpublic entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

SUMMARY

INTRODUCTION

S1. How an entity presents information in its financial statements is vitally important because financial statements are a central feature of financial reporting—a principal means of communicating financial information to those outside an entity. The International Accounting Standards Board (IASB) and the U. S. Financial Accounting Standards Board (FASB) initiated the joint project on financial statement presentation to address users' concerns that existing requirements permit too many alternative types of presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between the financial statements and the financial results of an entity.

S2. This Discussion Paper invites comment on the Boards' preliminary views on a proposed model for presenting information in the financial statements. The model is designed to make an entity's financial statements more useful by requiring entities to provide detailed information organized in a manner that clearly communicates an integrated (cohesive) financial picture of an entity.

OBJECTIVES UNDERLYING THE PROPOSED PRESENTATION MODEL

S3. The Boards developed three objectives for financial statement presentation based on the objectives of financial reporting and the input the Boards received from users of financial statements and from members of their advisory groups. Those proposed objectives state that information should be presented in the financial statements in a manner that:

a. **Portrays a cohesive financial picture of an entity's activities.** A cohesive financial picture means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible.
b. **Disaggregates information so that it is useful in predicting an entity's future cash flows.** Financial statement analysis aimed at objectives such as assessing the amount, timing, and uncertainty of future cash flows requires financial information that is disaggregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows.
c. **Helps users assess an entity's liquidity and financial flexibility.** Information about an entity's liquidity helps users to assess an entity's ability to meet its financial commitments as they become due. Information about financial flexibility helps users to assess an entity's ability to invest in business opportunities and respond to unexpected needs.

PROPOSED FORMAT FOR FINANCIAL STATEMENTS

S4. The proposed presentation model requires an entity to present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).

a. An entity should further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.
b. An entity should present information about the financing of its business activities separately depending on the source of that financing. Specifically, information about nonowner sources of finance (and related changes) should be presented separately from owner sources of finance (and related changes).
c. An entity should present information about its discontinued operations separately from its continuing business and financing activities.
d. An entity should present information about its income taxes separately from all other information in the statements of financial position and cash flows. In its statement of comprehensive income, an entity should separately present information about its income tax expense (benefit) related to:
    (1) Income from continuing operations (the total of its income or loss from business and financing activities)
    (2) Discontinued operations
    (3) Other comprehensive income items.

S5. The table below illustrates the proposed classification scheme for the financial statements. (The section names are in ***bold italic type;*** required categories within sections are indicated by bullet points.) An entity may present the sections and categories within a section in a different order as long as the order is the same in each statement. Each section and category within a section would have a subtotal. The statement of comprehensive income also would include a subtotal for profit or loss or net income and a total for comprehensive income. The statement of changes in equity is not included in this table because it would not include the sections and categories used in the other financial statements.

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business • Operating assets and liabilities • Investing assets and liabilities	***Business*** • Operating income and expenses • Investment income and expenses	***Business*** • Operating cash flows • Investing cash flows
Financing • Financing assets • Financing liabilities	***Financing*** • Financing asset income • Financing liability expenses	***Financing*** • Financing asset cash flows • Financing liability cash flows
Income taxes	***Income taxes*** on continuing operations (business and financing)	***Income taxes***
Discontinued operations	***Discontinued operations,*** net of tax	***Discontinued operations***
	Other comprehensive income, net of tax	
Equity		***Equity***

CLASSIFICATION GUIDANCE

S6. To prepare financial statements using the classification scheme, an entity should first classify its assets and liabilities into the sections and categories in the statement of financial position; that classification will determine the classification in the statements of comprehensive income and cash flows. Classification should be consistent with how the asset or liability is used within an entity and the way an entity views its activities. An entity with more than one reportable segment should classify items according to how they are used in its reportable segments. This approach should allow management to communicate the unique aspects of its business(es) to users of its financial statements. The classification decision would reside with management and its classification rationale would be presented in the notes to financial statements as part of the accounting policy discussion. The Boards support a management approach to classification rather than a prescriptive approach because they believe it will result in financial statements that reflect how management views and manages the entity and its resources.

PRESENTING A COHESIVE SET OF FINANCIAL STATEMENTS

S7. To present a cohesive set of financial statements, an entity should align the line items, their descriptions, and the order of presentation of information in the statements of financial position, comprehensive income, and cash flows. To the extent that it is practical, an entity should disaggregate, label, and total individual items similarly in each statement. Doing so should present a cohesive relationship at the line item level among individual assets, liabilities, income, expense, and cash flow items.

HOW THE FINANCIAL STATEMENTS MIGHT CHANGE

Statement of Financial Position

S8. As illustrated in the table above, the statement of financial position would be grouped by major activities (operating, investing, and financing), not by assets, liabilities, and equity as it is today. The presentation of assets and liabilities in the business and financing sections will clearly communicate the net assets that management uses in its business and financing activities. That change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows should make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities.

S9. Assets and liabilities would be disaggregated into short-term and long-term subcategories within each category unless an entity believes presenting assets and liabilities in order of liquidity provides more relevant information. Totals for assets and liabilities and subtotals for short-term and long-term assets and liabilities would be presented in the statement of financial position or in the notes to financial statements.

Statement of Comprehensive Income

S10. The proposed presentation model eliminates the choice an entity currently has of presenting components of income and expense in an income statement and a statement of comprehensive income (two-statement approach) or, alternatively, of presenting information about other comprehensive income in its statement of changes in equity (U.S. generally accepted accounting principles only). All entities would present a single statement of comprehensive income, with items of other comprehensive income presented in a separate section. This statement would include a subtotal of *profit or loss* or *net income* and a total for *comprehensive income* for the period. Because the statement of comprehensive income would include the same sections and categories used in the other financial statements, it would include more subtotals than are currently presented in an income statement or a statement of comprehensive income. Those additional subtotals will allow for the comparison of effects across the financial statements. For example, users will be able to assess how changes in operating assets and liabilities generate operating income and cash flows.

S11. Another important aspect of the Boards' proposed presentation model is that an entity should disaggregate line items when such presentation will enhance the usefulness of the information in predicting future cash flows. In addition to classifying its income and expense items into the operating, investing, and financing categories, an entity should disaggregate those items on the basis of their function within those categories. An entity should further disaggregate its income and expense items by their nature within those functions to the extent that this disaggregation will help users in predicting the entity's future cash flows.

- ***Function*** refers to the primary activities in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development, or administration.
- ***Nature*** refers to the economic characteristics or attributes that distinguish assets, liabilities, and income and expense items that do not respond equally to similar economic events. Examples of disaggregation by nature include disaggregating total revenues into wholesale revenues and retail revenues or disaggregating total cost of sales into materials, labor, transport, and energy costs.

Statement of Cash Flows

S12. In the statement of cash flows, an entity should present separately the main categories of its cash receipts and payments for operating activities, such as cash collected from customers and cash paid to suppliers to acquire inventory (a direct method), rather than reconciling profit or loss or net income to net operating cash flows (an indirect method) as most entities do today. The Boards observed that a direct method is more consistent than an indirect method with the proposed objectives of financial statement presentation. Presenting cash receipt and cash payment line items in the operating category provides a more useful disaggregation of cash flow information. In addition, a direct method presentation helps users relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments.

New Reconciliation Schedule

S13. The proposed presentation model includes a new schedule (to be included in the notes to financial statements) that reconciles cash flows to comprehensive income. This reconciliation schedule disaggregates income into its cash, accrual other than remeasurements, and remeasurement components (for example, fair value changes). Users analyze those components separately because the components often differ in their ability to help users predict future cash flows and assess earnings quality.

COSTS AND BENEFITS

S14. The Boards hope to learn about the costs and benefits of their proposed presentation model through the comment letters they receive on this Discussion Paper and through discussions with interested parties during the comment period. In addition, a number of entities will be field testing the proposed presentation model during the comment period. The Boards will consider that input when they redeliberate the issues addressed in this Discussion Paper during the next stage of this project, the development of an Exposure Draft of a proposed standard.

CHAPTER 1: INTRODUCTION AND SCOPE

Background

1.1. In 2001, the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) added to their respective agendas a project on reporting financial performance and conducted those projects independently of one another. In 2004, the Boards agreed that they should conduct a project of this nature jointly to promote the convergence of accounting standards used internationally. In April 2004, they decided to approach the project in three phases:

a. Phase A would address the statements that constitute a complete set of financial statements and the periods for which they are required to be presented.
b. Phase B would address more fundamental issues relating to presentation and display of information in the financial statements, including aggregating and disaggregating information in each primary financial statement, defining totals and subtotals, and reconsidering the use of a direct or an indirect method of presenting operating cash flows.
c. Phase C would address the presentation and display of interim financial information in U.S. generally accepted accounting principles (GAAP). The IASB also may reconsider the requirements in IAS 34, *Interim Financial Reporting.*

1.2. The Boards completed their deliberations on Phase A in December 2005. In March 2006, the IASB published *A Revised Presentation* an exposure draft of proposed amendments to IAS 1, *Presentation of Financial Statements,* as a result of its work in Phase A. The FASB decided to consider Phases A and B issues together and, therefore, did not publish an Exposure Draft on Phase A. After considering the responses to its Exposure Draft, the IASB issued a revised version of IAS 1 in September 2007. The revisions to IAS 1 affected the presentation of changes in equity and the presentation of comprehensive income, bringing IAS 1 largely into line with FASB Statement No. 130, *Reporting Comprehensive Income* (Statement 130).

1.3. This Discussion Paper addresses issues in Phase B. It is the result of more than two years of discussion by the Boards and consultation with the project's advisory groups, the Joint International Group and the Financial Institutions Advisory Group, and other interested parties on the fundamental issues related to financial statement presentation. A number of entities will participate in a field test during the comment period on this Discussion Paper. Participating entities will recast, to the extent that it is practical, two years of financial statements using the Boards' preliminary views on financial statement presentation. In addition, the Financial Accounting Standards Research Initiative (FASRI) will study investor use of financial statements prepared using the proposed presentation model by conducting a series of controlled tests.

1.4. The Boards hope to learn about the costs and benefits of the proposed presentation model through that field test, FASRI's study, the comment letters they receive on this Discussion Paper, and discussions with interested parties during the comment period. They will consider all of that input when they redeliberate the issues addressed in this Discussion Paper during the next stage of Phase B, which will lead to publication of an Exposure Draft of a proposed standard.

1.5. The Boards plan to revisit the scope of Phase C (interim reporting) after they make more progress on Phase B issues. They will consider then whether and when to address the presentation of interim financial information as well as other presentation issues that are not being addressed in Phase B.

Purpose of the Project

1.6. The purpose of this joint project is to establish a standard that will guide the organization and presentation of information in the financial statements. The results of this project will directly affect how the management of an entity communicates financial statement information to users of financial statements, such as present and potential equity investors, lenders, and other creditors. The Boards' goal is to improve the usefulness of the information provided in an entity's financial statements to help users make decisions in their capacity as capital providers.

Why Is Presentation Important?

1.7. Financial statements are a central feature of financial reporting—a principal means of communicating financial information to those outside an entity. The amount and variety of information that financial reporting should provide about an entity require several financial statements. As discussed by the Boards in Phase A of this project and as specified in IAS 1, a complete set of financial statements includes the following four statements and the accompanying notes, as well as comparative information for the previous period:

a. A statement of financial position as of the end of the period[1]
b. A statement of comprehensive income for the period
c. A statement of cash flows for the period
d. A statement of changes in equity for the period.

1.8. Although each statement presents information in a particular way, the statements are derived from the same underlying data and therefore should relate to one another. No one statement is likely to serve only a single purpose, nor can it provide all the financial information that is useful for decision making. Moreover, significant tools of financial

[1]During their Phase A discussions, the Boards concluded that a complete set of financial statements also should include a statement of financial position as of the beginning of the earliest comparative period. In IAS 1 (as revised in 2007), the IASB modified that conclusion so that a third statement of financial position is required only if an entity applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements. The FASB will consider that modification before publishing an Exposure Draft on Phase B, which will include Phase A issues.

analysis, such as rates of return and turnover ratios, depend on interrelationships between the statements and their components.

1.9. Business entities routinely are affected by a variety of transactions and events. The financial statements portray the effects of those transactions and events with highly summarized numbers and words. Users often treat each individual item, subtotal, or other part of a financial statement differently, which implies that too much summarization and aggregation may obscure significant information. Therefore, **how** an entity presents information in its financial statements is of utmost importance in communicating financial information to those who use that information to make decisions in their capacity as capital providers.

1.10. Paragraphs 1.11–1.17 summarize users' primary criticisms of how financial information is presented today in the financial statements—primarily that information is not presented consistently nor is it sufficiently disaggregated. Those criticisms were the basis for the issues addressed in the current phase of this project.

Information Is Not Presented Consistently in Financial Statements

1.11. Transactions or events recognized in financial statements today are not described or classified in the same way in each of the statements. That makes it difficult for users to understand how the information in one statement relates to information in the other statements. For example, the Boards' standards on the statement of cash flows require a section for operating activities, but International Financial Reporting Standards (IFRSs) and U.S. GAAP do not provide a section for operating activities in the statement of comprehensive income or the statement of financial position. That makes it difficult, for example, for users who want to assess the quality of an entity's earnings by comparing operating income with operating cash flows. Even though financial statements sometimes articulate at a high level (for example, the change in the cash account relates to the statement of cash flows), users have asked for improved linkages between and among statements.

1.12. Both IFRSs and U.S. GAAP permit alternatives for how an entity presents information in its financial statements. Permitted alternatives include (a) direct and indirect methods of presenting operating cash flows and (b) presentation of other comprehensive income items in a standalone statement of comprehensive income or in two statements. Those two statements would include a statement displaying the components of profit or loss (in IFRSs) or net income (in U.S. GAAP)[2] and a statement of other comprehensive income that begins with profit or loss or net income and displays items of other comprehensive income. U.S. GAAP permits a third alternative—presentation in the statement of changes in equity. Alternative presentations make it difficult for users to compare financial information across entities.

[2]This paper uses the term *net income* as it is used in Statement 130: to describe a measure of financial performance resulting from the aggregation of revenues, expenses, gains, and losses that are not items of other comprehensive income as identified in that standard.

1.13. IAS 1 includes minimum presentation requirements for an entity applying IFRSs. Although U.S. GAAP includes some requirements that focus on presentation of information in the financial statements, for example, how information is to be classified in the statement of cash flows, those requirements are dispersed among several standards and, in total, are not as comprehensive as IAS 1. In addition, the U.S. Securities and Exchange Commission (SEC) requires particular presentation and disclosures for entities that file financial statements in accordance with Regulation S-X.[3] Thus, the existing presentation requirements in IFRSs and U.S. GAAP provide opportunities for a wide spectrum of presentation formats that comply with the requirements but vary in detail and comparability. This is counter to the needs of users. Also, increased globalization of capital markets and investment opportunities leads to a need for a common set of principles for presenting information in financial statements used by capital providers around the world. Even if the underlying recognition and measurement principles are the same, different presentation of the resulting information makes it difficult for users to compare financial statements of different entities.

Information Is Not Sufficiently Disaggregated in Financial Statements

1.14. Even though IAS 1 and Regulation S-X address presentation issues, IFRSs and U.S. GAAP provide little specific guidance on the presentation of line items in financial statements, such as the level of detail or number of line items that should be presented. The resulting variation and inconsistency in presentation formats create difficulties for users who want to understand and analyze an entity's activities. For example, some entities disaggregate direct product costs (such as materials and labor) as well as general and administrative costs (such as rent and utilities) in their statement of comprehensive income. However, other entities present both product costs and general and administrative costs in the aggregate. Such aggregation makes it difficult for users to study the relationship between revenue and costs for an entity's principal activities as well as to perform a benchmark analysis of those activities across an industry.

1.15. Insufficient disaggregation also makes it more difficult for users to understand how a line item in one financial statement relates to the other financial statements. For example, consider an entity that presents its research and development expenses on a single line in its statement of comprehensive income. If that entity aggregates the cash outflows related to its research and development activities with "other" or "general" operating cash outflows in its statement of cash flows, it would be difficult for a user to understand the cash demands of the entity's research and development efforts.

1.16. It also is common practice for users to analyze an entity's performance independently of its capital structure. However, users say that this analysis is difficult because financial statements usually do not distinguish an entity's financing activities (how it obtains capital) from its business activities (how it uses that capital to create value).

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[3]Regulation S-X sets forth the form and content of and requirements for financial statements that are required to be filed by the Securities Act of 1933, the Securities Act of 1934, and the Investment Company Act of 1940.

1.17. Finally, components of comprehensive income that are derived from changes in market prices or rates, such as gains attributable to remeasurement of an asset and translation adjustments on an investment in a foreign subsidiary, usually do not have the same implications for future cash flows as other components of comprehensive income. Thus, users often analyze the changes in assets and liabilities derived from changes in market prices or rates differently from other changes in an entity's net assets. However, financial statements aggregate components of income in many cases even though those components are likely to have different implications for future cash flows.

Scope of the Project

Affected Entities

1.18. The Boards intend that the proposals in this Discussion Paper would apply to all entities except:

a. Not-for-profit entities. IFRSs are not designed to apply to not-for-profit activities in the private or public sectors. Although the FASB is aware of some criticisms of existing financial statement presentation requirements and practices for reporting by not-for-profit entities, significant additional research and analysis are needed to determine to what extent the conclusions reached in this project might apply to such entities.
b. Entities within the scope of the IASB's forthcoming IFRS for Private Entities.
c. Nonpublic entities (U.S. GAAP). [4] The FASB has not considered explicitly whether the proposals in this Discussion Paper would apply to nonpublic entities. As explained in the Invitation to Comment, the purpose of this Discussion Paper is to give respondents an opportunity to help the Boards shape their views on presentation issues before they develop an Exposure Draft of a proposed standard. The FASB decided not to discuss whether the proposed presentation model described in this Discussion Paper should apply to nonpublic entities until it reviews the comments on this paper and decides to continue to pursue that model for publicly traded entities. In making that assessment, the FASB will consider, for example, whether users of financial statements of a nonpublic entity have different needs that would require a different presentation. The FASB also will consider whether to provide some entities with more time to adopt any requirements resulting from this project.
d. Benefit plans within the scope of IAS 26, *Accounting and Reporting by Retirement Benefit Plans,* or FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans.*

[4] A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), (c) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (d) that is controlled by an entity covered by (a), (b), or (c).

Issues in the Scope of the Project

1.19. Neither the IASB nor the FASB has defined the term *financial statement presentation* in its existing standards. In setting the scope of the project, the Boards considered the following as possible aspects of financial statement presentation:

a. Financial information included in the primary financial statements—how assets, liabilities, equity, revenues, expenses, gains, losses, and cash flows should be grouped into line items and categories and which subtotals and totals should be presented
b. Financial information included in the notes to financial statements—the nature and extent of disclosures that complement information provided in financial statements
c. Financial information included in a set of condensed financial statements for an interim period (both in any particular financial statement and in the accompanying notes)
d. Financial ratios, such as earnings per share, to be included in either the primary financial statements or the accompanying notes
e. Management's discussion and analysis of financial information or management commentary that should accompany financial statements
f. Nonfinancial information and forecasts of financial information that might be included in financial reports.

1.20. The Boards concluded that this phase of the project should focus on matters of presentation in the statements included in a complete set of financial statements (item (a) above). Some have urged the Boards to reconsider their standards for presentation in other areas, such as presentation of financial information in condensed financial statements, disclosures about segments, and other information disclosed today in the notes to financial statements. The Boards considered those views and concluded that the most significant area of needed improvement is presentation in primary financial statements. As noted in paragraph 1.5, the Boards may undertake additional work to address other aspects of financial statement presentation in the future.

1.21. With respect to the other possible aspects of financial statement presentation addressed in paragraph 1.19, the Boards note that:

a. They might need to introduce new disclosures in the notes to financial statements as a way of providing users with the information they need while maintaining or improving the overall understandability of the primary financial statements.
b. The final standard resulting from this project may include amendments of existing disclosure requirements to address any consequential effects of the proposed presentation model.
c. When they consider potential consequential amendments to segment disclosure requirements, they may decide that different or additional segment information is necessary for consistency between the proposed presentation model and segment information provided in the notes to financial statements.

d. They plan to address condensed or interim financial statements in Phase C of this project.

e. They will not address earnings per share or any other financial ratios in this project. This means that they will not amend IAS 33, *Earnings per Share,* or FASB Statement No. 128, *Earnings per Share,* as part of this project.[5] Nor will the IASB amend paragraph 107 of IAS 1, *Presentation of Financial Statements* (as revised in 2007), which addresses presentation of dividends per share.

f. Management commentary[6] or management discussion and analysis, nonfinancial information, and forecasts of financial information are not part of a complete set of financial statements and therefore are outside the scope of this project.

1.22. This project will not address recognition or measurement requirements provided in other standards for individual assets, liabilities, or transactions. Therefore, the Boards decided not to consider in this project whether to change existing requirements that describe:

a. Which items must or may be presented in other comprehensive income outside of profit or loss or net income

b. Whether, when, and how items of other comprehensive income must be reclassified to profit or loss or net income (see paragraph 3.32).

[5]As part of the Boards' separate convergence project on earnings per share, the Boards recently published proposed amendments to IAS 33 and Statement 128 to clarify and simplify the method of calculating earnings per share and to eliminate differences that currently exist between those standards.

[6]In its project on management commentary, the IASB plans to develop the principles, qualitative characteristics, and essential content elements necessary to make management commentary reporting useful to investors. The final product will be issued as a nonmandatory guidance document.

CHAPTER 2: OBJECTIVES AND PRINCIPLES OF FINANCIAL STATEMENT PRESENTATION

Objectives of Financial Statement Presentation

2.1. In developing their proposed objectives of financial statement presentation, the Boards looked to the recent work on the objectives of financial reporting in their joint project to improve the conceptual framework. The Exposure Draft, *Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* (Framework ED), published in May 2008, indicates that:

a. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. Information that is decision useful to capital providers may also be useful to other users of financial reporting who are not capital providers (paragraph OB2).
b. Equity investors generally invest economic resources (usually cash) in an entity with the expectation of receiving a return **on,** as well as a return **of,** the cash provided; in other words, they expect to receive more cash than they provided in the form of cash distributions and increases in the prices of shares or other ownership interests. Therefore, equity investors are directly interested in the amount, timing, and uncertainty of an entity's future cash flows and also in how the perception of an entity's ability to generate those cash flows affects the prices of their equity interests. Equity investors often have the right to vote on management actions and therefore are interested in how well the directors and management of the entity have discharged their responsibility to make efficient and profitable use of the assets entrusted to them (paragraph OB6(a)).
c. Lenders, including purchasers of traded debt instruments, provide financial capital to an entity by lending it economic resources (usually cash). Lenders generally expect to receive a return in the form of interest, repayments of borrowings, and increases in the prices of debt securities. Like equity investors, lenders are interested in the amount, timing, and uncertainty of an entity's future cash flows and in how the perception of an entity's ability to generate those cash flows affects the prices of its debt securities. Lenders also may have the right to influence or approve some management actions and therefore also may be interested in how well management has discharged its responsibilities (paragraph OB6(b)).
d. Financial reporting should provide information about the economic resources of the entity (its assets) and the claims to those resources (its liabilities and equity). Financial reporting also should provide information about the effects of transactions and other events and circumstances that change an entity's economic resources and the claims to those resources. That information is useful to capital providers for assessing an entity's ability to generate net cash

inflows and for assessing the effectiveness with which management has fulfilled its stewardship responsibilities (paragraph OB15).

2.2 The Boards also reaffirmed the importance of accrual accounting in presenting financial information, as stated in the Framework ED:

> . . . The buying, producing, selling, and other operations of an entity during a period, as well as changes in fair value and other events that affect its economic resources and the claims to them, often do not coincide with the cash receipts and payments of the period. Information in financial reports about an entity's resources and claims and changes in resources and claims generally provides a better basis for assessing past performance and future prospects than information solely about the entity's current period cash receipts and payments. Without accrual accounting, important economic resources and claims to resources would be excluded from financial statements. [paragraph OB20]

2.3. Consistent with the overall objective of financial reporting and accrual accounting, the focus of this project is on providing information about an entity's financial position (its economic resources and claims to those resources) and changes in its financial position that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers.

2.4. The Boards propose three objectives of financial statement presentation, namely that information should be presented in financial statements in a manner that:

a. Portrays a cohesive financial picture of an entity's activities
b. Disaggregates information so that it is useful in assessing the amount, timing, and uncertainty of an entity's future cash flows
c. Helps users to assess an entity's ability to meet its financial commitments as they become due and to invest in business opportunities.

Those objectives, described in more detail below, are based on the objectives of financial reporting and the input the Boards received from users of financial statements (including the criticisms described in paragraphs 1.11–1.17) and from members of their advisory groups. The financial reporting objective of providing information to help users assess how well management has discharged its stewardship responsibilities is addressed in the Boards' joint conceptual framework project. Although a similar objective is not included in the financial statement presentation objectives, the proposed presentation model should help to achieve the stewardship objective of financial reporting.

Cohesiveness Objective

2.5. **An entity should present information in its financial statements in a manner that portrays a cohesive financial picture of its activities.**

2.6. A *cohesive financial picture* means that the relationship between items across financial statements is clear and that an entity's financial statements complement each other as much as possible. Financial statements that are consistent with the cohesiveness objective would display data in a way that clearly associates related information across the statements so that the information is understandable. The cohesiveness objective responds to the existing lack of consistency in the way information is presented in an entity's financial statements. For example, cash flows from operating activities are separated in the statement of cash flows, but there is no similar separation of operating activities in the statements of comprehensive income and financial position. This makes it difficult for a user to compare operating income with operating cash flows—a comparison often made in assessing earnings quality. Similarly, separating operating assets and liabilities in the statement of financial position will provide users with more complete data for calculating some key financial ratios, such as return on net operating assets.

Disaggregation Objective

2.7. **An entity should disaggregate information in its financial statements in a manner that makes it useful in assessing the amount, timing, and uncertainty of its future cash flows.**

2.8. Classification in financial statements facilitates analysis by grouping items with essentially similar economic characteristics, providing meaningful totals and subtotals for them, and disaggregating items with essentially different economic characteristics. Analysis aimed at objectives such as assessing the amount, timing, and uncertainty of future cash flows requires financial information that is segregated into reasonably homogeneous groups of items. If items differ economically, users may wish to take that into account differently in predicting future cash flows. The additional information provided by disaggregating information and presenting more line items can assist users in understanding an entity's financial results and in predicting its future cash flows.

2.9. In practice today, financial statements often aggregate items that are different in nature and respond differently to the same economic events. Consider an entity that aggregates its fixed rental expenses with its variable utility expenses and presents the combined amount in the same line item as it does its other general and administrative expenses. If rental expenses or utility expenses are significant to that entity's performance, disaggregating them may help users predict the entity's future cash flows.

2.10. In applying the disaggregation objective, an entity should include, as appropriate, additional line items in its financial statements to explain the components of its financial position, performance, and cash flows. The Boards acknowledge that there is a delicate balance between having too much information and having too little information. Thus, it is important that application of the disaggregation objective should lead to sufficient but not excessive disaggregation.

2.11. Although the disaggregation objective refers to assessing the amount, timing, and uncertainty of future cash flows, the Boards understand that users often base their expectations of future cash flows on an analysis of an entity's prospects for creating value in the future. Such analyses often involve forecasts of income, components of income, or cash flows generated from specific activities.

Liquidity and Financial Flexibility Objective

2.12. **An entity should present information in its financial statements in a manner that helps users to assess the entity's ability to meet its financial commitments as they become due and to invest in business opportunities.**

2.13. In developing the liquidity and financial flexibility objective, the Boards discussed *liquidity* in terms of an entity having the resources to fulfill its financial commitments, including commitments related to operations and financing. Those resources include an entity's ability to raise capital and to use existing assets for generating future cash inflows. *Financial flexibility* is a broader notion that relates to more than just having sufficient resources to satisfy external debt and existing liabilities; it also relates to an entity's ability:

a. To earn returns on investments and to fund future growth
b. To take effective action to alter amounts and timing of cash flows so that it can respond to unexpected needs and opportunities.[7]

Discussion Question

1. Would the **objectives of financial statement presentation** described in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the Boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this Discussion Paper? If so, please describe and explain.

Principles of Financial Statement Presentation and Related Application Guidance

2.14. The rest of this chapter describes the Boards' preliminary views on the principles (shown in **bold type**) and application guidance that an entity should follow in classifying and presenting information in its financial statements to be consistent with the financial statement presentation objectives. This chapter also describes the bases for those views and the alternatives considered by the Boards. The Boards' preliminary views on the principles and application guidance specific to presenting information in the statements of financial position, comprehensive income, cash flows, and changes in equity are set out in Chapter 3. Their preliminary views on new information that an entity should present in the notes to financial statements are described in Chapter 4. Appendix A contains illustrative financial statements (including selected notes to financial statements) for a manufacturing entity (ToolCo) and a financial services entity (Bank Corp) using the principles and application guidance included in this Discussion Paper (proposed format). Appendix A also includes illustrative financial statements for ToolCo and Bank Corp using today's presentation requirements (traditional format).

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[7]FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises,* paragraph 24, footnote 13.

Presenting a Cohesive Set of Financial Statements

2.15. **To present a cohesive set of financial statements, an entity should align the line items, their descriptions, and the order in which information is presented in the statements of financial position, comprehensive income, and cash flows.**

2.16. The Boards' preliminary view is that, ideally, financial statements should be cohesive at the line item level. Aligning line items across the financial statements should provide more information and increase the transparency of the information provided—something that users have requested repeatedly. However, alignment of every line in each of the three statements may not be feasible. The goal of line-item cohesiveness is for a user to find an asset or liability and the effects of a change in that asset or liability in the same or similar location in each financial statement and to be able to identify related information in different statements. In presenting information in its financial statements, an entity should comply with the spirit of that goal.

2.17. An entity should be able to align most line items in the statement of cash flows and the statement of comprehensive income because both are "flow" statements that present changes in assets and liabilities during a period. However, an entity will not be able to align line items between the statement of financial position and the statements of cash flows and comprehensive income if an asset or a liability that gave rise to a cash flow or an income or expense[8] item **during** a period is not recognized in the statement of financial position at the **end** of the period. For example, in practice today, an entity does not recognize assets that result from its internal research efforts. Therefore, cash payments related to research often cannot be related to an asset that appears in the statement of financial position.

2.18. An entity may need to present a change in an asset or liability on more than one line in the statement of comprehensive income and the statement of cash flows. For example, a change in accounts receivable may be attributable to cash collections, credit sales, and an increase in uncollectible accounts. Thus, changes in the accounts receivable line in the statement of financial position could be presented in two or more lines in the statement of comprehensive income.

Separating Information into Sections and Categories

2.19. **An entity should present information about the way it creates value (its business activities) separately from information about the way it funds or finances those business activities (its financing activities).**

a. **An entity should further separate information about its business activities by presenting information about its operating activities separately from information about its investing activities.** (See paragraphs 2.31–2.33.)

[8]This Discussion Paper uses the term *income* to encompass both *revenues* and *gains,* and it uses *expense* to encompass both *expenses* and *losses*.

b. **An entity should present information about the financing of its business activities separately depending on the source of that financing. Specifically, information about nonowner sources of finance (and related changes) should be presented separately from owner sources of finance (and related changes).** (See paragraphs 2.34–2.36.)

2.20. **An entity should present information about its discontinued operations separately from its continuing business and financing activities.** (See paragraph 2.37.)

2.21. **An entity should present information about its income taxes separately from all other information in the statements of financial position and cash flows. In its statement of comprehensive income, an entity should separately present information about its income tax expense (benefit) related to income from continuing operations (the total of its income or loss from business and financing activities). An entity's income tax expense (benefit) related to discontinued operations and other comprehensive income items should be presented in either the statement of comprehensive income or the notes to financial statements as required by IFRS and U.S. GAAP. If income tax expense or benefit relates to transactions with owners in their capacity as owners and IFRSs or U.S. GAAP require it to be charged or credited directly to equity, that income tax expense or benefit should be presented in the statement of changes in equity, not in the statement of comprehensive income.**

2.22. An entity applying the above principles should present information in its financial statements in the sections and categories illustrated in the table below. (The section names are in ***bold italic type;*** required categories within sections are indicated by bullet points.) An entity may present the sections and categories within a section in a different order as long as the order is the same in each statement. The statement of changes in equity is not included in this table because it will not include the sections and categories used in the other financial statements.

Statement of Financial Position	**Statement of Comprehensive Income**	**Statement of Cash Flows**
Business • Operating assets and liabilities • Investing assets and liabilities	***Business*** • Operating income and expenses • Investing income and expenses	***Business*** • Operating cash flows • Investing cash flows
Financing • Financing assets • Financing liabilities	***Financing*** • Financing asset income • Financing liability expenses	***Financing*** • Financing asset cash flows • Financing liability cash flows
Income taxes	***Income taxes*** on continuing operations (business and financing activities)	***Income taxes***
Discontinued operations	***Discontinued operations,*** net of tax	***Discontinued operations***
	Other comprehensive income, net of tax	
Equity		***Equity***

Presenting Meaningful Subtotals

2.23. **An entity should present subtotals and related headings for each section and category within a section in the statements of financial position, comprehensive income, and cash flows. An entity may present additional subtotals and headings if such presentation is helpful to understanding its financial position and changes in its financial position and if those subtotals and headings are presented consistently in the three statements.**

2.24. The table above depicts the order in which the sections and categories **might** appear in an entity's financial statements. In selecting the order for presenting sections and categories within sections, an entity should choose the order that produces the most understandable depiction of its activities and allows for presentation of meaningful subtotals and totals. However, as stated in paragraph 2.22, an entity should present the sections and categories in the same order in all three statements.

2.25. As noted in paragraph 3.22, an entity may present a total for assets and a total for liabilities in its statement of financial position. As noted in paragraph 3.24, an entity should present a subtotal for profit or loss or net income and a total for comprehensive income in its statement of comprehensive income.

2.26. Requiring an entity to present subtotals for each section and category within a section is consistent with the cohesiveness objective because it allows users to relate subtotals across the financial statements. For example, it will be easy for users to identify the operating assets and liabilities that gave rise to operating income and to operating cash flows.

Discussion Questions

2. Would the **separation of business activities from financing activities** provide information that is more decision useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?
3. Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36, and 2.52–2.55)? Why or why not?
4. In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37, and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? Why or why not?

Classifying Information in the Sections and Categories

2.27. **An entity should classify its assets and liabilities in the business section and in the financing section in a manner that best reflects the way the asset or liability is used within the entity. This Discussion Paper refers to this as a *management approach* to classification. An entity with more than one *reportable segment* (as that term is defined in IFRSs and U.S. GAAP) should classify its assets and liabilities in the business and financing sections on the basis of the way those items are used in each of its reportable segments.**

2.28. **Even though an entity uses a management approach to classify its assets and liabilities in the business and financing sections, it should refer to existing standards when classifying its assets, liabilities, and equity items in the income taxes section, the discontinued operations section, and the equity section.** (See paragraphs 2.36–2.38.)

2.29. **To present information in a cohesive manner, an entity should present changes in its assets, liabilities, and equity items in the same section and category in the statement of comprehensive income and the statement of cash flows that the asset or liability is classified in the statement of financial position. In other words, the classification of assets and liabilities in the statement of financial position determines the classification of changes in those assets and liabilities in the statements of comprehensive income and cash flows. For example, an entity would classify its revenues, expenses, gains, losses, and cash flows related to operating assets and liabilities in the operating category in the statements of comprehensive income and cash flows.**

2.30. **An entity should present changes attributable to transactions with owners in their capacity as owners in the statement of changes in equity.**

Defining the Sections and Categories

2.31. The **business section** should include assets and liabilities that management views as part of its continuing business activities and changes in those assets and liabilities. Business activities are those conducted with the intention of creating value, such as producing goods or providing services. The business section normally would include assets and liabilities that are related to transactions with customers, suppliers, and employees (in their capacities as such) because such transactions usually relate directly to an entity's value-creating activities.

2.32. The **operating category** within the business section should include assets and liabilities that management views as related to the central purpose(s) for which the entity is in business. An entity uses its operating assets and liabilities in its primary revenue- and expense-generating activities. All changes in operating assets and liabilities should be presented in the operating category in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.

2.33. The **investing category** within the business section should include business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business. An entity may use its investing assets and liabilities to generate a return in the form of interest, dividends, or increased market prices but does not use them in its primary revenue- and expense-generating activities. All changes in investing assets and liabilities should be presented in the investing category in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.

2.34. The **financing section** should include a **financing asset category** and a **financing liability category.** Financing assets and financing liabilities are *financial assets* and *financial liabilities* (as those terms are defined in IFRSs and U.S. GAAP) that management views as part of the financing of the entity's business and other activities. In determining whether a financial asset or financial liability is part of an entity's financing activities, management should consider whether the item is interchangeable with other sources used to fund its business activities. For example, an entity could acquire equipment using cash, a lease, or a bank loan. The financing section would normally include liabilities that originated from an entity's capital-raising activities (for example, a bank loan or bonds) because capital is usually raised to fund value-creating (business) activities. However, as discussed in paragraph 2.79, because of the management approach to classification used in the proposed presentation model, items classified in the financing section by a manufacturing entity may differ from those classified in that section by a financial services entity. All changes in financing assets and financing liabilities should be presented in the financing asset and financing liability categories, respectively in the statement of comprehensive income (unless existing standards require a change to be recognized as an item of other comprehensive income) and the statement of cash flows.

2.35. If an entity cannot clearly identify an asset or liability as relating to operating, investing, or financing activities, the entity should presume that the asset or liability relates to its operating activities.

2.36. The **equity section** should include items that meet the definition of *equity* in IFRSs and U.S. GAAP. For example, the equity section of the statement of financial position would include items such as ordinary or common shares, treasury shares, and retained earnings. All cash flows related to equity should be presented in the equity section in the statement of cash flows. All owner changes in equity should be presented in the statement of changes in equity, and all nonowner changes in equity should be presented in the statement of comprehensive income.

2.37. The **discontinued operations section** should include all assets and liabilities related to a *discontinued operation,* as that term is defined in IFRSs and U.S. GAAP. All changes in assets and liabilities of a discontinued operation should be presented in the discontinued operations section in the statement of comprehensive income and the statement of cash flows.

2.38. The **income tax section** of the statement of financial position should include all current and deferred income tax assets and liabilities recognized in accordance with IFRSs or U.S. GAAP. An entity should present cash flows related to those assets and liabilities in the income tax section of the statement of cash flows. As explained in paragraphs 3.55–3.62, the Boards' preliminary view is that an entity should allocate income tax expense or benefit in the statement of comprehensive income in accordance with existing requirements. Therefore, an entity might present some income tax expense or benefit in the discontinued operations and other comprehensive income sections of the statement of comprehensive income rather than in the income tax section that corresponds to the statements of financial position and cash flows.

Additional Classification Guidance

2.39. The management approach to classification allows an entity's management to communicate the unique aspects of its business to users of its financial statements. In adopting that classification approach, the Boards observed that an entity may consist of several different businesses and may have similar types of assets and liabilities that function differently in its different businesses.

2.40. In paragraph 2.27, the Boards propose that an entity should classify its business and financing assets and liabilities in a manner that reflects how the entity uses those assets and liabilities in its reportable segments. For example, an entity may have three reportable segments: manufacturing, financial services, and retail, each with a portfolio of financial instruments. In the manufacturing segment, the financial liabilities are used to fund ongoing operations and, therefore, are classified in the financing liability category. In the financial services segment, the main operation consists of earning a higher return on financial assets than is paid on financial liabilities and, therefore, the financial instruments are classified in the operating category. In the retail segment, the financial instruments provide a return, but are not used to fund the activities of the retail business and, therefore, are classified in the investing category. Thus, in this example, an entity's financial statements would present financial instruments in the financing liability, operating, and investing categories in a way that is consistent with how the entity uses those financial instruments in each reportable segment. Because an entity should classify assets and liabilities at the reportable segment level, the classification principles that refer to "an entity" also apply to a reportable segment.

2.41. An entity's policy for classifying its assets and liabilities in the operating, investing, financing assets, and financing liabilities categories is an accounting policy and would be described in its accounting policy note disclosure (see paragraphs 4.2–4.4). A change in an entity's classification policy should be implemented through retrospective application of the new classification policy to prior periods, as required by IFRSs and U.S. GAAP.

2.42. How an asset or liability is used might change over time. For example, an entity might purchase land as an investment but later build a manufacturing plant on that land. A change in the land's use should result in a change in its classification. The Boards have yet to discuss whether and how a change in how an asset or liability is used should be presented in the financial statements.

2.43. An entity might use an asset or liability in its business activities for more than one function. For example, an entity's headquarters building might be used in its operations and also be viewed by management as a real estate investment. The Boards have yet to discuss how management should classify an item in those circumstances. One possibility would be to classify the asset or liability on the basis of its predominant purpose (operating or investing). This treatment would be consistent with the guidance in IFRSs and U.S. GAAP for classifying cash receipts and payments that relate to more than one type of activity in the statement of cash flows.

2.44. An entity might use its cash for a variety of functions. However, it might be difficult, if not impossible, for an entity to identify a specific amount of cash as having one function and another amount of cash as having another function. For that reason, an entity should present all of its cash in a single line item in the statement of financial position, and only one section or category in the statement of financial position should include cash. The only situation in which an entity should present cash in more than one category is when it manages its cash at the reportable segment level and cash functions in a different manner in two or more reportable segments.

2.45. Some users consider some or all elements of postemployment benefits, including pensions, part of an entity's financing activities and exclude related amounts in analyzing an entity's operating activities. Other users regard some or all elements of postemployment benefits as related to employee remuneration or compensation and include them in an analysis of an entity's operating activities. Because both IFRSs and U.S. GAAP require an entity to present plan assets and benefit liabilities on a **net** basis in its statement of financial position, the proposed presentation model requires an entity to classify its net postemployment benefit asset or liability in a single category in the statement of financial position. In other words, an entity could not classify the plan assets separately from the benefit liabilities. Because the **net** postemployment asset or liability relates to employee remuneration or compensation, an entity most likely would classify the net asset or liability in the operating category.

2.46. Following the cohesiveness principle, an entity should classify the related postemployment benefit expenses, including items such as service cost, interest cost, and return on plan assets, and cash flows in the same category as its net postemployment benefit asset or liability. Even though an entity would present all of the components of postemployment benefit expense in one category in its statement of comprehensive income, it could present those components on two or more lines in that category if that would assist users in predicting future cash flows. The IASB's Discussion Paper, *Preliminary Views on Amendments to IAS 19* Employee Benefits, suggests that disaggregating components of pension costs in the statement of comprehensive income provides useful information.

2.47. The Boards believe that net presentation of assets and liabilities in a postemployment benefit plan is an issue best addressed in a project focused on postemployment benefits. If the presentation of those assets and liabilities changes as the result of a future project, that could have implications for the presentation of the components of postemployment benefit cost. For example, if a new presentation permits or requires an entity to present its plan assets and benefit obligations in different sections or categories in its statement of financial position, the entity would classify the related components of postemployment benefit cost in the corresponding sections or categories in its statement of comprehensive income.

2.48. The Boards propose that the classification of dividends payable and the related cash flows should be based on the existing classification of dividends payable as a liability. Therefore, dividend payments on ordinary or common shares should be classified as a financing liability in the statement of financial position and in the financing liability category in the statement of cash flows, not the equity section. (The classification of dividends payable and some types of equity instruments may change in the project on financial instruments with characteristics of equity or the conceptual framework project.) The Boards acknowledge that some interested parties view dividend payments on ordinary or common shares as equity cash flows.

Discussion Questions

5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraph 2.27, 2.34, and 2.39–2.41).
    a. Would a management approach provide the most useful view of an entity to users of its financial statements?
    b. Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?
6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position**. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?
7. Paragraphs 2.27, 2.76, and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.
8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income, and cash flows. As discussed in paragraph 1.21(c), the Boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the Boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the Boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?
10. Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRSs and U.S. GAAP as proposed? Why or why not?

Basis for Preliminary Views on Separating and Classifying Information into Sections and Categories

2.49. The Boards based the proposed classification scheme for financial statements on the notion that users of an entity's financial statements (including management) commonly analyze an entity's performance independently of its capital structure. Requiring an entity to separate amounts in its financial statements related to how it obtains capital and amounts related to how it uses that capital to create value should help users in their analyses.

2.50. Application of the classification principles in paragraph 2.19 will result in:

a. A statement of financial position that distinguishes business assets and liabilities (which consist of operating assets and liabilities and investing assets and liabilities) from financing assets, financing liabilities, and equity
b. A statement of comprehensive income that clearly identifies *income from business activities* (which consists of *income from operating activities* and *income from investing activities*) and *income from financing activities*.

2.51. Presenting both assets and liabilities in the business section and in the financing section will result in a significant change in the format of the statement of financial position. The statement of financial position will no longer be classified on the basis of elements (assets, liabilities, and equity), but rather on the basis of functional sections and categories (see the illustrative statements of financial position for ToolCo and Bank Corp in Appendix A). The presentation of assets and liabilities in the business and financing sections will clearly communicate the net assets that management uses in its business and financing activities. That change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows should make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities. In addition, those ratios should be of higher quality because, for example, the portion of sales an entity attributes to operating activities can be compared directly with the operating assets that generated the sales, thereby enabling users to assess the return on operating assets more easily and directly than is possible with existing financial statements. As another example of the benefits of separating financing activities from other activities, some users prefer a debt-to-equity ratio (or other measure of financial leverage) in which the numerator is financing liabilities rather than total debt. Separating an entity's financing liabilities from its other liabilities can be difficult using today's presentation practices.

Defining the Financing Section

Equity

2.52. In defining the sections and categories within sections, the Boards considered whether an entity should present equity items and transactions with owners in their capacity as owners as a separate category within the financing section or in a separate section.

2.53. Equity is part of an entity's overall financing, and equity instruments increasingly have become interchangeable with various forms of debt instruments. In addition, users of financial statements often are interested in the total capitalization or financing of an entity. Those factors suggest that equity items should be presented in the same section as financing assets and liabilities.

2.54. However, because comprehensive income reflects only transactions with nonowners, one way to satisfy the cohesiveness objective is to separate owner and nonowner financing. If financing activities with owners, such as issuing ordinary or common shares, were presented in an equity category in the financing section, only the statements of financial position and cash flows would include an equity category. The financing section in the statement of comprehensive income would not include an equity category because, by definition, comprehensive income excludes transactions with owners.

2.55. Separate sections for owner and nonowner financing in the statement of financial position should help users understand the net assets that an entity employs on behalf of its owners because the total of the owner financing section would equal total net assets. Similarly, separate owner and nonowner financing sections in the statement of cash flows should help users understand the cash flows generated by nonowner transactions. In addition, an owner financing section in the statements of financial position and cash flows would be cohesive with the statement of changes in equity except for dividend payments that would be classified in the nonowner financing section in the statement of cash flows (see paragraph 2.48). The statement of changes in equity summarizes the amount of comprehensive income that is either retained within an entity or distributed to owners by way of dividends or share repurchases, and it reflects any additional investments by owners. (This Discussion Paper refers to the section including equity items and owner financing activities as the *equity section.*)

Liabilities

2.56. The Boards first considered defining the financing section to include **all** liabilities. Although conceptually all liabilities are sources of financing for an entity's various activities, the Boards noted that a classification scheme that included all liabilities in the financing section would result in information of limited usefulness if the liabilities serve different functions within an entity. For example, trade accounts payable may be used to fund inventory purchases (an operating function), and long-term debt may be used to finance a business acquisition or operations in general (a financing function). In addition, some liabilities, such as an obligation to deliver a product, clearly stem directly from an entity's operations—to classify them as financing could be confusing.

2.57. The Boards also considered a narrower definition for the financing section—only liabilities for which existing accounting standards require a time-value-of-money component to be calculated separately and presented as part of comprehensive income. The Boards did not favor this narrow definition because it could result in liabilities being added or removed from the financing section because of changes in accounting standards, not changes in an entity's financing structure.

2.58. The Boards considered another narrow definition in which the financing section would include only liabilities arising from capital-raising activities in capital markets. The Boards did not favor this definition because entities use other types of liabilities to finance their activities, for example, lease financing.

2.59. In discussing each of the possible definitions, the Boards realized that liabilities that relate to a specific operating activity (for example, working capital) are different from liabilities that are generated to fund (finance) an entity's business(es) more generally. Therefore, the Boards decided that the financing section should not be based solely on a defined subset of liabilities. Rather, the Boards propose that management should have flexibility in determining which liabilities to classify in the financing section.

Treasury assets

2.60. The Boards then considered whether the financing section should include assets managed by the treasury function within an entity (treasury assets). Initially, the Boards considered excluding treasury assets on the basis that they are used to generate a return and thus should be presented in the business section along with other value-creating activities.

2.61. However, many members of the Boards' advisory and user groups told the Boards that they view treasury assets as part of an entity's overall financing activities and include those assets in their analysis of financing activities, rather than in their analysis of an entity's business activities. For example, cash in excess of an entity's working capital needs typically would be evaluated alongside an entity's debt as part of "net debt." Users reason that an entity could use this excess cash to retire its existing debt immediately. Thus, the Boards decided that an entity should present treasury assets in the financing section rather than in the business section, but in a category separate from financing liabilities.

2.62. Having decided that both assets and liabilities could be classified in the financing section, the Boards considered whether the characteristic of an asset or liability (that it is financial in nature) or its function (that it is used to provide financing) should determine whether an entity classifies the item in the financing section. Given the Boards' preference for an entity classifying its assets and liabilities according to how they are used within the entity, the Boards favored a functional approach. However, to add objectivity to the classification process, they decided that only **financial** assets or **financial** liabilities should be included in the financing section. Therefore, the guidelines in paragraph 2.34 for classifying an item in the financing section are based initially on the characteristic of the asset or liability (it must be a *financial asset* or a *financial liability*), but provide flexibility in allowing management to determine which financial assets and financial liabilities serve the financing function. This means that an entity may exclude a financial asset or a financial liability from the financing section but cannot include a nonfinancial asset or a nonfinancial liability in that section.

Defining the Business Section

2.63. The Boards propose that an asset or liability that is not related to an entity's financing activities, a discontinued operation, or income taxes should be classified in the business section. However, to provide more transparency about an entity's business activities, the Boards propose that the business section should be further separated into two categories—operating and investing.

2.64. The operating and investing categories are based on a notion of "core" and "non-core" activities. The Boards' preliminary view is that the classification of assets and liabilities according to what management views as the central operations of an entity will provide more useful information than would a narrow or prescriptive definition of *operating* and *investing*.

2.65. As explained in paragraph 2.27, the proposed presentation model classifies assets and liabilities using a management approach. Therefore, the way an entity classifies its cash flows today as operating, investing, or financing may not be relevant to classification in the proposed presentation model. Although the captions for the categories used in the statement of cash flows today are the same as the categories in the proposed presentation model, what gets classified in each category differs. For example, *investing* activities in IAS 7, *Statement of Cash Flows,* and FASB Statement No. 95, *Statement of Cash Flows,* include acquiring and disposing of property, plant, and equipment, whereas for many entities those would be operating activities in the proposed presentation model.

2.66. The Boards expect that many entities will have only a few investing assets or liabilities, and some may not have any. Conversely, an entity may decide to present all the activities of a particular subsidiary in the investing category. In that case, the investing category may have line items for revenues, costs of goods sold, advertising, general and administrative expenses, and other expenses.

2.67. Because management knows how assets and liabilities are deployed in its business activities, it is in the best position to determine whether an asset or liability should be classified in the operating or the investing category. For example, consider a clothing manufacturer that creates value by converting raw materials into goods for sale. The assets and liabilities that this manufacturing entity might classify in the operating category include accounts receivable, inventory, equipment, accounts payable, intangible assets, and pension obligations. However, an entity that creates value by providing financial services to others might include in its operating category cash, commercial paper, available-for-sale securities, trading portfolio assets and liabilities, deposits, loans, and insurance liabilities. The clothing manufacturer also might have a portfolio of bonds held for trading purposes that is not related to its central business purpose. It might classify that asset in the investing or financing assets category. Likewise, the financial services entity might own a valuable art collection unrelated to its central business purpose. It would classify that collection in the investing category.

Classifying Cash

2.68. As noted in paragraphs 3.14–3.18, the Boards' preliminary view is that cash equivalents should no longer be presented in the same manner as cash. Therefore, paragraphs 2.69 and 2.70 relate only to cash, not to cash and cash equivalents. Cash is fungible—far more so than any other asset. Because of its fungibility, an entity generally manages its cash on a centralized basis, although the degree of centralization may vary from one entity to another. Thus, the Boards considered whether their preliminary views on classification should apply to cash in the same way as they apply to other assets such as receivables, inventory, and short-term or long-term investments.

2.69. The Boards observed that it might be difficult, if not impossible, for an entity to identify some of its cash as having one function and some as having another function. Accordingly, the Boards concluded that unless cash is used differently in two or more reportable segments, allowing or requiring an entity to classify and present its cash in more than one category would not necessarily help to achieve the proposed objectives of financial statement presentation and it would impose a cost on entities that would be difficult to justify because of its questionable benefits.

2.70. Some might view the proposal that an entity should present its cash in only one category as inconsistent with or an exception to the management approach to classification. The Boards believe that their proposal is not an exception to the management approach because the proposed presentation model does not specify the category in which cash should be classified. In other words, an entity will determine whether to classify its cash or that of its reportable segments as operating, investing, or financing.

Activities of a Discontinued Operation

2.71. Users of financial statements say that they use information about the results of an entity's operating activities in assessing the amount, timing, and uncertainty of future cash flows. Those assessments are likely to treat information about the results of discontinued operations, such as the related earnings and cash flows, differently from the results of continuing operations because they have different implications for future cash flows.

2.72. Today, IFRSs and U.S. GAAP require an entity to identify discontinued operations in its financial statements. Thus, the Boards' proposal that an entity should present information about its discontinued operations separately from information about its continuing activities is generally consistent with existing presentation.

2.73. The criteria for identifying a discontinued operation differ in IFRSs and U.S. GAAP. In another project, the Boards are jointly considering a new, common definition of *discontinued operations*. In September 2008, the IASB and the FASB each published an exposure document including the proposed new definition and related disclosures. Therefore, this Discussion Paper addresses only the presentation of discontinued operations in the financial statements.

Income Taxes

2.74. In reaching their preliminary view to retain the existing income tax allocation requirements, the Boards acknowledged that in many cases an entity will present income tax expense or benefit in more than one section in the statement of comprehensive income and therefore will not be able to align that statement with the statements of financial position and cash flows. The Boards considered requiring an entity to present income tax assets, liabilities, and cash flows in the same sections and categories that contain income tax expense (benefit) so that the statements would align completely at the category level, which is consistent with the cohesiveness objective. The Boards noted that for the proposed presentation model to be internally consistent, an entity would need to first classify its income tax assets and liabilities into sections and categories and then similarly to classify the related income and expense items and cash flows. However, the Boards reasoned that disaggregating and presenting income tax assets, liabilities, and cash flows in the operating, investing, financing assets, and financing liabilities categories would require complex and arbitrary allocations that are unlikely to provide useful information.

2.75. As discussed in paragraphs 3.58 and 3.62, the Boards believe that allocating income taxes in the statement of comprehensive income is important in helping users assess the amount, timing, and uncertainty of future cash flows (thereby achieving the disaggregation objective), which is more important than strict adherence to the cohesiveness objective. Thus, the Boards propose that an entity should present income tax assets, liabilities, and cash flows in one separate section in the statements of financial position and cash flows but propose to retain allocation of income taxes in the statement of comprehensive income.

Classification at the Reportable Segment Level

2.76. If an entity classified its assets and liabilities at the entity level, all reportable segments of an entity would classify their assets and liabilities in the same manner. For example, the diversified entity described in paragraph 2.40 would classify all of its financial instruments in the same category. The Boards acknowledge that classification at the entity level would be less complex than classification at the reportable segment level. This is because an entity would have one classification policy that would apply to all of its assets and liabilities in what could be a variety of businesses rather than potentially having a separate policy for each reportable segment.

2.77. Nevertheless, the Boards believe that applying the classification guidelines at the reportable segment level should better represent the way an asset or liability is used within an entity because, by definition, reportable segments include operations that are similar in nature and economic behavior. Thus, presumably, the assets and liabilities in those segments are used in the same manner.

Application to Financial Services Entities

2.78. In setting the project scope, the Boards initially considered whether the presentation requirements for entities that provide primarily financial services (such as banks, building societies, credit unions, stock brokerages, asset management firms, insurers, and similar businesses) should differ from those for other types of entities. The assets and liabilities that generate net cash inflows for those entities are likely to be different from those of other business entities because of the underlying differences in how they create value. This is because the source of profitability for a financial services entity is usually the management of financial assets and financial liabilities. In contrast, for other types of entities, income from financial assets is often not significant and expenses on financial liabilities generally are not directly related to operating activities.

2.79. After consulting members of the project's Financial Institutions Advisory Group, the Boards propose that the classification scheme and management approach to classification described in this Discussion Paper should apply to all business or for-profit entities. The Boards' preference for requiring an entity to explain, as a matter of accounting policy, its bases for classifying assets and liabilities was important to advisory group members when they expressed support for having the same classification scheme and guidelines for all business or for-profit entities. The Boards would expect a financial services entity to classify many of its financial assets and financial liabilities (for example, cash, bank loans, and bank overdrafts) in the operating category even though they are financial in nature. In contrast, a manufacturing entity that does not provide financial services might decide to include the following in its financing assets and financing liabilities categories: cash, bank loans, bank overdrafts, bonds and other traded debt, and related accrued interest, plus financial instruments held to hedge those items.

CHAPTER 3: IMPLICATIONS OF THE OBJECTIVES AND PRINCIPLES FOR EACH FINANCIAL STATEMENT

3.1. This chapter describes the effects on each financial statement of implementing the Boards' preliminary views on the objectives and related principles of financial statement presentation, including how those preliminary views would change present practice. This chapter also discusses the Boards' preliminary views on issues unique to a particular financial statement. Appendix A contains illustrative financial statements (including selected notes to financial statements) for a manufacturing entity (ToolCo) and a financial services entity (Bank Corp) using the proposed principles and application guidance included in this Discussion Paper (proposed format). Appendix A also includes illustrative financial statements for ToolCo and Bank Corp using today's presentation requirements (traditional format).

Statement of Financial Position

Presenting Information about Liquidity and Financial Flexibility of Assets and Liabilities

3.2. **An entity should classify its assets and liabilities (except those related to a discontinued operation) in the statement of financial position into short-term and long-term subcategories of the operating, investing, financing assets, and financing liabilities categories unless a presentation based on liquidity provides information that is more relevant. In a presentation based on liquidity, an entity should present its assets and liabilities in increasing or decreasing order of liquidity, and it should present in the notes to its financial statements information about the maturities of its short-term contractual assets and liabilities. All entities should present information about the maturities of their long-term contractual assets and liabilities in the notes to financial statements.**

3.3. An asset or liability is short-term if either its contractual maturity or its expected date of realization[9] or settlement is within one year of the reporting date. In other words, the distinction is based on the shorter of (a) contractual maturity and (b) expected realization or settlement. Otherwise, an asset or liability is long-term. Deferred tax assets and liabilities should be classified as short-term or long-term according to the classification of the related asset or liability as now required by FASB Statement No. 109, *Accounting for Income Taxes*.[10]

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[9]The term *realization* encompasses the sale or consumption of an asset.

[10]IAS 12, *Income Taxes,* requires an entity to present deferred tax assets and liabilities as noncurrent in the statement of financial position. The Boards are working to align their income tax standards as part of a convergence project. The IASB plans to publish in 2008 an exposure draft of proposals to replace IAS 12. In that exposure draft, the IASB will propose, among other things, adopting the guidance in Statement 109 on the classification of deferred tax assets and liabilities. The FASB plans to solicit input from its constituents by issuing a Discussion Paper containing the IASB's proposed replacement of IAS 12.

Why Require Classification into Short-Term and Long-Term Subcategories for Some but Not All Entities?

3.4. In practice today, a statement of financial position in which assets and liabilities are presented in current and noncurrent categories is referred to as a *classified statement of financial position*. Because that term is familiar to many readers, this Discussion Paper also refers to a statement of financial position with short-term and long-term subcategories as a *classified statement of financial position.* However, all financial statements presented in accordance with the Boards' preliminary views on financial statement presentation would be "classified" in the sense of having the sections and categories depicted in the table in paragraph 2.22.

3.5. As explained below, presenting a classified statement of financial position would help to achieve the disaggregation objective as well as the liquidity and financial flexibility objective.

a. Information about which assets and liabilities are short-term and which are long-term is pertinent to users' assessments of the amount, timing, and uncertainty of an entity's future cash flows.
b. Presenting assets and liabilities in short-term and long-term subcategories provides the information users need to compare the assets expected to be realized or otherwise converted into cash in the near term with the liabilities expected to be paid or otherwise settled in the near term.

3.6. However, presenting assets and liabilities in short-term and long-term subcategories may not achieve those objectives for some entities. For example, an entity that engages in the business of taking deposits, effecting transactions in securities for the account of others, buying and selling securities on its own account, underwriting securities, and issuing insurance contracts typically has financial assets and financial liabilities with a wide range of maturity dates within a short time period. For those entities, it would be arbitrary to specify any particular maturity date to distinguish two maturity subcategories. For those entities, the proposed short-term and long-term subcategories are too broad to provide useful information to users of their financial statements. In addition, it often is not feasible to provide more granular short-term maturity information in the statement of financial position. Moreover, for those entities, liquidity information often is more important than an arbitrary split between short-term and long-term. For those reasons, the Boards believe that users would, in some cases, derive more benefit from a presentation of assets or liabilities in order of liquidity. The Boards propose that each entity should decide whether to provide a classified presentation or a presentation based on liquidity, on the basis of the presentation that provides more relevant information. If an entity adopts a presentation based on liquidity, it also would disclose information about the maturities of its short-term contractual assets and liabilities (see paragraphs 4.7–4.10).

Why a Short-Term or Long-Term Distinction Instead of a Current or Noncurrent Distinction Based on Operating Cycle?

3.7. In practice today, an entity that presents a classified statement of financial position classifies its assets and liabilities as current or noncurrent. The current or noncurrent distinction is based on the length of an entity's operating cycle. The operating cycle is the typical time between an entity's acquisition of materials or services used in its production process and the final conversion of the outputs of that process to cash. In other words, if an asset or liability is expected to be realized or settled within its operating cycle, it is classified as current. The result is that an entity with an operating cycle longer than one year may classify some assets as current even if it will not convert them to cash for many years. For example, a whisky distillery might classify its work-in-process inventory as a current asset for 20 or more years. In contrast, if the distinction is based on a one-year time frame, inventory expected to be realized in cash within one year would be considered short-term, and inventory expected to be realized in more than a year would be considered long-term. A whisky distillery with a multiyear aging process would classify its work-in-process as long-term inventory.

3.8. The Boards concluded that a classified statement of financial position should be based on a one-year distinction rather than the length of an entity's operating cycle. A one-year distinction is simpler and easier to understand than a distinction based on an entity's operating cycle. For example, some entities produce a variety of products or services that have various operating cycles, which can make implementing an operating cycle distinction complex and difficult for users to understand, at least without extensive explanation. Financial statement users with whom the Boards discussed the issue generally preferred a one-year distinction to the present distinction based on the operating cycle because the one-year distinction is more objective; it also increases comparability between entities in different industries.

Expected Realization and Contractual Maturities

3.9. Existing requirements distinguish current from noncurrent on the basis of the expected realization (settlement) of assets (liabilities) rather than the stated maturities of contractual assets and liabilities. However, in U.S. GAAP the current liability classification would include all obligations that by their stated maturities are short-term or those that by their stated maturities are long-term but are callable or will become callable by the creditor in the short-term unless specific conditions are met.

3.10. The Boards believe that a distinction based on expected realization (settlement) provides more relevant information about liquidity than a distinction based entirely on contractual maturities. However, the Boards observed that basing the distinction on expected realization (settlement) with no consideration of contractual maturity might in some situations not provide adequate information about the liquidity and cash consequences of assets and liabilities. For example, an entity might read a distinction based solely on expected realization or settlement as implying that a note payable with a contractual maturity of 6 months should be classified as long-term if it expects to refinance the note and does not expect to make a cash payment on the refinanced note for 18 months. Because users need to know that the entity must either settle or refinance the note within one year, the Boards decided that the one-year time frame should be based on the shorter of (a) the contractual maturity of an asset or liability and (b) its expected realization[11] or settlement.

How Existing Practice on Classified Statements of Financial Position Would Change

3.11. IAS 1 requires an entity to present a classified statement of financial position unless a presentation in increasing or decreasing order of liquidity would be reliable and more relevant than a classified statement of financial position. IAS 1 also indicates that a presentation in order of liquidity is likely to be more relevant for an entity that does not supply goods or services within a clearly identifiable operating cycle. Therefore, the Boards' proposals would not change practice for entities applying IFRSs.

3.12. U.S. GAAP does not require an entity to present a classified statement of financial position. Rather, it provides guidance on how to classify assets and liabilities as current or noncurrent if an entity chooses to do so. Even though the Boards' proposals to **require** a classified statement of financial position unless a presentation of assets and liabilities in order of liquidity provides more relevant information would change U.S. GAAP, that proposal would not significantly change practice for entities applying U.S. GAAP because most entities other than those providing financial services present a classified statement of financial position. Financial services entities generally present assets and liabilities in order of liquidity.

3.13. Classifying income tax assets and liabilities as short-term or long-term according to the classification of the related asset or liability (as required in U.S. GAAP) would change practice for entities that apply IFRSs. IAS 1, paragraph 56, prohibits classifying a deferred tax asset or liability as current.[12]

Discussion Question

11. Paragraph 3.2 proposes that an entity should present **a classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
    a. What types of entities would you expect **not** to present a classified statement of financial position? Why?
    b. Should there be more guidance for distinguishing which entities should present **a statement of financial position in order of liquidity?** If so, what additional guidance is needed?

[11] See footnote 9.

[12] See footnote 10.

Presenting *Cash* in the Statement of Financial Position

3.14. **Cash equivalents should be presented and classified in a manner similar to other short-term investments. An entity should not present any securities as part of cash in the statement of financial position.**

3.15. Statement 95, issued in 1987, introduced the concept of *cash equivalents* and focused on the aggregate of cash and cash equivalents because, according to the FASB's constituents, an entity's cash management activities generally include particular types of short-term investments considered to be essentially the same as cash. Therefore, the FASB concluded that whether cash is on hand, on deposit, or invested in a short-term investment that is readily convertible to a known amount of cash is largely irrelevant to users' assessments of liquidity and future cash flows. Accordingly, in today's practice, the statement of cash flows focuses on the aggregate of cash and cash equivalents, and the statement of financial position presents either a line item or a subtotal that includes both cash and cash equivalents.

3.16. The IASB reached similar conclusions in revising IAS 7 in 2003. Thus, the focus of practice today is on the aggregate of cash and cash equivalents in the statement of financial position and the statement of cash flows. Although they use slightly different words, both IAS 7 and Statement 95 define *cash equivalents* as short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present an insignificant risk of changes in value because of changes in interest rates. Both also state that, generally, only an investment with a maturity of three months or less from the date an entity acquired it qualifies using that definition, although the wording of the reference to three-month maturity is slightly stronger in Statement 95 than in IAS 7.

3.17. The Boards concluded that excluding cash equivalents from the amount of cash presented in the statement of financial position would better help to achieve the liquidity and financial flexibility objective (paragraph 2.12). Moreover, as discussed in paragraph 2.1(b), investors, creditors, and other capital providers who invest cash in an entity do so expecting to receive a return on, as well as a return of, the cash provided. An entity ordinarily distributes cash—not short-term investments considered to be the equivalent of cash—to its capital providers. The same is true for its other cash needs, such as paying employees and other suppliers. Although an entity usually would be able to convert cash equivalents to cash quickly to satisfy its needs for cash, no short-term investment can have all of the characteristics of currency on hand and on-demand deposits. For example, regardless of how near its maturity, a short-term investment is subject to some risk of price change attributable to, for example, sudden changes in the credit environment or the perceived credit quality of the issuer.

3.18. If cash and cash equivalents were combined in the proposed presentation model, an entity would be required to present that combined amount as a single line item in the statement of financial position and would be precluded from presenting securities considered to be cash equivalents in a category different from the category in which cash is classified. The Boards decided that allowing cash equivalents to be presented differently from cash would be more consistent with the management approach to classification, and it also would help users to assess an entity's liquidity and the amount, timing, and uncertainty of its future cash flows.

Discussion Question

12. Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

Disaggregating Similar Assets and Liabilities with Different Measurement Bases

3.19. **An entity should disaggregate similar assets and similar liabilities that are measured on different bases and present them on separate lines in the statement of financial position.**

3.20. In both IFRSs and U.S. GAAP today, assets and liabilities are measured on several different bases, resulting in a mixed-attribute model. The Boards decided that presenting items in an entity's statement of financial position separately according to the basis on which they are measured is consistent with the disaggregation objective because the additional information will help users in assessing the amount, timing, and uncertainty of an entity's future cash flows. The Boards considered requiring disaggregation of assets and liabilities according to their measurement bases only in the notes to financial statements. However, providing that information in the statement of financial position is more straightforward and avoids making users go back and forth between the statement and the notes to find important information. Separate presentation in the statement of financial position also is unlikely to impose undue costs on an entity. Therefore, the Boards propose that an entity should not combine similar assets or similar liabilities measured on different bases into a single line item in the statement of financial position. For example, an entity should not aggregate investments in debt securities measured at amortized cost and investments in debt securities measured at fair value and present the total in a single line item.

3.21. The Boards observed that their preliminary view on disaggregating assets and liabilities according to their measurement basis also is consistent with (although not identical to) related requirements in IFRS 7, *Financial Instruments: Disclosures,* and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.*

Discussion Question

13. Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

Total Assets and Total Liabilities

3.22. **An entity should disclose total assets and total liabilities either in the statement of financial position or in the notes to financial statements. An entity that presents its assets and liabilities in short-term and long-term subcategories also should disclose subtotals for short-term assets, short-term liabilities, long-term assets, and long-term liabilities either in the statement of financial position or in the notes.**

3.23. As discussed in paragraph 2.51, one result of the Boards' preliminary views on separating business and financing activities is that the statement of financial position will no longer be classified on the basis of elements (assets, liabilities, and equity), but rather on functional sections and categories. The proposed format for the statement of financial position should make it easier for users to calculate some key financial ratios, but information about the total assets of an entity as well as its total liabilities also is useful in calculating other key financial ratios (such as return on total assets). Thus, the Boards propose that an entity should continue to present those totals in financial statements. Whether the totals are presented in the statement of financial position or in the notes should not matter, as long as the information is provided in one location or the other.

Statement of Comprehensive Income

A Single Statement of Comprehensive Income

3.24. **An entity should present comprehensive income and its components in a single statement of comprehensive income. Items of other comprehensive income[13] should be presented in a separate section that is displayed with prominence equal to that of all the other sections (for example, business or financing).**

- **a. The statement of comprehensive income should display a subtotal of *profit or loss* or *net income* for the period.**
- **b. The statement of comprehensive income also should display the total amount of comprehensive income for the period.**

3.25. **For each item in the other comprehensive income section except a foreign currency translation adjustment on a consolidated subsidiary (and a proportionately consolidated joint venture [IFRSs]), an entity should identify and indicate in the statement of comprehensive income whether the item relates to (or will relate to) an operating activity, investing activity, financing asset, or financing liability.** (See paragraphs 3.37–3.41.)

3.26. **An entity should reclassify an item in the statement of comprehensive income from the other comprehensive income section to one of the other sections or categories in that statement if and as required by existing standards. The item should be reclassified into the same category as the asset or liability in the statement of financial position that generated the income or expense.**

[13]Other comprehensive income comprises items of income and expense that an entity does not immediately recognize in profit or loss or net income as required or permitted by IFRSs and U.S. GAAP.

3.27. IFRSs and U.S. GAAP permit several alternative formats for presenting comprehensive income and its components. IAS 1 requires an entity to present all items of income and expense recognized in a period either in a single statement of comprehensive income or in two separate statements—a statement displaying profit or loss (an income statement) and a statement of comprehensive income that begins with profit or loss and displays items of other comprehensive income. Statement 130 permits similar presentation formats and also permits an entity to present other comprehensive income in its statement of changes in equity. Both IAS 1 and Statement 130 require an entity to present the amounts of profit or loss or net income and total comprehensive income for the period, regardless of the format an entity chooses to present the components of comprehensive income.

3.28. The Boards concluded that only one format for presenting comprehensive income should remain, namely a single statement. A goal of this project is to develop a high-quality standard for presentation of financial information and, in the process, to eliminate the differences between the presentation formats used by entities that apply IFRSs and those used by entities that apply U.S. GAAP. Thus, the Boards decided to eliminate the alternative presentation formats for the statement of comprehensive income permitted by IFRSs and U.S. GAAP and to require all components of comprehensive income to be presented in the same financial statement.

3.29. Presenting a single statement of comprehensive income will improve the comparability of financial statements because all entities will present the components of comprehensive income in a similar manner in the same financial statement. The Boards also believe that including all income and expense items in a single statement of comprehensive income will make it easier for users to understand and use that information in their analyses because they will need to look to only one financial statement for information on all nonowner changes in an entity's net assets. For example, information about both realized and unrealized changes in fair value will be presented in the statement of comprehensive income. Within that statement, comprehensive income would be divided into profit or loss or net income and other comprehensive income, which is consistent with existing standards that require profit or loss or net income to be presented as a component of comprehensive income.

3.30. The Boards note that when it was first introduced, the concept of comprehensive income was new to both entities and users of their financial statements. Permitting alternative formats for displaying the components of comprehensive income for several years allowed preparers and users of financial statements to become familiar with the new concept. But Statement 130 has been in effect for more than a decade now. The IASB recently revised IAS 1 (in 2007) to use the same terminology as Statement 130 and to provide similar (but more limited) options for presenting the components of comprehensive income. The Boards concluded that it is time to make the information easier to find and use by requiring it to be presented in a single format that displays all of the components of comprehensive income in the same financial statement.

3.31. The Boards' preliminary view that an entity should present all components of comprehensive income in a single financial statement is consistent with evidence in several research studies that users appear to react more to other comprehensive income information that is presented in the location in which they expect to see it and fail to react to information when it appears in unexpected locations. Thus, if all entities present other comprehensive income information in the same statement, users' ability to attend consistently to the information should be enhanced.[14]

3.32. One of the key issues related to presentation of information in the statement of comprehensive income is whether items of other comprehensive income should continue to be presented in a manner different from all other income or expense items. In paragraph 3.24, the Boards propose that all items that constitute comprehensive income should be presented in a single statement of comprehensive income. The Boards discussed a range of views on how income or expense items that are currently presented outside profit or loss or net income could be presented in that statement, including the following:

a. All items of other comprehensive income should be presented in the same manner as all other nonowner changes in assets and liabilities. In other words, the existing requirements to recognize and present other comprehensive income items outside profit or loss or net income should be eliminated as well as the need to reclassify those items subsequently into profit or loss or net income.
b. Criteria should be established that determine which, if any, items that constitute comprehensive income should be presented differently from all other nonowner changes in assets and liabilities, perhaps in a section outside profit or loss or net income.
c. If some income or expense items that constitute comprehensive income are to be presented separately in the statement of comprehensive income outside profit or loss or net income, there may be arguments for not subsequently reclassifying some of those items into profit or loss or net income.

3.33. To resolve those views, the Boards would need to address recognition and measurement issues that are beyond the scope of a project on financial statement presentation, and might need to change existing standards. Therefore, as stated in paragraph 1.22, the Boards decided not to discuss those views further in this project and to focus this project on presenting items of other comprehensive income in a manner that is consistent with existing standards.

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[14] D. Eric Hirst and Patrick E. Hopkins, "Comprehensive Income Reporting and Analysts' Valuation Judgments," *Journal of Accounting Research* 36 (1998, Supplement): 47–75; Laureen A. Maines and Linda S. McDaniel, "Effects of Comprehensive-Income Characteristics on Nonprofessional Investors' Judgments: The Role of Financial Statement Presentation Format," *The Accounting Review* 75, 2 (2000): 179–207; Dennis Chambers, Thomas J. Linsmeier, Catherine Shakespeare, and Theodore Sougiannis, "An Evaluation of SFAS No. 130 Comprehensive Income Disclosures," *Review of Accounting Studies* 12, 4 (2007): 557–593.

Discussion Question

14. Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

Profit or Loss or Net Income Component of Comprehensive Income

3.34. The Boards propose that the statement of comprehensive income should continue to present a subtotal for a component of comprehensive income like the one generally designated as *profit or loss* (in IFRSs) or *net income* (in U.S. GAAP). Profit or loss or net income would be the sum of the business, financing, and discontinued operations sections, and related income tax amounts.

3.35. The Boards acknowledge that many of their constituents view profit or loss or net income as useful performance measures and that *profit or loss* or *net income* as a subtotal or a phrase is deeply ingrained in the economy, business, and investors' minds. Users from all sectors incorporate profit or loss or net income in their analyses, either as a starting point for analysis or as the main indicator of an entity's performance. The Boards reasoned that their proposed format for the statement of comprehensive income would allow users to become familiar with the notion of comprehensive income, while still retaining the touchstone of profit or loss or net income.

3.36. As proposed in paragraph 2.23, an entity should present subtotals for each section and category within a section in the statement of comprehensive income. In addition, an entity is permitted to present additional subtotals in the statement of comprehensive income if such presentation is helpful in understanding changes in the entity's financial position. For example, if an entity has a discontinued operation, it might present a subtotal for *income from continuing operations,* which would be the sum of the business and financing sections.

The **Other Comprehensive Income** *Component of Comprehensive Income*

3.37. In paragraph 3.25, the Boards propose that an entity should identify and indicate the category in the statement of financial position to which each item in the other comprehensive income section relates (or to which it will relate). Doing so should help users to understand:

a. The relationship between the statement of comprehensive income and the statement of financial position
b. The section or category in which potential future reclassification adjustments will be presented in profit or loss or net income in future statements of comprehensive income.

3.38. For most items of other comprehensive income, making that identification should be straightforward. However, as explained below, the Boards developed additional classification guidance for gains and losses on cash flow hedges and for foreign currency translation adjustments on consolidated subsidiaries (and proportionately consolidated joint ventures [IFRSs]).

3.39. A cash flow hedge may relate to future cash flows associated with a recognized asset or liability, such as interest associated with a variable rate investment in an available-for-sale security. Identifying the category to which a gain or loss in other comprehensive income relates would be straightforward for such cash flow hedges. However, a gain or loss on a cash flow hedge may relate to an asset or liability yet to be recognized. In that situation, the Boards propose that a practical approach would be to look to the category into which the related asset or liability would be classified when the transaction occurs. For example, if a cash flow hedge relates to a forecast purchase of inventory, an entity would indicate that a gain or loss on the hedging instrument presented in the other comprehensive income section relates to the operating category if the inventory will be classified as an operating asset when the transaction is made.

3.40. The only other comprehensive income item that an entity does not need to identify with a section or category in the statement of financial position is a foreign currency translation adjustment on a consolidated subsidiary (and a proportionately consolidated joint venture [IFRSs]). This is because the translation adjustment may relate to more than one category of assets and liabilities in the statement of financial position.

3.41. The Boards observe that some other items of other comprehensive income might relate to an asset or liability that is classified in more than one category. For example, an entity might classify some of its available-for-sale securities in the investing category and others in the financing asset category. In those instances, the related other comprehensive income item (for example, a gain or loss on available-for-sale securities) should be presented on two lines so that the section or category in which future reclassification adjustments will be presented can be clearly identified.

Discussion Question

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision useful? Why or why not?

Disaggregating Income and Expense Items

3.42. **An entity should disaggregate by function income and expense items within the operating, investing, financing asset, and financing liability categories in the statement of comprehensive income to the extent that this will enhance the usefulness of the information in predicting the entity's future cash flows.**

3.43. *Function* refers to the primary activities in which an entity is engaged, such as selling goods, providing services, manufacturing, advertising, marketing, business development, or administration.

3.44. **An entity should further disaggregate its income and expense items by their nature within those functions to the extent that this will enhance the usefulness of the information in predicting the entity's future cash flows.**

3.45. *Nature* refers to the economic characteristics or attributes that distinguish assets, liabilities, and income and expense items that do not respond equally to similar economic events. Examples of disaggregation by nature include disaggregating total revenues into wholesale revenues and retail revenues or disaggregating total cost of sales into materials, labor, transport, and energy costs.

3.46. If presenting by-function subcategories and by-nature information within those subcategories results in a statement of comprehensive income that management believes is too lengthy or detracts from the overall understandability of the information in that statement, an entity may present some or all of its by-nature information in the notes to financial statements. (See Note 4 of Illustration 1A in Appendix A.)

3.47. In determining whether to present a by-nature amount in the notes, an entity should consider the cohesiveness objective and the goal of aligning line items across the statements. Accordingly, if the entity (a) presented a related line item separately in the statement of financial position or (b) would disaggregate the related cash flow information because it would be useful in predicting the entity's future cash flows, then the entity should present the by-nature amount in the statement of comprehensive income and not in the notes.

3.48. **An entity that does not disaggregate its income and expense items by function because such disaggregation would not enhance the usefulness of the information in predicting the entity's future cash flows should nevertheless disaggregate those items by their nature to the extent that this will enhance the usefulness of the information in predicting the entity's future cash flows.**

3.49. **If an entity has an income or expense item that is not presented separately by function or nature and separate presentation of that item enhances the usefulness of the information in predicting the entity's future cash flows, that item also should be presented separately in the statement of comprehensive income.**

3.50. For example, in Illustration 1A in Appendix A, ToolCo has a "cost of goods sold" functional subcategory within the operating category that includes expenses related to manufacturing goods for sale. ToolCo realized a gain on the disposal of manufacturing equipment. Because management views that gain as unrelated to its manufacturing function, it presented the gain outside the "cost of goods sold" subcategory, even though the equipment was used only in the entity's manufacturing activities. The loss on sale of receivables also is presented outside a functional subcategory because although the receivables relate to ToolCo's function of selling (and collecting payment for) its goods, management views the loss arising from this transaction as unrelated to its normal process of collecting outstanding receivables. The impairment loss on goodwill also is presented outside a functional subcategory because management views the impaired goodwill asset as relating to several of the entity's functions and thus does not believe it should be presented as part of a single function.

Why Disaggregate by Nature and Function?

3.51. The Boards initially expressed a preference for presenting information in the statement of comprehensive income by function because they thought that doing so usually would describe an entity's overall operations better than would disaggregating information by nature. The Boards also observed that disaggregating information by function is more consistent with the higher-level functional categories in the classification scheme (the operating, investing, financing assets, and financing liabilities categories). However, users of financial statements told the Boards that although this disaggregation assists in the analysis of overall business trends (such as in gross margins and operating margins), it aggregates items with different economic drivers (for example, labor and raw materials) and thus reduces the predictive value of the information. Therefore, the Boards propose disaggregating the by-function information within the categories by nature as well.

3.52. The Boards observed that entities in some industries currently disaggregate income and expense items by nature only. The entities that do so tend to be service oriented (such as banks, utilities, and healthcare providers), for which costs of sales and gross margins are not an important aspect of their financial results. The Boards reasoned that although those entities are able to disaggregate their expenses by function, they choose not to do so because that information is not as relevant to the analysis of the performance of their business as is other information. Thus, presenting expenses separately for different functions to satisfy a by-function presentation requirement might result in less relevant information. The Boards contend that requiring those entities to disaggregate information within the categories by function would be inconsistent with one of the primary goals for presenting disaggregated information—providing information that will be useful in assessing the amount, timing, and uncertainty of future cash flows.

How Practice in Disaggregating by Nature and Function Would Change

3.53. IAS 1 requires an entity to "present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant" (paragraph 99). IAS 1 also requires an entity that classifies expenses by function to disclose additional information on the nature of expenses, including depreciation, amortization, and employee benefits expense. Thus, the Boards' preliminary view on disaggregation by nature and function might not result in a major change in practice for entities using IFRSs.

3.54. Because U.S. GAAP has no similar requirements, the Boards' preliminary view would change U.S. practice. (Regulation S-X requires presentation of a few by-nature line items in the statement of comprehensive income, such as expenses related to rental income.) Because the level of disaggregation is largely at management's discretion (in both IFRSs and U.S. GAAP), most entities present only a few line items in the income statement (for example, sales, cost of sales, and selling, general, and administrative expenses). This change would be responsive to the needs of many users who have expressed dissatisfaction with the current level of disaggregation in the statement of comprehensive income.

Discussion Question

16. Paragraphs 3.42–3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains, and losses **by their function, by their nature,** or **both** if doing so will enhance the usefulness of the information for predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision useful to users in their capacity as capital providers? Why or why not?

Allocating Income Taxes in the Statement of Comprehensive Income

3.55. **An entity should apply existing requirements for allocating and presenting income taxes in the statement of comprehensive income. This may result in an entity presenting income tax expense or benefit in the discontinued operations and other comprehensive income sections in addition to the income tax section. An entity should not allocate income taxes to the business or financing section or to categories within those sections.**

3.56. Existing standards require an entity to allocate income tax expense or benefit for the period among particular components of comprehensive income and equity (a process referred to as *intraperiod tax allocation*). For example, Statement 109 requires an entity to allocate income tax expense or benefit among continuing operations, discontinued operations, extraordinary items, other comprehensive income, and items charged or credited directly to equity. Statement 109 provides guidance for making those allocations. IAS 12, *Income Taxes,* has similar requirements for allocation but less detailed intraperiod tax allocation guidance than Statement 109.[15]

3.57. An entity also is required to follow the guidance in IAS 1 or Statement 130 that permits an entity to present the components of other comprehensive income either (a) net of their related tax effects or (b) before related tax effects with one amount shown for the aggregate income tax amount related to the total of other comprehensive income items.

3.58. Intraperiod tax allocation is an issue because an entity is required to present some items that constitute comprehensive income (such as discontinued operations and other comprehensive income items) separately from income from continuing operations in the statement of comprehensive income. The separation responds to the needs of users who tend to place different weights on those components of comprehensive income. Intraperiod tax allocation allows users to distinguish between the income tax implications associated with income from continuing operations and those associated with discontinued operations and other comprehensive income. As noted in paragraph 1.22, the Boards

[15]As part of the Boards' convergence project on income taxes, the IASB plans to publish in 2008 an exposure draft of proposals to replace IAS 12. In that exposure draft, the IASB will propose, among other things, adopting the income tax allocation requirements in Statement 109. The FASB plans to solicit input from its constituents by issuing a Discussion Paper containing the IASB's proposed replacement of IAS 12.

decided that they would not address the accounting for other comprehensive income items in this project. Therefore, the proposed presentation model requires an entity to present other comprehensive income items and discontinued operations on a net-of-tax basis in the statement of comprehensive income.

3.59. That scope limitation, however, did not prevent the Boards from considering modifications to the current income tax allocation requirements. The Boards noted that the existing requirements are somewhat arbitrary, and the allocated amounts are not always useful to users of financial statements. For example, Statement 109 requires an entity to allocate the effects of all changes in income tax rates to income from continuing operations, even if the entity can attribute the effect to a deferred tax asset or liability that is related to a discontinued operation or to an other comprehensive income item.

3.60. The Boards also observed that if the existing income tax allocation process were extended to include some or all of the categories in the proposed presentation model, the arbitrary nature of those tax allocations would increase. In addition, the allocation process could become more complex if an entity had to trace the income tax effects to the operating, investing, financing asset, or financing liability transactions. For example, a long-term lease provides the lessee with both an asset for use in its primary operations and an arrangement for financing the use of that asset. Extending the allocation of income taxes to categories would require separating the tax benefits from the lease into its operating and financing components. Thus, the Boards did not support requiring allocation of income tax expense or benefit to the operating, investing, financing asset, or financing liability categories. The Boards discussed amendments to the disclosure requirements in IAS 12 and Statement 109 that might help users better understand why income tax expense and current taxes payable might differ within and across those categories. The IASB plans to propose those disclosure amendments in its exposure draft of proposals to replace IAS 12.

3.61. The Boards also considered whether to eliminate the existing requirement to allocate income taxes to discontinued operations, which would result in presenting discontinued operations on a pretax basis. Applying that possible approach, income taxes would continue to be allocated to individual items of other comprehensive income, to the sum of the business, financing, and discontinued operations sections, and directly to equity for the tax effects associated with transactions with owners. That approach would have the benefit of retaining the net-of-tax presentation for other comprehensive income items and be a step closer to aligning the presentation of income taxes in the statements of financial position, comprehensive income, and cash flows. Thus, if an entity had no items of other comprehensive income, it would present income tax expense or benefit in only one section in each of those statements and present all of the other sections on a pretax basis.

3.62. The Boards heard from a number of users and preparers who favor keeping other comprehensive income and discontinued items and their income tax effects separate from *income from continuing operations*. Much of the support for intraperiod tax allocation arises because it allows for the presentation of *after-tax income from continuing operations,* a subtotal that many of the Boards' constituents find important in their decision making. Therefore, the Boards propose retaining the existing intraperiod tax allocation guidance. Thus, income tax expense or benefit should continue to be allocated among income from continuing operations, discontinued operations, other comprehensive income items, and items charged or credited directly to equity.

Discussion Question

17. Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision useful to users? Please explain.

Presenting Foreign Currency Gains and Losses in the Statement of Comprehensive Income

Transaction Gains and Losses

3.63. **An entity should present foreign currency transaction gains and losses, including the components of the net gain or loss on remeasuring the financial statements of an entity into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.**

3.64. Both IFRSs and U.S. GAAP require an entity to include in profit or loss or net income the gain or loss resulting from remeasuring either foreign currency transactions or foreign currency financial statements into the entity's functional currency. (Both IFRSs and U.S. GAAP provide specified exceptions to that requirement in which particular foreign currency transaction gains or losses are included in other comprehensive income rather than in profit or loss or net income.)

3.65. Achieving the cohesiveness objective would require a gain or loss on a transaction denominated in a foreign currency, such as debt denominated in euro for an entity with U.S. dollar functional currency, to be presented in the same section and category as the asset or liability that gave rise to it. Doing so would not be difficult or costly for an individual asset or liability denominated in a foreign currency. For example, if the U.S. dollar entity has 1,000,000 of euro-denominated debt and the rate changes from €1 = $1.49 to €1 = $1.58 during the year, the entity's foreign currency transaction loss of $90,000 is easy to compute ($1,490,000 – $1,580,000). The entity would include that loss in the financing liability category of the statement of comprehensive income, assuming that the debt is classified in the financing liability category in the statement of financial position.

3.66. The Boards also considered whether to require the components of the net foreign currency transaction gain or loss on remeasuring an entity's local currency financial statements into its functional currency to be classified in the same sections and categories as the assets and liabilities that gave rise to the net adjustment. For example, an entity located in the United States might have a subsidiary that operates in Japan whose functional currency is the U.S. dollar. The Japanese entity's monetary assets and liabilities would be remeasured into the U.S. dollar using the yen-to-dollar exchange rate at the end of the year. The related income and expense items would be remeasured using a weighted-average exchange rate to approximate the amounts that would result if each individual item was remeasured using the rate on the date it occurred. That remeasurement process would result in a net foreign currency transaction gain or loss to be included in profit or loss or net income.

3.67. The Boards observed that the amount of foreign currency transaction gain or loss to present in a particular section or category, for example, the financing liability category, often can be determined directly by applying the amount of the rate change during the period to the net liabilities or assets in that section or category and the related income or expense amounts. However, the Boards understand that doing so could be difficult for a complex entity with many acquisitions (incurrences) and disposals (settlements) of assets (liabilities) during a reporting period. In addition, determining the effects of exchange rate changes on items of income and expense could be complex, although the effects might be closely approximated by using a weighted-average exchange rate.

3.68. Thus, in some circumstances, determining the components of the net foreign currency transaction gain or loss on remeasurement of foreign currency financial statements to facilitate classification in the appropriate sections or categories in the statement of comprehensive income may be more difficult than simply including the gain or loss on an individual item denominated in a foreign currency in the same category as the asset or liability that gave rise to it. For that reason, the Boards considered either including the net foreign currency transaction gain or loss in a single category, probably the operating category, or presenting that amount in a separate section. However, the Boards observed that IFRSs and U.S. GAAP make no conceptual distinction between the foreign currency transaction gain or loss on an individual item denominated in a foreign currency, such as the euro-denominated debt in paragraph 3.65, and the net gain or loss on remeasuring foreign currency financial statements, such as the yen financial statements in paragraph 3.66, into the functional currency. In addition, classifying the entire gain or loss in a single category would result in information that is not a faithful representation if part of the amount resulted from items classified in other categories.

Translation Gains and Losses

3.69. Both IFRSs and U.S. GAAP require an entity to include in other comprehensive income translation adjustments resulting from translating an entity's functional currency financial statements into the reporting currency. Both also require the accumulated foreign currency translation adjustments to be reclassified to profit or loss or net income as part of the gain or loss on disposal of the foreign operation. Because of the Boards' decision to exclude from the scope of this project the existing guidance on other comprehensive income and the related reclassification adjustments, this Discussion Paper does not further discuss presentation of foreign currency translation adjustments.

Discussion Question

18. Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses,** including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets that gave rise to the gains or losses.

    a. Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.
    b. What costs should the Boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

Statement of Cash Flows

Changes to the Categories in the Statement of Cash Flows

3.70. As depicted in the table in paragraph 2.22, the statement of cash flows will have the same sections and categories as the statement of financial position and the statement of comprehensive income. Both IFRSs and U.S. GAAP require an entity to classify its cash receipts and payments into *operating, investing,* and *financing* categories and to present a subtotal for each category. Those standards describe the cash flows to be included in each category. The classification of cash flows into the operating, investing, and financing categories in the proposed presentation model is based on the classification of the related asset or liability. Therefore, how an entity classifies its cash flows using existing guidance may differ from how it would classify its cash flows using the proposals in this Discussion Paper, particularly cash flows from investing in operating assets. In IFRSs and U.S. GAAP, those cash flows would be classified as investing cash flows, whereas in the proposed presentation model they would be classified as operating cash flows.

What Is *Cash* in the Statement of Cash Flows?

3.71. **An entity's statement of cash flows should reconcile the beginning and ending amounts of cash.**

3.72. As proposed in paragraph 3.14, cash in the statement of financial position will no longer include cash equivalents. To be consistent with their preliminary views on presenting cash in the statement of financial position, the Boards propose that the statement of cash flows should reconcile the beginning and ending amounts of cash rather than cash and cash equivalents as in present practice.

Offsetting (Netting) Cash Flows from Cash Equivalents

3.73. In current practice, the cash flow statement does not show cash invested in cash equivalents and cash received from cash equivalents, because the cash flow statement does not present separately transfers between cash and cash equivalents. However, because the Boards' preliminary views would exclude presenting cash equivalents as cash, the Boards recognize that their preliminary view might result in an entity presenting many additional cash receipts and payments related to short-term investments. However, the Boards observe that IFRSs and U.S. GAAP provide essentially the same general and industry-specific guidance on the types of cash and cash equivalent receipts and payments that may be offset and that guidance would remain in effect in the proposed presentation model. The general guidance permits net presentation of cash and cash equivalent flows for the following items:

a. Receipts and payments on behalf of customers if the cash and cash equivalent flows reflect the activities of the customer rather than those of the entity
b. Receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. (U.S. GAAP specifies a maturity of three months or less.)

3.74. The Boards expect that cash flows from many, if not essentially all, short-term investments considered to be cash equivalents today would qualify for net presentation in accordance with item (b) in paragraph 3.73. Therefore, the Boards doubt that focusing the statement of cash flows on cash and excluding cash equivalents would significantly increase the volume of cash receipts and payments presented in most entities' statements of cash flows.

Disaggregating Cash Receipts and Payments

3.75. **An entity should disaggregate cash receipts and payments within each of the sections and categories in the statement of cash flows in a manner that helps users to understand how those cash flows relate to information presented in the statements of comprehensive income and financial position. To accomplish that, an entity should present all of its cash flows directly, including its operating cash flows. This means that an entity should use a direct method of presenting its cash receipts and cash payments during the period.**

Direct and Indirect Methods of Presenting Operating Cash Flows

3.76. Both IFRSs and U.S. GAAP encourage an entity to present major classes of operating cash receipts and payments in its statement of cash flows (a *direct method* of presenting operating cash flows), but both also permit an entity to present net operating cash flows using an *indirect method.* An entity that uses an indirect method presents no operating cash receipts or payments in its statement of cash flows. Instead, the operating category of the statement of cash flows begins with profit or loss or net income and adjusts for items that did not result in cash flows during the period, such as depreciation and the change in receivables, payables, and other working capital accounts. Thus, the details presented in the statement of cash flows when an indirect method is used consist of noncash operating items included in profit or loss or net income rather than operating cash receipts and payments.

3.77. That description of an indirect method of presenting net operating cash flows indicates its major deficiency: it derives the net cash flow from operating activities without separately presenting any of the operating cash receipts and payments. The effect is much the same as if the income statement began with the change in shareholders' equity for the period and then reversed any changes in equity that did not affect profit or loss or net income (for example, dividend payments and share issues or repurchases) to derive profit or loss or net income. That sort of indirect income statement presentation would not provide the relative amounts of classes of income and expenses that investors, lenders, and other creditors find helpful in making decisions in their capacity as capital providers. Many users have said that they attempt to construct a direct method cash flow statement from other information available in the financial statements.

3.78. A direct method of presenting operating cash flows is more consistent with the objectives of financial statement presentation that are proposed in paragraphs 2.5–2.13 than an indirect method because:

a. The operating cash receipts and payments that an entity presents using a direct method are consistent with the cohesiveness objective, which helps users to relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments.
b. Information about operating cash receipts and payments helps to achieve the disaggregation objective because that information can be of significant help to users in assessing the amount, timing, and uncertainty of an entity's future operating cash flows.
c. Information about the relationships of operating cash receipts and payments is useful in assessing an entity's ability to generate sufficient cash from operations to pay debts, reinvest in operations, and make distributions to owners. Thus, a direct method of presenting operating cash flows provides information consistent with the liquidity and financial flexibility objective.

3.79. The principal advantage of an indirect method of presenting operating cash flows is that it reconciles profit or loss or net income to net operating cash flows, and many users have asked for that type of reconciling information. Some users even prefer an indirect method to a direct method, noting that an indirect method provides a helpful link between income from continuing operations, changes in some line items in the statement of financial position, and net operating cash flows. They also note that an indirect method clearly presents noncash operating expenses, such as depreciation.

3.80. Although the Boards understand users' interest in the reconciling information an indirect method provides, they believe that the reconciling information is not a valid substitute for information about operating cash receipts and payments and that users need both types of information. The Boards propose to meet users' needs by requiring an entity:

a. To use a direct method to present information about operating cash flows
b. To disaggregate comprehensive income in a schedule that reconciles the line items in the statement of cash flows to the line items in the statement of comprehensive income.

Because the proposed reconciliation schedule would be prepared at the line-item level, it should provide a more complete picture of noncash expenses compared with the existing indirect method schedule that reconciles profit or loss or net income to net cash flows from operating activities. (Paragraphs 4.19–4.46 discuss the Boards' preliminary views on that reconciliation schedule.)

Obtaining Information about Operating Cash Receipts and Payments

3.81. Although both IFRSs and U.S. GAAP encourage use of a direct method of presenting operating cash flows, most entities use an indirect method to present operating cash flows. An indirect method may have seemed the obvious choice when IAS 7 and Statement 95 were first adopted because entities were familiar with that method and it could be implemented using information easily available from an entity's accounting system. Many entities told the Boards that their accounting systems do not collect information about gross operating cash receipts and payments and that it could be expensive to modify their systems to do that.

3.82. If operating cash flows are presented by a direct method, neither IFRSs nor U.S. GAAP requires presentation of more than a single amount for either cash collected from customers or cash paid to suppliers and employees. An entity generally could determine those two amounts indirectly by adjusting the related revenues and expenses for the change during the period in the amounts of the related asset and liability. For example, an entity might derive the amount of cash collected from customers during the period by adjusting revenues for the change during the period in the amount of the related receivable. However, as indicated by the illustrative statements of cash flows in Appendix A, aligning the line items in the statements of cash flows and comprehensive income generally would require more detail than is currently provided in most reporting systems, at least for cash paid to suppliers and employees. Indirectly deriving those more detailed items, such as cash paid to purchase or manufacture inventory, would be more difficult and require that the related receivable or payable be kept separate.

3.83. The Boards understand that preparers are concerned about the costs of obtaining information about operating cash receipts and payments and question whether those costs will be justified by the benefits of presenting those amounts. The Boards believe that much of the cost of moving to a direct method of presenting operating cash flows will be the one-off or one-time costs of making the systems changes needed either to collect the information directly or to derive the information indirectly. However, question 20 below seeks input on the costs of obtaining detailed information about operating cash receipts and payments and how the costs might be reduced, for example, by specifying a lower level of detail that would help to achieve the cohesiveness objective but not at the same line-item level depicted in the illustrative statement of cash flows in Appendix A.

Discussion Questions

19. Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.
    a. Would a direct method of presenting operating cash flows provide information that is decision useful?
    b. Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?
    c. Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?
20. What **costs** should the Boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

Statement of Changes in Equity

3.84. **An entity should present a statement of changes in equity that provides information about the beginning and ending amount of each component of equity and how each amount changed during the period. In preparing that statement, an entity should present the following:**

- **a. Total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to the noncontrolling interest, if any**
- **b. For each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:**
  - **(1) Profit or loss or net income**
  - **(2) Each item of other comprehensive income**
  - **(3) Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners, and changes in ownership interests in subsidiaries that do not result in a loss of control**
- **c. For each component of equity, the effects, at the beginning of the earliest period presented, of retrospective application or retrospective restatement, recognized in accordance with IFRSs or U.S. GAAP.**

3.85. Components of equity include, for example, each class of contributed equity, the accumulated amount of each class of other comprehensive income, and retained earnings.

3.86. The Boards decided in Phase A of this project that a statement of changes in equity should be part of a complete set of financial statements. They also decided that the form and content of that statement should be similar to what entities provide in their financial statements today. The changes the IASB made in September 2007 to the IAS 1 requirements for the statement of changes in equity were the result of those decisions. This Discussion Paper does not propose any changes to those decisions.

3.87. Existing guidance in U.S. GAAP on presenting information about changes in shareholders' equity is found in Rule 3-04 of SEC Regulation S-X. U.S. GAAP permits information about changes in shareholders' equity to be presented in the notes to financial statements; that presentation was permitted by IAS 1 before its 2007 revision. Using the proposed presentation model, an entity that applies U.S. GAAP would no longer have the option of presenting information about shareholders' equity in the notes to financial statements. Presentation of that information in a primary financial statement would be the main change to current U.S. practice for presenting information about shareholders' equity.

Presenting the Effects of Basket Transactions in the Statement of Comprehensive Income and the Statement of Cash Flows

3.88. One challenge the Boards encountered in developing their preliminary views on financial statement presentation was how to present the effects of a single acquisition or disposal transaction that recognizes or derecognizes assets and liabilities that are classified in more than one section or category. This Discussion Paper refers to such a transaction as a *basket transaction*. A typical example of a basket transaction is a business combination in which the acquirer acquires 100 percent of the equity instruments of the acquiree for cash; the acquiree's assets and liabilities are then consolidated with the existing assets and liabilities of the acquirer.

3.89. It seems reasonable to the Boards that an entity should classify and present the assets and liabilities acquired in a basket transaction in the appropriate sections and categories in the statement of financial position. However, basket transactions also may result in income or expense items and cash receipts or payments. (This Discussion Paper refers to the income or expense items and the cash flows arising from a basket transaction collectively as the *effects of basket transactions*.) How to classify the effects of basket transactions in the statements of comprehensive income and cash flows is not obvious. In present practice, the effects of basket transactions often are presented in a single line item in the statement of comprehensive income and in the statement of cash flows. IAS 7 requires specific disclosures relating to obtaining and losing control of subsidiaries or other businesses during the period; some of the transactions covered by those requirements would meet the definition of a basket transaction.

3.90. The Boards did not reach a preliminary view on how to classify and present the effects of basket transactions in the statements of comprehensive income and cash flows. Instead, they decided to seek respondents' views on that issue. The Boards note that a fundamental decision would be whether the effects should be:

a. Classified in more than one section or category, thereby requiring an allocation of the total effect; or

b. Classified in a single section or category, which would not require allocation of the total effect.

Allocation

3.91. The major advantage of allocating the effects of basket transactions is that it would achieve the cohesiveness objective. Achieving the cohesiveness objective would require an entity to allocate the income and cash flow effects of basket transactions to the sections or categories in which the related assets or liabilities are classified. For example, an entity might sell a group of assets that includes both operating assets and investing assets. For users to be able to relate the resulting gain or loss on the transaction to the categories in which the assets are presented in the statement of financial position, the entity would need to allocate that gain or loss between the operating category and the investing category in the statement of comprehensive income.

3.92. A disadvantage of allocating the effects of basket transactions would be that any allocation method would be arbitrary, at least to some extent. Moreover, allocating the effects of basket transactions is likely to impose more implementation costs on an entity compared with not allocating those effects. However, most entities are unlikely to engage in basket transactions (as that term is defined in paragraph 3.88) in each reporting period, and many entities may engage in them only rarely. The Boards think the relative lack of frequency of basket transactions should mitigate the related cost of allocating their effects among sections or categories.

3.93. If the effects of basket transactions are to be allocated, the Boards would need to provide allocation guidance, otherwise different entities might allocate the effects differently, which would impair the comparability of their financial statements. Although the Boards did not decide on a specific method for allocating the effects of basket transactions, they noted that the transaction amount was likely to be allocated to each section or category on the basis of the relative fair values of the assets and liabilities involved in the transaction and that those allocated transaction amounts would be used to determine the gains and losses to be presented in each section or category in the statement of comprehensive income. Similarly, the cash flow effects of a basket transaction was likely to be allocated to each section or category on the basis of the relative fair values of the assets and liabilities involved in the transaction.

No Allocation

3.94. Even though the Boards did not decide on how an entity should present the effects of basket transactions if the effects are not to be allocated, they noted the following as potential alternatives:

Alternative A: Present in the operating category.

Alternative B: Present in the category that reflects the activity that was the predominant source of those effects.

Alternative C: Present in a separate section.

3.95. Alternative A would be easy to implement and could be viewed as a practical expedient because it is likely that if the effects were required to be allocated, most of the effects would be allocated to and presented in the operating category. Alternative B is consistent with the notion in paragraph 2.44 that an entity might classify an asset or liability that serves more than one function according to its predominant purpose. The Boards noted that all three alternatives would violate the cohesiveness objective. However, Alternative C would present that exception in a prominent manner.

Discussion Question

21. On the basis of the discussion in paragraphs 3.88–3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

CHAPTER 4: NOTES TO FINANCIAL STATEMENTS

4.1. This chapter describes the effects on the notes to financial statements of implementing the Boards' preliminary views on the objectives and related principles of financial statement presentation. Appendix A includes illustrative notes to financial statements for a manufacturing entity (ToolCo) and a financial services entity (Bank Corp) that reflect the Boards' proposals in this Discussion Paper.

Classification Accounting Policy

4.2. **As a matter of accounting policy, an entity should explain its bases for classifying assets and liabilities in the operating, investing, financing assets, and financing liabilities categories and any change in its bases for classification.**

4.3. The disclosure about an entity's classification policy should include a description of the type(s) of businesses in which an entity engages and provide a user with the necessary information to understand management's approach to the business. An entity's explanation of its classification policy should address classification that varies by reportable segment.

4.4. The Boards believe that allowing management flexibility in classification will improve the usefulness of financial statements only if users can understand the bases for management's classifications. Thus, a crucial factor in the Boards' support for a management approach to classification was their conclusion that the classification of assets and liabilities in the operating, investing, financing assets, and financing liabilities categories would be an accounting policy. As a result, there should be consistency in period-to-period presentation for a given entity, and management would be required to explain its classification policy in its accounting policy note disclosure.

Information Related to the Liquidity and Financial Flexibility Objective

Operating Cycle

4.5. **An entity with an operating cycle longer than one year should describe its operating cycle in the notes to financial statements.**

4.6. Although the Boards propose not to use the length of an entity's operating cycle as the basis for providing a classified statement of financial position, they recognize that users need to understand the length of time between the acquisition of goods and services involved in the production process and the expected cash realization resulting from sales and subsequent collections. Users can better assess an entity's liquidity and evaluate its ability to meet its commitments as they become due if information about the operating cycle is known. Therefore, the Boards propose that if an entity (or one or more of its reportable segments) has an operating cycle longer than one year, the entity should explain the length of that operating cycle in the notes to financial statements.

Contractual Maturity Schedules

4.7. **An entity that presents its assets and liabilities in order of liquidity in the statement of financial position should present information about the maturities of its *short-term* contractual assets and liabilities in the notes to financial statements.**

4.8. As noted in paragraph 3.5(b), a classified statement of financial position will provide information to help users compare the assets expected to be realized in the near term with the liabilities expected to be settled in the near term. However, a statement of financial position presented in order of liquidity will provide little, if any, information about the maturity dates of an entity's assets and liabilities. Therefore, an entity choosing that presentation format should disclose the maturities of its short-term contractual assets and liabilities to provide users of its financial statements with information that will be helpful in assessing the entity's liquidity.

4.9. An entity should consider short-term liquidity "mismatches" that may be of interest to users as well as natural breaks in time periods in determining the appropriate level of detail to provide in a schedule related to short-term contractual assets and liabilities. For example, as illustrated for Bank Corp in Note 3 of Illustration 2A in Appendix A, a bank might present maturities in the following groupings:

a. On demand
b. Three months or less
c. Three to 12 months.

4.10. An entity should use contractual maturity dates in preparing its short-term maturity schedule. If the expected realization (cash conversion) or settlement date for any asset or liability is significantly different from its contractual maturity date, an entity should indicate the expected realization or settlement date and explain the difference because contractual maturities of some items, such as financial instruments, do not necessarily indicate their liquidity. The expected realization or settlement dates may provide users with supplemental information for assessing the liquidity of those assets and liabilities.

4.11. **An entity should present information about the maturities of its contractual *long-term* assets and liabilities in the notes to financial statements.**

4.12. Requiring an entity to disclose maturity information about its contractual long-term assets and liabilities is consistent with the liquidity and financial flexibility objective because the information should help users to assess the amount of liabilities an entity is required to settle in the future and how those settlements may be satisfied.

4.13. The amounts presented in a long-term maturity schedule should be undiscounted, based on contractual maturity dates, and reconciled to the amounts presented in the statement of financial position. If the contractual maturity amount differs from the carrying amount, the reconciliation should display adjustments to the carrying amount for future income effects (interest income or expense and fair value gains or losses) that would be recognized if the contractual maturity amount is realized.

4.14. If the expected realization or settlement date for a long-term contractual asset or liability is significantly different from its contractual maturity date, an entity should indicate the expected realization or settlement date and explain the difference.

4.15. If a contractual item included in a long-term maturity schedule is not classified as long-term in the statement of financial position (if short-term and long-term categories are presented), an entity should explain the reason for that difference.

Discussion Question

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

Information about Noncash Activities

4.16. **An entity should disclose in the notes all relevant information about its significant noncash activities unless that information is presented elsewhere in the financial statements. An entity may describe the information in a narrative disclosure or summarize it in a schedule.**

4.17. Some transactions in which an entity engages are part cash and part noncash. The statement of cash flows would contain only the cash portion of the transaction. To help users understand the effects of the entire transaction across the financial statements, an entity should identify both the cash and noncash aspects of a transaction.

4.18. IFRSs and U.S. GAAP require information about all investing and financing activities during the period that affect recognized assets or liabilities but do not result in cash receipts or payments during the period to be presented in the notes to financial statements. The Boards propose extending those existing requirements to include noncash **operating** activities. In addition, because investing and financing activities in the proposed presentation model differ from existing definitions in the Boards' cash flow standards, the items included as investing and as financing noncash activities may be different (see paragraph 2.65).

Reconciliation Schedule

4.19. **An entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into the following components**:

a. Cash received or paid other than in transactions with owners

b. **Accruals (including contractual accruals and systematic allocations such as depreciation) other than remeasurements**[16]

c. **Remeasurements that are recurring fair value changes**[17] **or recurring valuation adjustments**[18]

d. **Remeasurements that are not recurring fair value changes or valuation adjustments.**

Basis for Preliminary Views on the Reconciliation Schedule

4.20. The following paragraphs describe the basis for the Boards' preliminary views on disaggregating components of comprehensive income in a reconciliation schedule. The reconciliation schedule is described in paragraph 4.45 and illustrated for both ToolCo and Bank Corp in Appendix A.

4.21. The disaggregation objective described in paragraphs 2.7–2.11 suggests that users can better assess an entity's ability to create value in the future and assess the amount, timing, and uncertainty of its future cash flows when items that have different implications for the future are disaggregated within comprehensive income. To be consistent with that objective, the Boards' proposed presentation model would require an entity to disaggregate information in its statement of comprehensive income by:

a. Separately presenting its operating, investing, financing asset, and financing liability activities as well as its discontinued operations and items of other comprehensive income

b. Further disaggregating its operating, investing, financing asset, and financing liability activities based on their function and economic nature.

4.22. The Boards believe that additional disaggregation of comprehensive income is necessary because users have asked for information to help them understand how components of accrual accounting, such as changes in accruals (for example, accounts payable and receivable) and fair value remeasurements, affect an entity's comprehensive income and future cash flows.

4.23. The Boards considered disaggregating comprehensive income based on different factors such as valuation multiples, whether the income item is recurring, the degree of measurement subjectivity, persistence, and predictive value. The Boards decided to focus on disaggregating comprehensive income according to the characteristics of *persistence*

[16]A *remeasurement* is defined as a change in the carrying amount of an asset or a liability attributable to a change in a price or an estimate.

[17]A *fair value change* (FASB) is a change attributable to a remeasurement of an asset or liability to fair value. A *recurring fair value change* arises when U.S. GAAP requires an asset or liability to be measured at fair value "on a recurring basis" as that notion is used in paragraph 32 of FASB Statement No. 157, *Fair Value Measurements*.

[18]A *valuation adjustment* (IASB) is a change attributable to remeasurement of an asset or liability to a current value. A current value includes fair value, fair value less costs to sell, value in use, and net realizable value. A *recurring valuation adjustment* arises when IFRSs require an asset or liability to be measured at current value every period (on a recurring basis).

and measurement *subjectivity* because those appear to be the primary factors that users take into account when predicting future cash flows. The terms *persistence* and *subjectivity* are described in the following two paragraphs.

4.24. An item of comprehensive income (that is, a revenue, expense, gain, or loss) is *persistent* if it is indicative of future amounts of that income item. The important distinction is whether the current-period income item is a useful predictor of future amounts of that income item, either by itself or when combined with other information. For example, current revenue could be used to predict future revenue or current revenue could be combined with an expected growth rate to predict future revenue.

4.25. An item of comprehensive income is *subjective* if judgment is required in measuring the amount of the asset or liability that gives rise to the income item. For example, the cash that a grocery store receives from a customer is an example of an income item that can be easily observed and verified by third parties (that is, investors, auditors, or regulators), and therefore little or no judgment is required in computing the grocery store's revenue from this transaction. For other items, accounting guidance requires management to develop estimates and assumptions that are difficult to make and even more difficult for a third party to verify, such as the change in the grocery store's obligation in its postemployment benefit plan. Users need to distinguish the former and latter cases because comprehensive income items that require more judgment may have different implications for future cash flows. Although the concepts of persistence and subjectivity are distinct, in practice the two may overlap: an increase in the subjectivity of a comprehensive income item (or component) often leads to a reduction in its persistence.

4.26. The Boards relied on users' feedback and academic research to identify components of comprehensive income that exhibit systematic differences in persistence, measurement subjectivity, or both. Academic research demonstrates that accrual accounting produces income numbers that are more highly associated with stock returns than are cash flows from operations or the change in cash during the period.[19] Similarly, research indicates that assets and liabilities recognized using accrual accounting are significantly associated with stock prices at the end of the period.[20] Those findings are consistent with the view that accrual accounting provides useful information in the statements of financial position and comprehensive income that is not provided by cash-basis accounting.

4.27. Research also suggests that including accruals in the financial reporting system presents some challenges to users. One challenge is that accrual accounting typically introduces more measurement subjectivity and uncertainty than cash-basis accounting. Management judgment about uncertain amounts is necessary for accrual accounting to work. For example, management judgment is required when an entity estimates its

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[19]See, for example, Patricia M. Dechow, "Accounting Earnings and Cash Flows as Measures of Firm Performance: The Role of Accounting Accruals," *Journal of Accounting and Economics* 18 (1994): 3–42.

[20]See, for example, Mary E. Barth, "Relative Measurement Errors among Alternative Pension Asset and Liability Measures," *The Accounting Review* 66, 3 (July 1991): 433–463, and Wayne R. Landsman, "An Empirical Investigation of Pension Fund Property Rights," *The Accounting Review* 61, 4 (October 1986): 662–691.

obligations for a three-year product warranty or a retirement health-care plan. Academic research suggests that in some situations, management judgment is influenced by the entity's ability to meet earnings targets, creating incentives to bias accruals either upward or downward.[21]

4.28. A second challenge is that even though accruals add to the information provided by cash flows alone, academic research shows that the implications of a given amount of accrual income often differ from the implications of the same amount of cash income.[22] Also, accruals resulting from transactions with third parties (for example, accruing wages payable as an employee provides services) often do not have the same implications for future cash flows as accruals resulting from remeasurements (such as a change in the fair value of an entity's derivative instruments holdings or changes in its pension obligation resulting from a change in interest [discount] rates). The existing presentation of information in the statement of comprehensive income often frustrates users who in their analyses want to distinguish remeasurement gains and losses from other accruals and from cash flows. Thus, the Boards developed the reconciliation schedule as a way to disaggregate components of comprehensive income that are likely to have differences in persistence or measurement subjectivity.

4.29. The Boards observed that the reconciliation schedule also should provide more transparency about the use of fair value. Specifically, users are concerned that commingling gains or losses from fair value remeasurements and other components of comprehensive income results in measures of financial performance that are difficult to analyze. The separate presentation of those income components in the reconciliation schedule should enable a more effective analysis. (See paragraphs 4.42 and 4.43.)

Disaggregating the Components of Comprehensive Income

4.30. The disaggregation approach that underlies the reconciliation schedule is described below as a series of steps. Figure A in paragraph 4.44 illustrates those disaggregation steps. An example in Appendix B further illustrates how this disaggregation approach can provide useful information (see paragraphs B.2–B.9).

Disaggregating the Cash and Accrual Components of Comprehensive Income

4.31. An entity would begin to disaggregate comprehensive income by separating the changes in net assets underlying comprehensive income into cash and accrual components. This first disaggregation step is consistent with evidence from academic

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[21]Evidence that managers' incentives affect their judgments comes from academic studies of "meeting-or-beating" benchmarks (see, for example, John R. Graham, Campbell R. Harvey, and Shiva Rajgopal, "The Economic Implications of Corporate Financial Reporting," *Journal of Accounting and Economics* 40, 1–3 [2005]: 3–73), and abnormal accruals (see, for example, Paul M. Healy and James M. Wahlen, "A Review of the Earnings Management Literature and Its Implications for Standard Setting," *Accounting Horizons* 13, 4 [December 1999]: 365–383).

[22]Papers by Richard G. Sloan (for example, "Do Stock Prices Fully Reflect Information in Accruals and Cash Flows about Future Earnings?" *The Accounting Review* 71, 3 [1996]: 289–315) and others indicate that operating cash flows appear to be more persistent than the accrual portion of income.

research that the cash components of income tend to have higher earnings persistence for earnings and cash flows than the accrual components.[23] One reason for this may be that the accrual components of income often involve estimation and use of subjective criteria by management.

a. The *cash component* is defined as the net change in cash of the line items shown (other than transactions with owners), and it represents the income that an entity would present if it followed pure cash-basis accounting.
b. The *accrual component* is defined as the difference between comprehensive income and the cash component. This includes changes in operating assets and liabilities from transactions with third parties as well as changes in liabilities and noncash assets from events and circumstances such as fair value remeasurements. As discussed in paragraphs 4.33–4.41, the accrual component encompasses the three components (b–d) proposed in paragraph 4.19.

4.32. The above definitions of the cash and accrual components of income are different from the definitions used by some interested parties, in part because many definitions of cash-basis income actually include several accruals. In pure cash-basis accounting, cash is the only nonequity item in the statement of financial position. Cash-basis income equals the net change in cash that is attributable to all transactions other than with owners of the entity. For example, because capital expenditures reduce cash, they are recognized as an expense immediately in pure cash-basis accounting. In contrast, accrual accounting first capitalizes and then depreciates the capital expenditures (in an amortized cost measurement approach). The total expenses over the life of the asset are the same in cash-basis and accrual accounting, but the timing of the expenses differs. The accrual component of income as defined above reflects those timing differences between cash-basis and accrual income. Similar adjustments are needed for long-term liabilities because issuing debt results in income in pure cash-basis accounting but accrual accounting recognizes a liability.

Disaggregating Income Accruals Attributable to Remeasurements from Other Accruals

4.33. The Boards believe that the current financial statement format produces inadequate information about the accrual component of comprehensive income. The Boards observed that the current-period amount of an accrual component of income is likely to have different persistence depending on whether the change in the asset or liability is the result of a remeasurement of an asset or a liability or the result of an accrual arising from a transaction or from the passage of time. For example, suppose that new information becomes available this period about an increase in the value of products that can be produced each year in an entity's factory, and also suppose that the increase in value is expected to persist for many years. If the accounting method used by the entity requires the entity to recognize the increased income each period as the products are produced and

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[23]Richard Sloan, 1996, and Mary E. Barth, Donald P. Cram, and Karen K. Nelson, "Accruals and the Prediction of Future Cash Flows," *The Accounting Review* 76, 1 (2001): 27–58.

sold, the current-period increase in income is likely to persist into the future. Alternatively, if the accounting method requires the entity to revalue its factory, the increase in output value will be at least partially recognized as a remeasurement gain on the factory in the current period; if so, the amount of the remeasurement gain is unlikely to persist. Hence, the accounting gain or loss associated with a specific event when based on remeasurement accounting can have lower persistence than the income associated with the same event when based on accounting methods that do not remeasure the asset or liability.[24]

4.34. Users have asked that information about accruals with customers or suppliers be segregated from accrued gains or losses attributable to remeasurements. Thus, in the second disaggregation step, an entity would separate the accrual component of comprehensive income into remeasurements and other accruals that are not attributable to remeasurements.

a. Examples of remeasurements include unrealized gains or losses on available-for-sale securities; actuarial gains or losses; impairment losses; and revaluation gains on property, plant, and equipment based on the revaluation model permitted in IAS 16, *Property, Plant and Equipment*.
b. Examples of accruals that are not attributable to remeasurements include revenue from credit sales, depreciation expense, and capital expenditures.

4.35. The Boards understand that the term *accruals* has a variety of meanings. To some, accruals are limited to adjusting entries made at year-end (for example, accruing bad-debt expense or warranty liabilities); they do not view payables and receivables recognized during the year as accruals. Others regard the items that reconcile profit or loss or net income to operating cash flows using an indirect method of presenting operating cash flows as accruals, but they regard any differences between cash flow and income associated with financing or investing activities as not being accruals. To help users analyze the components of comprehensive income, the Boards began with the broadest definition of accruals and then considered how to disaggregate accruals to provide information about persistence and measurement subjectivity.

4.36. The Boards considered using some of the narrower definitions of accruals mentioned above to further disaggregate accruals in the reconciliation schedule. They concluded that separating accruals not attributable to remeasurements into distinct groups would be difficult. In reaching the conclusion not to further disaggregate accruals other than remeasurements, they noted that in most cases users who focus on a narrower definition of accruals could obtain the information they need by focusing on the line items in the reconciliation schedule associated with accruals not attributable to remeasurements. Therefore, the Boards propose that accruals not attributable to remeasurements should not be disaggregated further in the reconciliation schedule.

[24]For those who want to understand better the link between accounting methods and persistence, an example is included in paragraphs B.2–B.9 to demonstrate why disaggregating remeasurements from other accruals should help users assess differences in the persistence of income items.

Disaggregating Accruals Attributable to Remeasurements

4.37. In the third disaggregation step, an entity would separate accruals attributable to **recurring** remeasurements that result from fair value changes (U.S. GAAP) or are valuation adjustments (IFRSs)[25] from all other remeasurements. In considering how best to disaggregate accruals attributable to remeasurements, the Boards observed that users consistently express interest in segregating fair value changes and other valuation adjustments from other remeasurements. The Boards also observed that information provided by remeasurements differs on two dimensions—timing and subjectivity.

4.38. By timing, the Boards mean that some remeasurements are required every period (referred to as *recurring remeasurements*), whereas other remeasurements are made only after a triggering event happens, such as an impairment (referred to as *nonrecurring remeasurements*). The timing dimension affects analysis because at least part of a nonrecurring remeasurement may represent information that users already know. For example, suppose a productive asset with a value of $100 experiences a $5 decline in value in year 1, an $8 decline in year 2, and a $20 decline in year 3. If remeasurement takes place every year, each period's decline in value will be recognized on a relatively timely basis. If remeasurement takes place because of a triggering event, the remeasurement may not take place until year 3, when an impairment loss of $33 will be recognized. Of this remeasurement, $13 is out-of-date information that users may already know.

4.39. The subjectivity dimension is two-fold for nonrecurring remeasurements. First, management judgment is required in deciding when to recognize a nonrecurring remeasurement (that is, whether the gain or loss should be recognized in this period or some future period). Second, judgment is needed in determining the amount to be recognized. A recurring remeasurement involves only the second element of subjectivity—the amount to be recognized.

4.40. If the financial statements separate recurring fair value changes/valuation adjustments from other remeasurements, users can reflect in their analyses the timeliness and subjectivity of the gains or losses. In contrast to the other disaggregation steps, the Boards' reasoning for disaggregating remeasurements in this manner does not relate to differences in persistence (even though one component is labeled "recurring"). As demonstrated in the example in paragraphs B.2–B.9, the amount of a remeasurement gain or loss attributable to new information during the period is unlikely to be persistent for long-term assets and liabilities even when remeasurement takes place every period.

4.41. The Boards considered whether recurring fair value changes/valuation adjustments should be further disaggregated in the reconciliation schedule on the basis of differences in measurement subjectivity across the levels of the measurement (1, 2, or 3) in FASB Statement No. 157, *Fair Value Measurements*. They concluded that the extensive disclosures about fair value remeasurements in Statement 157 were sufficient and, thus,

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[25] See footnotes 17 and 18.

further disaggregation of recurring fair value changes/valuation adjustments is unnecessary. The IASB is considering in its project on fair value measurement whether to adopt the disclosure requirements in Statement 157.

Further Disaggregation of Fair Value Changes in Financial Instruments

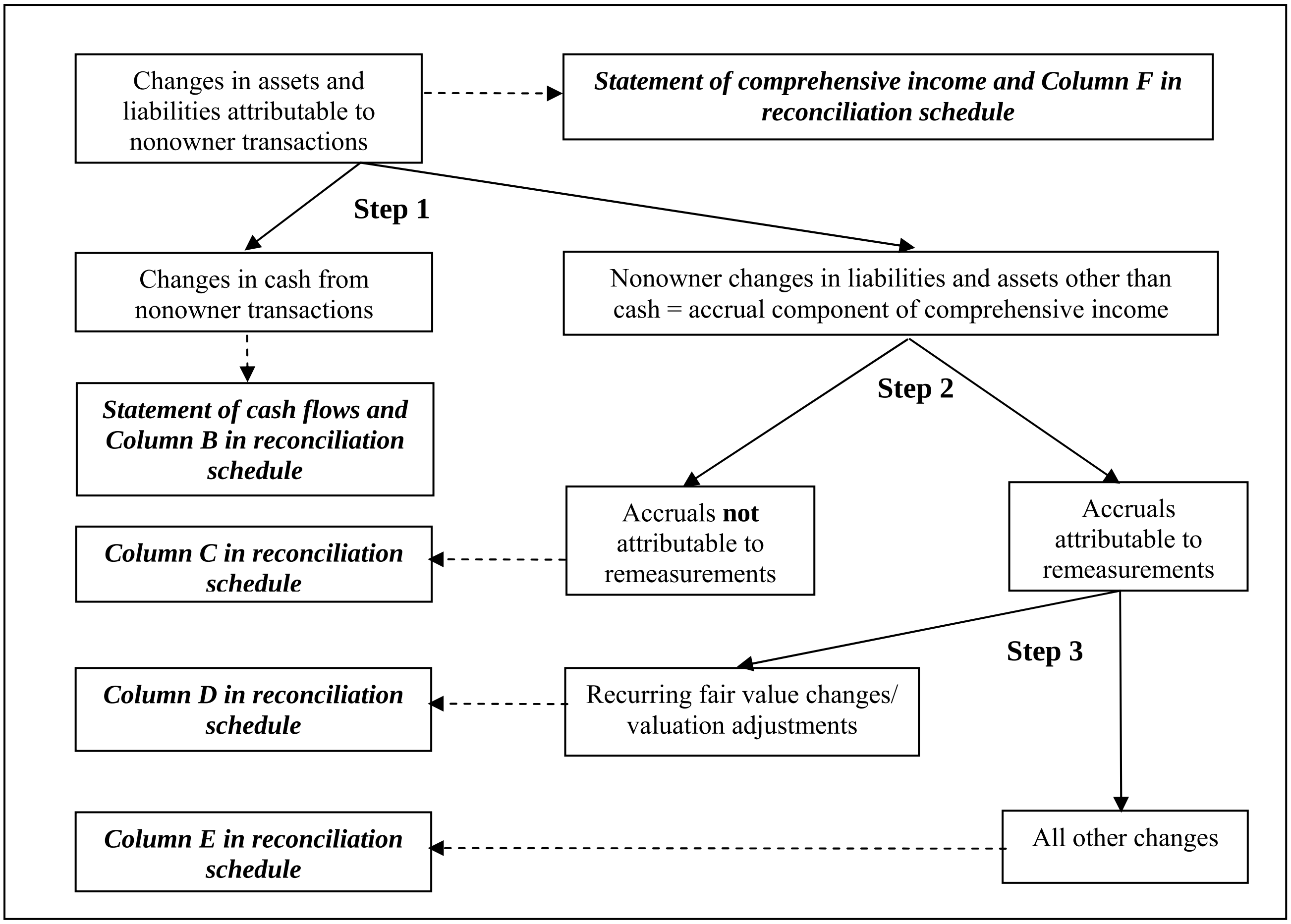
4.42. IFRSs and U.S. GAAP currently provide limited guidance on whether and how an entity should disaggregate and present changes in the fair value of a financial instrument in the statement of comprehensive income. For example, an entity might disaggregate a change in the fair value of an interest-bearing instrument into changes attributable to current period interest accrual, other interest rate changes, credit risk changes, foreign currency changes, and other changes and present those changes separately in its statement of comprehensive income. Because there is only limited guidance on this issue, in some cases a change in fair value may appear as a single line item in the statement of comprehensive income, and in other cases different components of a change in fair value may appear in separate line items. Some users have stated that the loss of information from not disaggregating the changes in fair values of financial instruments could be significant and that the statement of comprehensive income would have greater analytical value if the sources of the changes were identified and presented.

4.43. Another consequence of the limited guidance on this issue is that an entity may present changes in the fair value of a financial instrument in line items that include amounts relating to a similar instrument measured on a cost basis, which raises concerns that the presentation is not consistent with the method of accounting. For example, presenting a gain or loss arising from a change in the fair value of a financial instrument in three line items—contractual interest, "incurred" credit losses (comparable to what is required by IAS 39, *Financial Instruments: Recognition and Measurement,* and FASB Statement No. 5, *Accounting for Contingencies,* for instruments carried at cost), and "other"—does not appear consistent with a fair value measurement basis. In another example, an entity might want to present a portion of the change in fair value of a derivative instrument that is considered an economic hedge but does not qualify for hedge accounting in the statement of comprehensive income as an offset of an income or expense amount to replicate the effects of hedge accounting on that line item. This Discussion Paper does not address disaggregation of the changes in fair values of financial instruments beyond the limited guidance that is currently in IFRSs or U.S. GAAP. That is because doing so would require the Boards to address recognition and measurement issues, which are beyond the scope of a project on financial statement presentation.

Diagram of Disaggregation Process

4.44. The figure below is a diagram that outlines the process for disaggregating the components of comprehensive income described in the paragraphs above. The ***bold italic type*** indicates where this information would be found in an entity's financial statements.

Figure A



Preparing the Reconciliation Schedule

4.45. The principle for disaggregating comprehensive income described in paragraph 4.19 and the application guidance in the related paragraphs would require an entity to prepare a reconciliation schedule with seven columns as follows (see Appendix A for the complete illustration):

	Changes in Assets and Liabilities, Excluding Transactions with Owners					
	Not from Remeasurements		From Remeasurements			
	Cash Component	Accrual Components				
A	B	C	D	E	F	G
Caption in Statement of Cash Flows	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Fair Value Changes/ Valuation Adjustments**	**All Other**	Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income

a. Column A in the reconciliation schedule contains the line-item descriptions in the business, financing, income tax, and discontinued operations sections of the statement of cash flows.

b. Column B presents the cash component from disaggregating comprehensive income into cash and accrual components (the "change in cash from nonowner transactions" in step 1 of Figure A above).

c. Columns C–E include the three accrual components of comprehensive income. Column C contains the "accruals not attributable to remeasurements" that are separated from the "accruals attributable to remeasurements" (see step 2 of Figure A). Column C includes:
   (1) Accruals (such as purchasing and producing inventory, accruing receivables and payables, and reducing receivables or payables by receiving or paying cash)
   (2) Systematic allocations (such as depreciation, amortization, accretion, and depletion)
   (3) All other changes in liabilities and assets (other than cash or from transactions with owners) that are not attributable to remeasurements (such as purchase or disposal of long-term assets).

d. When the accruals attributable to remeasurements are disaggregated, Column D contains the "recurring fair value changes/valuation adjustment", and Column E contains the "all other changes" from remeasurements (see step 3 of Figure A). Thus, Column D includes the effects of remeasuring assets and liabilities from fair value to fair value (FASB) or from current value to current value (IASB) at the end of each period. Examples include a change in the value of trading securities or derivative instruments, a fair value change in a financial asset or a financial liability using the fair value option election, and a gain or loss on revaluation of property, plant, and equipment as permitted by IAS 16.

e. Column E contains all other changes from remeasurements, including goodwill and inventory impairments, foreign currency translation adjustments, and a gain or loss on an asset that is classified as held for sale.

f. Column F includes the amounts presented in the statement of comprehensive income and is the sum of columns B, C, D, and E.

g. The reconciliation schedule ends with Column G, the line item descriptions in the business, financing, income tax, discontinued operations, and other comprehensive income sections in the statement of comprehensive income.

4.46. The paragraphs above focus on disaggregating comprehensive income, yet the reconciliation schedule begins with statement of cash flows. The Boards favor starting with cash flow information because researchers have suggested that reconciling **from** the statement of cash flows **to** the statement of comprehensive income (rather than reconciling in the reverse order) is easier to understand and, accordingly, is likely to improve forecasts of future cash flows or profitability.[26] This is because items that decrease comprehensive income, such as depreciation and amortization, are presented with negative signs, and items that increase assets (or decrease liabilities) are presented with positive signs.

Alternatives Considered

4.47. The Boards discussed two other multicolumn formats for presenting disaggregated information that would help users of financial statements understand the cause of a change in recognized amounts of assets and liabilities: the statement of financial position reconciliation and the statement of comprehensive income matrix. Those alternatives are described and illustrated in paragraphs B.10–B.22 in Appendix B.

[26]Leslie Hodder, Patrick E. Hopkins, and David A. Wood, "The Effects of Financial Statement and Informational Complexity on Analysts' Cash Flow Forecasts," *The Accounting Review* 83, 4 (July 2008): 915–950.

Discussion Questions

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.
    a. Would the proposed **reconciliation schedule** increase users' understanding of the amounts, timing, and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.
    b. Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.
    c. Is the guidance provided in paragraphs 4.31, 4.41, and 4.44–4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.
24. Should the Boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?
25. Should the Boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B.10–B.22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

Unusual and Infrequent Events or Transactions

4.48. **An entity should present information about unusual or infrequent events or transactions as part of the reconciliation schedule.** [FASB's preliminary view]

4.49. The Boards considered whether the reconciliation schedule might provide a way for management to highlight unusual or infrequent events or transactions in their financial statements—items that often are presented as special items in earnings reports. Because of the Boards' preference for describing the disaggregation of changes in assets and liabilities in terms of cash flows and accruals, some less persistent changes in assets and liabilities that are not remeasurements (for example, the effect of amendments to a pension plan, an unusually large payment related to hiring a chief executive, or an unusually large sales order for a one-off event) might be aggregated with changes that are highly persistent.

4.50. In addition, the measurement of some of those less persistent events or transactions might also be more subjective. For that reason, the FASB supports adding a "memo" column to the reconciliation schedule so that managers can inform users about components within a line item in the reconciliation schedule that are less persistent and more subjective than the rest of the components in that line item. That memo column would be included as the last column in the schedule because it is not part of the reconciliation of cash flows to comprehensive income. In addition, an entity should explain in the notes its rationale for including items in the memo column.

4.51. An entity should look to the definition of unusual or infrequent in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions* (Opinion 30), and consider the notion of persistence and subjectivity in determining events or transactions to include in the memo column. An entity may include events or transactions that are similar to items that are unusual in nature or occur infrequently but do not meet the following Opinion 30 definitions:

> *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
>
> *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. [paragraph 20]

4.52. Although Opinion 30 addresses presentation of the effects of unusual or infrequent events or transactions only in the statement of comprehensive income, an entity may include in the memo column cash transactions that may be unusual or infrequent.

4.53. The IASB does not support including this information in the reconciliation schedule because there is no notion of unusual or infrequent events or transactions in IFRSs.

Discussion Question

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.
    a. Would this information be decision useful to users in their capacity as capital providers? Why or why not?
    b. Opinion 30 contains definitions of *unusual* and *infrequent* (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?
    c. Should an entity have the option of presenting the information in narrative format only?

Discussion Question Specific to the FASB

27. As noted in paragraph 1.18(c), the FASB has not yet considered the **application of the proposed presentation model to nonpublic entities.** What issues should the FASB consider about the application of the proposed presentation model to nonpublic entities? If you are a user of financial statements for a nonpublic entity, please explain which aspects of the proposed presentation model would and would not be beneficial to you in making decisions in your capacity as a capital provider and why.

Appendix A

ILLUSTRATIONS

CONTENTS

Appendix A

ILLUSTRATIONS

A.1. This appendix includes illustrative financial statements for a manufacturing entity (ToolCo) and a financial services entity (Bank Corp). Those financial statements are intended to provide a faithful representation of the Boards' preliminary views and illustrate the proposed financial statement formats and proposed changes from current or traditional financial statement formats. In preparing the illustrations, several simplifying assumptions were made: the entities do not have a noncontrolling interest and did not have a business combination during the reporting period. In addition, there was no vesting of share or stock options. The illustrative notes to financial statements are limited to proposed new disclosures and thus are not a comprehensive set of notes.

Illustration 1: ToolCo

A.2. The following general business overview is included to provide general information about ToolCo that one might know by reading a complete set of financial statements and accompanying information, such as a management commentary.

General Business Overview

A.3. ToolCo is a global manufacturer and marketer of power tools and accessories, hardware, and home improvement products based in the United Kingdom. ToolCo's financial statements are prepared in accordance with International Financial Reporting Standards and their reporting currency is currency units (CU). ToolCo operates in two reportable business segments—Wholesale and Retail. Those business segments comprise approximately 80 percent and 20 percent, respectively, of ToolCo's sales in 2010.

A.4. ToolCo markets its products and services in over 100 countries. During 2010, approximately 50 percent, 34 percent, and 16 percent of its sales were made to customers in Europe, the United States, and other geographic regions, respectively. The Wholesale and Retail segments are subject to general economic conditions in the countries in which they operate as well as the strength of the retail economies. Sales are affected by economic conditions such as residential construction, employment growth, and personal income growth.

A.5. The materials used in the manufacturing of ToolCo's products are subject to price volatility, which is principally related to market risk associated with changes in the price of nickel, steel, resins, copper, aluminium, and zinc. The materials used in the various manufacturing processes are purchased on the open market, and the majority are available from a variety of sources. Although future movements in prices of raw materials and component parts are uncertain, ToolCo uses a variety of methods to limit this risk, including established supply arrangements, purchase of component parts and raw materials for future delivery, supplier price commitments, and derivative instruments.

A.6. ToolCo has hedged some of its future estimated foreign currency transactions using foreign exchange contracts.

A.7. A number of additional items affected ToolCo's performance during 2009 and 2010:

a. Sale of property for a gain
b. A goodwill impairment charge
c. Investing income arising from dividends and the sale of financial assets
d. Share of profit of associates
e. Realized and unrealized gains on cash flow hedges and on available-for-sale securities
f. Losses from inventory write-downs
g. Changes in the carrying amount of pension liabilities and of liabilities for share-based payments (cash-settled warrants).

Illustration 1A: Proposed Format

A.8. The proposed financial statements for ToolCo include all of the required sections, categories, headings, and subtotals and present activity in each of those sections and categories to provide a visual complement so the reader can better understand the Boards' preliminary views. Required subtotals are presented in **bold type** in ToolCo's proposed financial statements; optional subtotals are in *italic type*.

Illustration 1A: ToolCo Financial Statements (Proposed Format)

STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2010	**2009**
BUSINESS		
Operating		
Sales—wholesale	2,790,080	2,591,400
Sales—retail	697,520	647,850
Total revenue	*3,487,600*	*3,239,250*
Cost of goods sold		
Materials	(1,043,100)	(925,000)
Labour	(405,000)	(450,000)
Overhead—depreciation	(219,300)	(215,000)
Overhead—transport	(128,640)	(108,000)
Overhead—other	(32,160)	(27,000)
Change in inventory	(60,250)	(46,853)
Pension	(51,975)	(47,250)
Loss on obsolete and damaged inventory	(29,000)	(9,500)
Total cost of goods sold	*(1,969,425)*	*(1,828,603)*
Gross profit	*1,518,175*	*1,410,647*
Selling expenses		
Advertising	(60,000)	(50,000)
Wages, salaries and benefits	(56,700)	(52,500)
Bad debt	(23,068)	(15,034)
Other	(13,500)	(12,500)
Total selling expenses	*(153,268)*	*(130,034)*
General and administrative expenses		
Wages, salaries and benefits	(321,300)	(297,500)
Depreciation	(59,820)	(58,500)
Pension	(51,975)	(47,250)
Share-based remuneration	(22,023)	(17,000)
Interest on lease liability	(14,825)	(16,500)
Research and development	(8,478)	(7,850)
Other	(15,768)	(14,600)
Total general and administrative expenses	*(494,189)*	*(459,200)*
Income before other operating items	*870,718*	*821,413*
Other operating income (expense)		
Share of profit of associate A	23,760	22,000
Gain on disposal of property, plant and equipment	22,650	-
Realized gain on cash flow hedge	3,996	3,700
Loss on sale of receivables	(4,987)	(2,025)
Impairment loss on goodwill	-	(35,033)
Total other operating income (expense)	*45,419*	*(11,358)*
Total operating income	**916,137**	**810,055**
Investing		
Dividend income	54,000	50,000
Realized gain on available-for-sale securities	18,250	7,500
Share of profit of associate B	7,500	3,250
Total investing income	**79,750**	**60,750**
TOTAL BUSINESS INCOME	**995,887**	**870,805**
FINANCING		
Interest income on cash	8,619	5,500
Total financing asset income	**8,619**	**5,500**
Interest expense	(111,352)	(110,250)
Total financing liability expense	**(111,352)**	**(110,250)**
TOTAL NET FINANCING EXPENSE	**(102,733)**	**(104,750)**
Profit from continuing operations before taxes and other comprehensive income	*893,154*	*766,055*
INCOME TAXES		
Income tax expense	(333,625)	(295,266)
Net profit from continuing operations	*559,529*	*470,789*
DISCONTINUED OPERATIONS		
Loss on discontinued operations	(32,400)	(35,000)
Tax benefit	11,340	12,250
NET LOSS FROM DISCONTINUED OPERATIONS	**(21,060)**	**(22,750)**
NET PROFIT	**538,469**	**448,039**
OTHER COMPREHENSIVE INCOME (after tax)		
Unrealized gain on available-for-sale securities (investing)	17,193	15,275
Revaluation surplus (operating)	3,653	-
Foreign currency translation adjust—consolidated subsidiary	2,094	(1,492)
Unrealized gain on cash flow hedge (operating)	1,825	1,690
Foreign currency translation adjust—associate A (operating)	(1,404)	(1,300)
TOTAL OTHER COMPREHENSIVE INCOME	**23,361**	**14,173**
TOTAL COMPREHENSIVE INCOME	**561,830**	**462,212**
Basic earnings per share	7.07	6.14
Diluted earnings per share	6.85	5.96

Illustration 1A: ToolCo Financial Statements (Proposed Format)

STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2010	**2009**
BUSINESS		
Operating		
Accounts receivable, trade	945,678	541,375
Less allowance for doubtful accounts	(23,642)	(13,534)
Accounts receivable, net	922,036	527,841
Inventory	679,474	767,102
Prepaid advertising	80,000	75,000
Foreign exchange contracts—cash flow hedge	6,552	3,150
Total short-term assets	*1,688,062*	*1,373,092*
Property, plant and equipment	5,112,700	5,088,500
Less accumulated depreciation	(2,267,620)	(2,023,500)
Property, plant and equipment, net	2,845,080	3,065,000
Investment in associate A	261,600	240,000
Goodwill	154,967	154,967
Other intangible assets	35,000	35,000
Total long-term assets	*3,296,647*	*3,494,967*
Accounts payable, trade	(612,556)	(505,000)
Advances from customers	(182,000)	(425,000)
Wages payable	(173,000)	(200,000)
Share-based remuneration liability	(39,586)	(21,165)
Current portion of lease liability	(35,175)	(33,500)
Interest payable on lease liability	(14,825)	(16,500)
Total short-term liabilities	*(1,057,142)*	*(1,201,165)*
Accrued pension liability	(293,250)	(529,500)
Lease liability (excluding current portion)	(261,325)	(296,500)
Other long-term liabilities	(33,488)	(16,100)
Total long-term liabilities	*(588,063)*	*(842,100)*
Net operating assets	**3,339,504**	**2,824,795**
Investing		
Available-for-sale financial assets (short-term)	473,600	485,000
Investment in associate B (long-term)	46,750	39,250
Total investing assets	**520,350**	**524,250**
NET BUSINESS ASSETS	**3,859,854**	**3,349,045**
FINANCING		
Financing assets		
Cash	1,174,102	861,941
Total financing assets	**1,174,102**	**861,941**
Financing liabilities		
Short-term borrowings	(562,000)	(400,000)
Interest payable	(140,401)	(112,563)
Dividends payable	(20,000)	(20,000)
Total short-term financing liabilities	*(722,401)*	*(532,563)*
Long-term borrowings	(2,050,000)	(2,050,000)
Total financing liabilities	**(2,772,401)**	**(2,582,563)**
NET FINANCING LIABILITIES	**(1,598,299)**	**(1,720,621)**
DISCONTINUED OPERATIONS		
Assets held for sale	856,832	876,650
Liabilities related to assets held for sale	(400,000)	(400,000)
NET ASSETS HELD FOR SALE	**456,832**	**476,650**
INCOME TAXES		
Short-term		
Deferred tax asset	4,426	8,907
Income taxes payable	(72,514)	(63,679)
Long-term		
Deferred tax asset	39,833	80,160
NET INCOME TAX ASSET (LIABILITY)	**(28,255)**	**25,388**
NET ASSETS	*2,690,132*	*2,130,462*
EQUITY		
Share capital	(1,427,240)	(1,343,000)
Retained earnings	(1,100,358)	(648,289)
Accumulated other comprehensive income, net	(162,534)	(139,173)
TOTAL EQUITY	**(2,690,132)**	**(2,130,462)**

Total short-term assets	**4,197,021**	**3,605,591**
Total long-term assets	**3,383,231**	**3,614,377**
Total assets	**7,580,252**	**7,219,968**
Total short-term liabilities	**(2,252,057)**	**(2,197,406)**
Total long-term liabilities	**(2,638,063)**	**(2,892,100)**
Total liabilities	**(4,890,120)**	**(5,089,506)**

Illustration 1A: ToolCo Financial Statements (Proposed Format)

STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2010	**2009**
BUSINESS		
Operating		
Cash received from wholesale customers	2,108,754	1,928,798
Cash received from retail customers	703,988	643,275
Total cash collected from customers	*2,812,742*	*2,572,073*
Cash paid for goods		
Materials purchases	(935,544)	(785,000)
Labour	(418,966)	(475,313)
Overhead—transport	(128,640)	(108,000)
Pension	(170,100)	(157,500)
Overhead—other	(32,160)	(27,000)
Total cash paid for goods	*(1,685,409)*	*(1,552,813)*
Cash paid for selling activities		
Advertising	(65,000)	(75,000)
Wages, salaries and benefits	(58,655)	(55,453)
Other	(13,500)	(12,500)
Total cash paid for selling activities	*(137,155)*	*(142,953)*
Cash paid for general and administrative activities		
Wages, salaries and benefits	(332,379)	(314,234)
Contributions to pension plan	(170,100)	(157,500)
Capital expenditures	(54,000)	(50,000)
Lease payments	(50,000)	-
Research and development	(8,478)	(7,850)
Settlement of share-based remuneration	(3,602)	(3,335)
Other	(12,960)	(12,000)
Total cash paid for general and administrative activities	*(631,519)*	*(544,919)*
Cash flow before other operating activities	*358,657*	*331,388*
Cash from other operating activities		
Disposal of property, plant and equipment	37,650	-
Investment in associate A	-	(120,000)
Sale of receivable	8,000	10,000
Settlement of cash flow hedge	3,402	3,150
Total cash received (paid) for other operating activities	*49,052*	*(106,850)*
Net cash from operating activities	**407,709**	**224,538**
Investing		
Purchase of available-for-sale financial assets	-	(130,000)
Sale of available-for-sale financial assets	56,100	51,000
Dividends received	54,000	50,000
Net cash from investing activities	**110,100**	**(29,000)**
NET CASH FROM BUSINESS ACTIVITIES	**517,809**	**195,538**
FINANCING		
Interest received on cash	8,619	5,500
Total cash from financing assets	**8,619**	**5,500**
Proceeds from issue of short-term debt	162,000	150,000
Proceeds from issue of long-term debt	-	250,000
Interest paid	(83,514)	(82,688)
Dividends paid	(86,400)	(80,000)
Total cash from financing liabilities	**(7,914)**	**237,312**
NET CASH FROM FINANCING ACTIVITIES	**705**	**242,812**
Change in cash from continuing operations before taxes and equity	*518,514*	*438,350*
INCOME TAXES		
Cash taxes paid	(281,221)	(193,786)
Change in cash before discontinued operations and equity	*237,293*	*244,564*
DISCONTINUED OPERATIONS		
Cash paid from discontinued operations	(12,582)	(11,650)
NET CASH FROM DISCONTINUED OPERATIONS	**(12,582)**	**(11,650)**
Change in cash before equity	*224,711*	*232,914*
EQUITY		
Proceeds from reissue of treasury stock	84,240	78,000
NET CASH FROM EQUITY	**84,240**	**78,000**
Effect of foreign exchange rates on cash	3,209	1,027
CHANGE IN CASH	**312,161**	**311,941**
Beginning cash	**861,941**	**550,000**
Ending cash	**1,174,102**	**861,941**

Illustration 1A: ToolCo Financial Statements
(Proposed Format)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Foreign currency translation adjustment—consolidated subsidiary	Foreign currency translation adjustment—associate A	Revaluation surplus	Unrealized gain on cash flow hedge	Unrealized gain on available-for-sale financial assets	Total equity
Balance at 31 Dec. 2008	**1,265,000**	**280,250**	**50,200**	**37,000**	**800**	**31,000**	**6,000**	**1,670,250**
Issue of share capital	78,000							78,000
Dividends		(80,000)						(80,000)
Total comprehensive income		448,039	(1,492)	(1,300)	-	1,690	15,275	462,212
Balance at 31 Dec. 2009	**1,343,000**	**648,289**	**48,708**	**35,700**	**800**	**32,690**	**21,275**	**2,130,462**
Issue of share capital	84,240							84,240
Dividends		(86,400)						(86,400)
Total comprehensive income		538,469	2,094	(1,404)	3,653	1,825	17,193	561,830
Balance at 31 Dec. 2010	**1,427,240**	**1,100,358**	**50,802**	**34,296**	**4,453**	**34,515**	**38,468**	**2,690,132**

Illustration 1A: ToolCo Financial Statements
(Proposed Format)

Notes to Financial Statements

[This is not a comprehensive set of notes to financial statements. This illustration includes only notes that would be in addition to or different from what is currently required by IFRSs.]

1. Basis for classification

Assets and liabilities that are associated directly with ToolCo's core operation of producing and selling hand and power tools are included in the operating category. This includes costs associated with materials, labour, overheads, maintaining production facilities, and performing selling, administrative, and executive activities. Associates that management considers similar or complementary business lines are also classified in the operating category. Revenues, expenses, gains, and losses are generally classified on the basis of their nature and function. However, some items are classified as "other operating" because management does not believe that presenting those items in one of the functional categories enhances the usefulness of the information in predicting future cash flows.

ToolCo also engages in activities that management does not consider core activities. Assets and liabilities associated with those activities are classified in the investing category. For the years ended 31 December 2009 and 2010, those activities were limited to investing in financial assets and investing in an associate doing business in an industry unrelated to the tool business.

Assets and liabilities associated with funding the operations of ToolCo, including debt and cash, are classified in the financing section. An item is classified in the financing section if it is interchangeable with other funding sources.

2. Information about noncash activities

In 2009, ToolCo entered into a capital lease in the amount of CU330,000 to finance the acquisition of new production equipment. ToolCo made a cash payment on the lease obligation of CU50,000 in 2010.

3. Maturity information for long-term contractual liabilities

The following table presents the contractual maturity amounts for ToolCo's long-term liabilities based on undiscounted future cash flows. The table reconciles those undiscounted amounts to the carrying amount included in the statement of financial position.

	2012	2013	2014	2015	2016	After 2016	Effect of discounting	Carrying amount
Lease liability (excluding current portion)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(60,610)	49,285	(261,325)
Decommissioning obligation	-	-	-	-	-	(60,000)	30,360	(29,640)
Long-term borrowings	(102,500)	(102,500)	(102,500)	(102,500)	(102,500)	(1,537,500)	-	(2,050,000)

4. Disaggregation of expenses by nature

The following table provides additional information about the nature of some expenses that appear in the statement of comprehensive income.

Additional Expenses by Nature	2010	2009
Cost of goods sold: Overhead—transport		
Wages (drivers)	38,592	43,200
Wages (maintenance)	25,728	27,000
Fuel	51,456	21,600
Materials	12,864	16,200
	128,640	108,000

5. Reconciliation of cash flows to comprehensive income

The schedules reconciling cash flows to comprehensive income for years ended 31 December 2009 and 2010, are provided on the following pages.

Illustration 1A: ToolCo Financial Statements
(Proposed Format)

RECONCILIATION OF CASH FLOWS TO COMPREHENSIVE INCOME

For the year ended 31 December 2009						
A	**B**	**C**	**D**	**E**	**F**	**G**
	Changes in Assets and Liabilities, Excluding Transactions with Owners					**Statement of Comprehensive Income**
	Not from Remeasurements		**From Remeasurements**			
Caption in Statement of Cash Flows	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Valuation Adjustments**	**All Other**	**Comprehensive Income (B+C+D+E)**	**Caption in Statement of Comprehensive Income**
BUSINESS						**BUSINESS**
Operating						**Operating**
Cash received from wholesale customers	1,928,798	662,602			2,591,400	Sales—wholesale
Cash received from retail customers	643,275	4,575			647,850	Sales—retail
Total cash collected from customers	*2,572,073*	*667,177*			*3,239,250*	*Total revenue*
Cash paid for goods						Cost of goods sold
Materials purchases	(785,000)	(140,000)			(925,000)	Materials
Labour	(475,313)	25,313			(450,000)	Labour
Pension	(157,500)	104,250	6,000		(47,250)	Pension
		(215,000)			(215,000)	Overhead—depreciation
Overhead—transport	(108,000)				(108,000)	Overhead—transport
Overhead—other	(27,000)				(27,000)	Overhead—other
		(46,853)			(46,853)	Change in inventory
				(9,500)	(9,500)	Loss on obsolete and damaged inventory
Total cash paid for goods	*(1,552,813)*	*(272,290)*	*6,000*	*(9,500)*	*(1,828,603)*	*Total cost of goods sold*
	1,019,260	*394,887*	*6,000*	*(9,500)*	*1,410,647*	*Gross profit*
Cash paid for selling activities						Selling expenses
Advertising	(75,000)	25,000			(50,000)	Advertising
Wages, salaries and benefits	(55,453)	2,953			(52,500)	Wages, salaries and benefits
		(15,034)			(15,034)	Bad debt
Other	(12,500)				(12,500)	Other
Total cash paid for selling activities	*(142,953)*	*12,919*			*(130,034)*	*Total selling expenses*
Cash paid for general and administrative activities						General and administrative expenses
Wages, salaries and benefits	(314,234)	16,734			(297,500)	Wages, salaries and benefits
Contributions to pension plan	(157,500)	104,250	6,000		(47,250)	Pension
Capital expenditures	(50,000)	50,000				
		(58,500)			(58,500)	Depreciation
Settlement of share-based remuneration	(3,335)	(8,665)	(5,000)		(17,000)	Share-based remuneration
Lease payments		(16,500)			(16,500)	Interest on lease liability
Research and development	(7,850)				(7,850)	Research and development
Other	(12,000)	(2,600)			(14,600)	Other
Total cash paid for general and admin. activities	*(544,919)*	*84,719*	*1,000*		*(459,200)*	*Total general and administrative expenses*
Cash flow before other operating activities	*331,388*	*492,525*	*7,000*	*(9,500)*	*821,413*	*Income before other operating items*
Cash from other operating activities						Other operating income (expense)
Investment in associate A	(120,000)	120,000		22,000	22,000	Share of profit of associate A
Sale of receivable	10,000	(10,000)		(2,025)	(2,025)	Loss on sale of receivable
Settlement of cash flow hedge	3,150	(550)	1,100		3,700	Realized gain on cash flow hedge
				(35,033)	(35,033)	Impairment loss on goodwill
Total cash paid for other operating activities	*(106,850)*	*109,450*	*1,100*	*(15,058)*	*(11,358)*	*Total other operating income*
Net cash from operating activities	**224,538**	**601,975**	**8,100**	**(24,558)**	**810,055**	**Total operating income**
Investing						**Investing**
Purchase of available-for-sale financial assets	(130,000)	130,000				
Sale of available-for-sale financial assets	51,000	(43,500)			7,500	Realized gain on available-for-sale financial assets
Dividends received	50,000				50,000	Dividend income
				3,250	3,250	Share of profit of associate B
Net cash from investing activities	**(29,000)**	**86,500**		**3,250**	**60,750**	**Total investing income**
NET CASH FROM BUSINESS ACTIVITIES	**195,538**	**688,475**	**8,100**	**(21,308)**	**870,805**	**TOTAL BUSINESS INCOME**
FINANCING						**FINANCING**
Interest received on cash	5,500				5,500	Interest income on cash
Total cash from financing assets	**5,500**				**5,500**	**Total financing asset income**
Proceeds from issue of short-term debt	150,000	(150,000)				
Proceeds from issue of long-term debt	250,000	(250,000)				
Interest paid	(82,688)	(27,563)			(110,250)	Interest expense
Dividends paid	(80,000)	80,000				
Total cash from financing liabilities	**237,312**	**(347,563)**			**(110,250)**	**Total financing liability expense**
NET CASH FROM FINANCING ACTIVITIES	**242,812**	**(347,563)**			**(104,750)**	**TOTAL NET FINANCING EXPENSE**
Change in cash from continuing operations before taxes and equity	*438,350*	*340,912*	*8,100*	*(21,308)*	*766,055*	*Profit from continuing operations before taxes and other comprehensive income*
INCOME TAXES						**INCOME TAXES**
Cash taxes paid	(193,786)	(101,480)			(295,266)	Income tax expense
Change in cash before discontinued operations and equity	*244,564*	*239,432*	*8,100*	*(21,308)*	*470,789*	*Net profit from continuing operations*
DISCONTINUED OPERATIONS						**DISCONTINUED OPERATIONS**
Cash paid from discontinued operations	(11,650)			(23,350)	(35,000)	Loss on discontinued operations
		12,250			12,250	Tax benefit
NET CASH FROM DISCONTINUED OPERATIONS	**(11,650)**	**12,250**		**(23,350)**	**(22,750)**	**NET LOSS FROM DISCONTINUED OPERATIONS**
Change in cash before equity	**232,914**	**251,682**	**8,100**	**(44,658)**	**448,039**	**NET PROFIT**
						OTHER COMPREHENSIVE INCOME (after tax)
			15,275		15,275	Unrealized gain on available-for-sale securities
			1,690		1,690	Unrealized gain on cash flow hedge
				(1,492)	(1,492)	Foreign currency translation adjust—consolidated sub.
				(1,300)	(1,300)	Foreign currency translation adjust—associate A
			16,965	**(2,792)**	**14,173**	**TOTAL OTHER COMPREHENSIVE INCOME**
Change in cash before equity	**232,914**	**251,682**	**25,065**	**(47,450)**	**462,212**	**TOTAL COMPREHENSIVE INCOME**

Illustration 1A: ToolCo Financial Statements
(Proposed Format)

RECONCILIATION OF CASH FLOWS TO COMPREHENSIVE INCOME

For the year ended 31 December 2010						
A	**B**	**C**	**D**	**E**	**F**	**G**
	Changes in Assets and Liabilities, Excluding Transactions with Owners					
	Not from Remeasurements		**From Remeasurements**			**Statement of Comprehensive Income**
Caption in Statement of Cash Flows	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Valuation Adjustments**	**All Other**	**Comprehensive Income (B+C+D+E)**	**Caption in Statement of Comprehensive Income**
BUSINESS						**BUSINESS**
Operating						**Operating**
Cash received from wholesale customers	2,108,754	681,326			2,790,080	Sales—wholesale
Cash received from retail customers	703,988	(6,467)			697,520	Sales—retail
Total cash collected from customers	*2,812,742*	*674,859*			*3,487,600*	*Total revenue*
Cash paid for goods						Cost of goods sold
Materials purchases	(935,544)	(107,556)			(1,043,100)	Materials
Labour	(418,966)	13,966			(405,000)	Labour
Pension	(170,100)	109,125	9,000		(51,975)	Pension
		(219,300)			(219,300)	Overhead—depreciation
Overhead—transport	(128,640)				(128,640)	Overhead—transport
Overhead—other	(32,160)				(32,160)	Overhead—other
		(60,250)			(60,250)	Change in inventory
				(29,000)	(29,000)	Loss on obsolete and damaged inventory
Total cash paid for goods	*(1,685,409)*	*(264,016)*	*9,000*	*(29,000)*	*(1,969,425)*	*Total cost of goods sold*
	1,127,333	*410,843*	*9,000*	*(29,000)*	*1,518,175*	*Gross profit*
Cash paid for selling activities						Selling expenses
Advertising	(65,000)	5,000			(60,000)	Advertising
Wages, salaries and benefits	(58,655)	1,955			(56,700)	Wages, salaries and benefits
		(23,068)			(23,068)	Bad debt
Other	(13,500)				(13,500)	Other
Total cash paid for selling activities	*(137,155)*	*(16,112)*			*(153,268)*	*Total selling expenses*
Cash paid for general and administrative activities						General and administrative expenses
Wages, salaries and benefits	(332,379)	11,079			(321,300)	Wages, salaries and benefits
Contributions to pension plan	(170,100)	109,125	9,000		(51,975)	Pension
Capital expenditures	(54,000)	54,000				
		(59,820)			(59,820)	Depreciation
Settlement of share-based remuneration	(3,602)	(12,171)	(6,250)		(22,023)	Share-based remuneration
Lease payments	(50,000)	35,175			(14,825)	Interest on lease liability
Research and development	(8,478)				(8,478)	Research and development
Other	(12,960)	(2,808)			(15,768)	Other
Total cash paid for general and admin. activities	*(631,519)*	*134,580*	*2,750*		*(494,189)*	*Total general and administrative expenses*
Cash flow before other operating activities	*358,657*	*529,311*	*11,750*	*(29,000)*	*870,718*	*Income before other operating items*
Cash from other operating activities						Other operating income (expense)
Disposal of property, plant and equipment	37,650	(15,000)			22,650	Gain on disposal of property, plant and equipment
Investment in associate A				23,760	23,760	Share of profit of associate A
Settlement of cash flow hedge	3,402	(594)	1,188		3,996	Realized gain on cash flow hedge
Sale of receivable	8,000	(8,000)		(4,987)	(4,987)	Loss on sale of receivable
Total cash received from other operating activities	*49,052*	*(23,594)*	*1,188*	*18,773*	*45,419*	*Total other operating income*
Net cash from operating activities	**407,709**	**505,717**	**12,938**	**(10,227)**	**916,137**	**Total operating income**
Investing						**Investing**
Dividends received	54,000				54,000	Dividend income
Sale of available-for-sale financial assets	56,100	(37,850)			18,250	Realized gain on available-for-sale financial assets
				7,500	7,500	Share of profit of associate B
Net cash from investing activities	**110,100**	**(37,850)**		**7,500**	**79,750**	**Total investing income**
NET CASH FROM BUSINESS ACTIVITIES	**517,809**	**467,867**	**12,938**	**(2,727)**	**995,887**	**TOTAL BUSINESS INCOME**
FINANCING						**FINANCING**
Interest received on cash	8,619				8,619	Interest income on cash
Total cash from financing assets	**8,619**				**8,619**	**Total financing asset income**
Dividends paid	(86,400)	86,400				
Interest paid	(83,514)	(27,838)			(111,352)	Interest expense
Proceeds from issuance of short-term debt	162,000	(162,000)				
Total cash from financing liabilities	**(7,914)**	**(103,438)**			**(111,352)**	**Total financing liability expense**
NET CASH FROM FINANCING ACTIVITIES	**705**	**(103,438)**			**(102,733)**	**TOTAL NET FINANCING EXPENSE**
Change in cash from continuing operations before taxes and equity	*518,514*	*364,429*	*12,938*	*(2,727)*	*893,154*	*Profit from continuing operations before taxes and other comprehensive income*
INCOME TAXES						**INCOME TAXES**
Cash taxes paid	(281,221)	(52,404)			(333,625)	Income tax expense
Change in cash before discontinued operations and equity	*237,293*	*312,025*	*12,938*	*(2,727)*	*559,529*	*Net profit from continuing operations*
DISCONTINUED OPERATIONS						**DISCONTINUED OPERATIONS**
Cash paid from discontinued operations	(12,582)			(19,818)	(32,400)	Loss on discontinued operations
		11,340			11,340	Tax benefit
NET CASH FROM DISCONTINUED OPERATIONS	**(12,582)**	**11,340**		**(19,818)**	**(21,060)**	**NET LOSS FROM DISCONTINUED OPERATIONS**
Change in cash before equity	**224,711**	**323,365**	**12,938**	**(22,545)**	**538,469**	**NET PROFIT**
						OTHER COMPREHENSIVE INCOME (after tax)
			17,193		17,193	Unrealized gain on available-for-sale securities
			1,825		1,825	Unrealized gain on cash flow hedge
				2,094	2,094	Foreign currency translation adjust—consolidated sub.
				(1,404)	(1,404)	Foreign currency translation adjust—associate A
			3,653		3,653	Revaluation surplus
			22,671	**690**	**23,361**	**TOTAL OTHER COMPREHENSIVE INCOME**
Change in cash before equity	**224,711**	**323,365**	**35,609**	**(21,855)**	**561,830**	**TOTAL COMPREHENSIVE INCOME**

Illustration 1B: Traditional Format

A.9. The following statements are included only to illustrate possible differences in the formats used for financial statements today (before the 2007 revision of IAS 1) and the proposed formats (Illustration 1A). The proposed format for the statement of changes in equity is the same as the revised format in IAS 1 that will become effective in periods beginning after 1 January 2009. Notes to financial statements are not included. For simplicity purposes, ToolCo's short-term investments are not considered to be cash equivalents.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December	
	2010	**2009**
Sales	3,487,600	3,239,250
Cost of goods sold	(1,969,425)	(1,828,603)
Gross profit	1,518,175	1,410,647
Selling, general and administrative expenses	(647,457)	(589,234)
Finance costs	(111,352)	(110,250)
Share of profit of associates	31,260	25,250
Other income	102,528	29,642
Profit from continuing operations before income taxes	**893,154**	**766,055**
Income tax expense	(333,625)	(295,266)
Net profit from continuing operations	**559,529**	**470,789**
Net loss from discontinued operations	**(21,060)**	**(22,750)**
Net profit	**538,469**	**448,039**
Basic earnings per share	7.07	6.14
Diluted earnings per share	6.85	5.96

A.10. The above income statement presents ToolCo's expenses by function. IAS 1 requires an entity classifying expenses by function to disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.

Illustration 1B: ToolCo Financial Statements
(Traditional Format)

CONSOLIDATED BALANCE SHEET

	As at 31 December	
	2010	**2009**
ASSETS		
Non-current assets		
Property, plant and equipment, net	2,845,080	3,065,000
Investments accounted for using equity method	308,350	279,250
Goodwill and other intangible assets	189,967	189,967
Deferred tax assets	44,259	89,067
Total non-current assets	3,387,656	3,623,284
Current assets		
Cash	1,174,102	861,941
Accounts receivable, net	922,036	527,841
Inventory	679,474	767,102
Available-for-sale financial assets	473,600	485,000
Held-for-sale assets	856,832	876,650
Other current assets	86,552	78,150
Total current assets	4,192,596	3,596,684
TOTAL ASSETS	**7,580,252**	**7,219,968**
EQUITY AND LIABILITIES		
Equity		
Share capital	(1,427,240)	(1,343,000)
Reserves	(162,534)	(139,173)
Retained earnings	(1,100,358)	(648,289)
Total equity	**(2,690,132)**	**(2,130,462)**
Non-current liabilities		
Borrowings	(2,050,000)	(2,050,000)
Provisions for pensions and similar obligations	(293,250)	(529,500)
Other non-current liabilities	(294,813)	(312,600)
Total non-current liabilities	(2,638,063)	(2,892,100)
Current liabilities		
Borrowings	(562,000)	(400,000)
Accounts payable, trade	(612,556)	(505,000)
Advances from customers	(182,000)	(425,000)
Income taxes payable	(72,514)	(63,679)
Liabilities directly associated with non-current assets classified as held-for-sale	(400,000)	(400,000)
Other current liabilities	(422,987)	(403,727)
Total current liabilities	(2,252,057)	(2,197,406)
Total liabilities	**(4,890,120)**	**(5,089,506)**
TOTAL EQUITY AND LIABILITIES	**(7,580,252)**	**(7,219,968)**

Illustration 1B: ToolCo Financial Statements (Traditional Format)

CONSOLIDATED CASH FLOW STATEMENT

	For the year ended 31 December	
	2010	**2009**
OPERATING ACTIVITIES		
Net profit	538,469	448,039
Adjustment to reconcile net profit to cash flow from operating activities of continuing operations:		
Gain on sales of investments	(18,250)	(7,500)
Income from investments	(31,260)	(25,250)
Realized gain on cash flow hedge	(3,996)	(3,700)
Gain on sales and disposals of property, plant and equipment	(22,650)	-
Loss on discontinued operations, net	21,060	22,750
Depreciation and amortization	279,120	273,500
Other noncash expenses	54,066	61,417
Changes in selected working capital items		
Increase in trade and other receivables	(417,267)	(429,638)
Decrease in inventory	60,250	46,853
Decrease in advances from customers	(244,605)	(225,514)
Increase in trade payables	80,556	95,000
Changes in other assets and liabilities	(143,452)	(85,542)
NET CASH FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS	**152,041**	**170,415**
NET CASH (USED IN) OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	**(12,582)**	**(11,650)**
NET CASH FROM OPERATING ACTIVITIES	**139,459**	**158,765**
INVESTING ACTIVITIES		
Capital expenditures	(54,000)	(50,000)
Proceeds from disposal of property, plant and equipment	37,650	-
Purchase of available-for-sale financial assets	-	(130,000)
Proceeds from sales of available-for-sale financial assets	56,100	51,000
Settlement of cash flow hedge	3,402	3,150
Purchase of investment in associate A	-	(120,000)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**43,152**	**(245,850)**
FINANCING ACTIVITIES		
Proceeds from issue of short-term debt	162,000	150,000
Proceeds from issue of long-term debt	-	250,000
Cash dividends paid	(86,400)	(80,000)
Proceeds from reissue of treasury stock	84,240	78,000
Cash paid on lease liability	(33,500)	-
NET CASH FROM FINANCING ACTIVITIES	**126,340**	**398,000**
Effect of foreign exchange rates on cash	3,209	1,027
NET INCREASE IN CASH	**312,161**	**311,941**
Cash at beginning of the year	**861,941**	**550,000**
Cash at end of the year	**1,174,102**	**861,941**

Illustration 1B: ToolCo Financial Statements (Traditional Format)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Retained earnings	Foreign currency translation adjustment	Other reserves	Total equity
Balance at 31 December 2008	**1,265,000**	**280,250**	**87,200**	**37,800**	**1,670,250**
Changes in equity for 2009, net of tax					
Unrealized gain on available-for-sale financial assets				15,275	15,275
Unrealized gain on cash flow hedge				1,690	1,690
Exchange differences on translating foreign operations			(2,792)		(2,792)
Net profit recognized directly in equity			(2,792)	16,965	14,173
Profit for the period		448,039			448,039
Total recognized income and expenses for the period		448,039	(2,792)	16,965	462,212
Issue of share capital	78,000				78,000
Dividends paid		(80,000)			(80,000)
Balance at 31 December 2009	**1,343,000**	**648,289**	**84,408**	**54,765**	**2,130,462**
Changes in equity for 2010, net of tax					
Gains on property revaluation				3,653	3,653
Unrealized gain on available-for-sale financial assets				17,193	17,193
Unrealized gain on cash flow hedge				1,825	1,825
Exchange differences on translating foreign operations			690		690
Net profit recognized directly in equity			690	22,671	23,361
Profit for the period		538,469			538,469
Total recognized income and expenses for the period		538,469	690	22,671	561,830
Issue of share capital	84,240				84,240
Dividends paid		(86,400)			(86,400)
Balance at 31 December 2010	**1,427,240**	**1,100,358**	**85,098**	**77,436**	**2,690,132**

Illustration 2: Bank Corp

A.11. The following general business overview is included to provide general information about Bank Corporation (Bank Corp) that one might know by reading a complete set of financial statements and accompanying information, such as a management's discussion and analysis.

General Business Overview

A.12. Bank Corp is a U.S.-based financial holding company that conducts its business operations primarily through its commercial bank subsidiary, Branch Bank. In addition, Bank Corp has several nonbank subsidiaries that offer financial services products. Bank Corp's financial statements are prepared in accordance with U.S. generally accepted accounting principles. Bank Corp's reporting currency is currency units (CU).

Loans

A.13. Bank Corp specializes in commercial lending to small and medium-sized businesses, consumer lending, mortgage lending, and specialized lending with an overall goal of maximizing the profitability of the loan portfolio while maintaining strong asset quality. Substantially all of the loans by Bank Corp's bank and nonbank subsidiaries are to businesses and individuals across the United States.

A.14. The recent growth in the loan portfolio was primarily a result of strong internal growth in the commercial and industrial lending portfolio, as well as growth in the mortgage and specialized lending portfolios. Management views mortgage loans as an integral part of Bank Corp's relationship-based credit culture. Bank Corp is a large originator of residential mortgage loans. To improve the overall yield of the loan portfolio and to mitigate interest rate risk, Bank Corp sells most of its fixed-rate mortgage loans and some of its adjustable-rate mortgage loans in the secondary market.

Deposits

A.15. Recently, categories of deposits with the highest growth rates were time deposits and demand deposits.

Other Funding Sources

A.16. Short-term borrowings include federal funds purchased. Bank Corp also used long-term debt for a significant portion of its funding needs.

A.17. Bank Corp uses long-term debt to provide both funding and regulatory capital. Bank Corp has issued floating-rate instruments and has used several interest rate swaps to convert some of its fixed-rate long-term debt, in effect, from fixed rates to floating rates.

Securities

A.18. The securities portfolio includes trading securities and available-for-sale securities. The securities portfolio provides earnings and liquidity and is managed as part of the overall asset and liability management process to optimize net interest income and reduce exposure to interest rate risk. Management has historically emphasized investments with durations of five years or less to provide flexibility in managing Bank Corp's assets and liabilities in changing interest rate environments. Management believes that the high concentration of securities in the available-for-sale portfolio allows flexibility in the day-to-day management of the overall investment portfolio, consistent with the objectives of optimizing profitability and mitigating interest rate risk. The available-for-sale securities portfolio is primarily composed of U.S. government-sponsored entity obligations and mortgage-backed securities issued by U.S. government-sponsored entities.

A.19. The fair value of the available-for-sale portfolio at year-end 2010 was lower than the amortized cost of those securities. The resulting net unrealized losses are not considered other-than-temporary impairments and thus are presented in other comprehensive income.

Asset Quality and Credit Risk Management

A.20. During 2010, Bank Corp's credit quality remained stable despite a challenging economic environment.

Provision for Income Taxes

A.21. Bank Corp has extended credit to, and invested in, the obligations of states and municipalities and their agencies and has made other investments and loans that produce tax-exempt income. The income generated from these investments, together with some other transactions that have favorable tax treatment, have reduced Bank Corp's overall effective tax rate from the statutory rate in 2010 and 2009.

Derivatives

A.22. Bank Corp uses derivative instruments to manage risk related to securities, business loans, federal funds purchased, long-term debt, and certificates of deposit. These instruments primarily consist of interest-rate swaps, swaptions, caps, floors, collars, financial forward and futures contracts, when-issued securities, and options written and purchased. On December 31, 2010, Bank Corp's derivative financial instruments outstanding primarily represent cash flow hedges of business loans.

Illustration 2A: Proposed Format

A.23. The proposed financial statements for Bank Corp include all of the required sections, categories, headings, and subtotals and present activity in each of those sections and categories to provide a visual complement so the reader can better understand the Boards' preliminary views. Required subtotals are presented in **bold type** in Bank Corp's proposed financial statements; optional subtotals are in *italic type*.

Illustration 2A: Bank Corp Financial Statements (Proposed Format)

STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31, 2010	2009
BUSINESS		
Operating		
Interest income		
Loans, including fees	220,320	204,000
Available-for-sale securities	23,539	21,795
Trading securities	1,399	1,295
Interest expense		
Time deposits	(46,296)	(41,170)
Savings deposits	(21,644)	(20,290)
Interest checking deposits	(564)	(414)
Net interest income	*176,754*	*165,217*
Provision for credit losses	(12,853)	(11,922)
Net interest income after provision for credit losses	*163,901*	*153,295*
Noninterest operating income (expense)		
Service charges on deposits	32,079	31,033
Mortgage banking revenue	7,907	8,931
Earnings in affiliate A	3,780	3,500
Other nondeposit fees and commissions	3,000	2,000
Realized gain on trading securities, net	2,313	3,890
Realized gain on available-for-sale securities, net	2,160	2,000
Other noninterest income	1,500	1,000
Realized gain on derivatives	400	370
Wages, salaries and benefits	(38,000)	(35,000)
Share-based compensation expense	(36,172)	(17,000)
Transaction processing expense	(24,000)	(25,000)
Occupancy expense	(6,860)	(7,000)
Depreciation expense	(6,400)	(5,850)
Loss on sale of loans	(4,960)	(2,000)
Amortization of core deposit intangible	(2,658)	(3,544)
Litigation expense	(1,998)	(1,850)
Other noninterest expense	(1,800)	(1,200)
Impairment loss on goodwill	-	(9,000)
Total noninterest operating expense	*(69,709)*	*(54,720)*
Total operating income	**94,192**	**98,575**
Investing		
Dividend income from investment in company B	2,700	2,500
Fair value change in investment in company B	(7,500)	3,250
Total investing income	**(4,800)**	**5,750**
TOTAL BUSINESS INCOME	**89,392**	**104,325**
FINANCING		
Interest income on federal funds sold	3,672	3,400
Total financing asset income	**3,672**	**3,400**
Interest expense on long-term debt	(47,127)	(44,457)
Interest expense on federal funds purchased	(19,224)	(17,800)
Total financing liability expense	**(66,351)**	**(62,257)**
TOTAL NET FINANCING EXPENSE	**(62,679)**	**(58,857)**
Income before taxes and other comprehensive income	*26,713*	*45,468*
INCOME TAXES		
Income tax expense	(9,274)	(19,137)
NET INCOME	**17,439**	**26,331**
OTHER COMPREHENSIVE INCOME (after tax)		
Unrealized gain on derivatives (operating)	281	260
Unrealized gain (loss) on available-for-sale securities, net (operating)	(49,920)	43,000
Foreign currency translation adjustment—affiliate A (operating)	(540)	(500)
TOTAL OTHER COMPREHENSIVE INCOME	**(50,179)**	**42,760**
TOTAL COMPREHENSIVE INCOME	**(32,740)**	**69,091**
Earnings (loss) per common share	0.17	0.26
Earnings (loss) per common share assuming dilution	0.16	0.24

Illustration 2A: Bank Corp Financial Statements (Proposed Format)

STATEMENT OF FINANCIAL POSITION

	As of December 31, 2010	2009
BUSINESS		
Operating		
Assets		
Cash	22,871	25,993
Advances and loans to banks	15,203	10,279
Trading securities at fair value	34,022	32,685
Available-for-sale securities at fair value	653,636	744,812
Derivatives at fair value, net	655	315
Loans, net of unearned income	3,874,389	3,883,029
Less allowance for loan losses	(37,947)	(38,054)
Loans, net	3,836,442	3,844,975
Interest receivable on loans	180,570	79,000
Premises and equipment	225,000	200,000
Less accumulated depreciation	(29,750)	(23,350)
Premises and equipment, net	195,250	176,650
Investment in affiliate A	53,240	50,000
Goodwill	81,330	81,330
Core deposit intangible	2,835	5,493
Total operating assets	*5,076,054*	*5,051,532*
Liabilities		
Noninterest-bearing deposits	(670,717)	(646,217)
Interest checking deposits	(78,282)	(71,743)
Savings deposits	(1,330,728)	(1,272,439)
Time deposits	(1,190,039)	(1,112,869)
Total deposit liabilities	*(3,269,767)*	*(3,103,268)*
Accrued interest payable	(68,503)	(61,873)
Wages payable	(10,500)	(7,500)
Share-based compensation liability	(95,672)	(59,500)
Litigation provision	(3,848)	(1,850)
Total operating liabilities	*(3,448,290)*	*(3,233,991)*
Net operating assets	**1,627,764**	**1,817,542**
Investing		
Investment in company B at fair value	31,750	39,250
Total investing assets	**31,750**	**39,250**
NET BUSINESS ASSETS	**1,659,514**	**1,856,792**
FINANCING		
Assets		
Federal funds sold	45,800	35,000
Total financing assets	**45,800**	**35,000**
Liabilities		
Federal funds purchased	(404,704)	(376,300)
Dividends payable	(20,000)	(20,000)
Long-term debt	(820,673)	(923,547)
Total financing liabilities	**(1,245,377)**	**(1,319,847)**
NET FINANCING LIABILITIES	**(1,199,577)**	**(1,284,847)**
INCOME TAXES		
Deferred tax asset	32,159	33,086
Income taxes payable	(2,087)	(4,306)
NET INCOME TAX ASSET	**30,072**	**28,781**
NET ASSETS	*490,009*	*600,726*
EQUITY		
Common stock (CU.25 par, 500,000 authorized, 100,000 issued and outstanding in both years)	(25,000)	(25,000)
Additional paid-in capital	(105,642)	(101,025)
Treasury stock (47,400 shares in 2009, 3,019 shares sold in 2010)	55,918	59,725
Retained earnings	(347,004)	(415,966)
Accumulated other comprehensive income, net	(68,281)	(118,460)
TOTAL EQUITY	**(490,009)**	**(600,726)**
TOTAL ASSETS	**5,185,763**	**5,158,869**
TOTAL LIABILITIES	**(4,695,754)**	**(4,558,143)**

Illustration 2A: Bank Corp Financial Statements (Proposed Format)

STATEMENT OF CASH FLOWS

	For the year ended December 31, 2010	2009
BUSINESS		
Operating		
Cash received from deposits, net		
Savings deposits	38,000	40,000
Time deposits	36,000	30,000
Noninterest-bearing deposits	24,500	25,000
Interest checking deposits	6,126	5,620
Cash received from loans		
Interest	118,750	125,000
Principal	86,400	80,000
Cash interest received from available-for-sale securities	11,875	12,500
Cash received from trading securities	2,375	2,500
Cash paid for loan originations	(103,680)	(96,000)
Cash paid for advances and loans to banks, net	(4,924)	(406)
Total cash from lending and deposits	*215,422*	*224,214*
Cash received from (paid for) noninterest operating activities		
Sale (purchase) of available-for-sale securities	55,080	(79,000)
Service charges on deposits	32,079	31,033
Sale of loans	8,000	10,000
Mortgage banking revenue	7,907	8,931
Other nondeposit fees and commissions	3,000	2,000
Other noninterest income	1,500	1,000
Settlement of derivatives	340	315
Wages, salaries and benefits	(35,000)	(30,000)
Purchase of equipment	(25,000)	(25,000)
Transaction processing expense	(24,000)	(25,000)
Occupancy expense	(6,860)	(7,000)
Other noninterest expense	(1,800)	(1,200)
Investment in affiliate A	-	(12,000)
Total cash from noninterest operating activities	*15,246*	*(125,921)*
Net cash from operating activities	**230,668**	**98,293**
Investing		
Cash dividends received from investment in company B	2,700	2,500
Net cash from investing activities	**2,700**	**2,500**
NET CASH FROM BUSINESS ACTIVITIES	**233,368**	**100,793**
FINANCING		
Cash provided for federal funds sold	(7,128)	(6,600)
Total cash from financing assets	**(7,128)**	**(6,600)**
Cash received from federal funds purchased, net	9,180	8,500
Proceeds from issuance of long-term debt	-	135,780
Cash paid for borrowings	(150,000)	(150,000)
Cash dividends paid	(86,400)	(80,000)
Total cash from financing liabilities	**(227,220)**	**(85,720)**
NET CASH FROM FINANCING ACTIVITIES	**(234,348)**	**(92,320)**
Change in cash before taxes and equity	*(980)*	*8,473*
INCOME TAXES		
Cash taxes paid	(10,566)	(15,667)
Change in cash before equity	*(11,546)*	*(7,194)*
EQUITY		
Proceeds from reissuance of treasury stock	8,424	7,800
NET CASH FROM EQUITY	**8,424**	**7,800**
CHANGE IN CASH	**(3,122)**	**606**
Beginning cash	**25,993**	**25,387**
Ending cash	**22,871**	**25,993**

Illustration 2A: Bank Corp Financial Statements (Proposed Format)

STATEMENT OF CHANGES IN EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Foreign Currency Translation Adjustment on Affiliate A	Unrealized Gain on Derivatives	Unrealized Gain on Available-for-Sale Securities	Total Equity
Balance at Dec. 31, 2008	**25,000**	**96,750**	**(63,250)**	**469,634**	**1,000**	**2,700**	**72,000**	**603,834**
Issue of share capital		4,275	3,525					7,800
Dividends				(80,000)				(80,000)
Total comprehensive income				26,331	(500)	260	43,000	69,091
Balance at Dec. 31, 2009	**25,000**	**101,025**	**(59,725)**	**415,966**	**500**	**2,960**	**115,000**	**600,726**
Issue of share capital		4,617	3,807					8,424
Dividends				(86,400)				(86,400)
Total comprehensive income				17,439	(540)	281	(49,920)	(32,740)
Balance at Dec. 31, 2010	**25,000**	**105,642**	**(55,918)**	**347,004**	**(40)**	**3,241**	**65,080**	**490,009**

Notes to Financial Statements

[This is not a comprehensive set of notes to financial statements. This illustration includes only notes that would be in addition to or different from what is currently required by U.S. GAAP.]

1. Basis for classification

Assets and liabilities that directly relate to Bank Corp's core operating business of commercial and consumer lending are classified in the "Operating" category of the "Business" section. Operating assets include loans, as well as trading and available-for-sale securities that in management's view optimize business profitability. Derivatives that mitigate interest rate risk, such as future contracts used for cash flow hedges that relate to hedging the variability in interest cash flows on fixed rate loans receivable, are also considered operating. Management views Bank Corp's investment in affiliate A as an operating asset because the affiliate's business is closely related to Bank Corp's core business. Operating liabilities are primarily composed of customer deposit accounts and accrued compensation for the employees of Bank Corp.

Bank Corp has an investment in company B that management views as an investment without significant control. Company B is a real estate management firm, whose operations are not directly related to Bank Corp's core business. The investment in company B is presented at its fair value in the investing category in the statement of financial position.

Assets and liabilities associated with funding the operations of Bank Corp, including long-term debt, federal funds purchased and sold, and dividends payable, are classified as financing because management considers these items interchangeable with other funding sources.

2. Information about noncash activities

In 2009, Bank Corp had an unrealized gain of CU43,000 on available-for-sale securities. In 2010, Bank Corp had an unrealized loss of CU49,920 on available-for-sale securities. The significant change between gain and loss was attributable to volatilities in the market for those securities.

3. Maturity information for contractual assets and liabilities

The following table provides maturity amounts for Bank Corp's contractual assets and liabilities. Short-term liabilities are mainly customer deposits. Long-term assets consist of loans, and long-term liabilities only consist of long-term debt. The amounts presented below are undiscounted and do not include any interest payable or interest receivable.

Maturity Schedule of Contractual Assets and Liabilities (Year Ended December 31, 2010)

	On Demand	Three Months or Less	Three to Twelve Months	Over One Year through Three Years	Over Three Years through Five Years	Over Five Years through Fifteen Years	Over Fifteen Years	Carrying Amount
Assets								
Loans, net of unearned income		38,744	116,232	232,463	387,439	1,162,317	1,937,194	3,874,389
Liabilities								
Noninterest-bearing deposits	(670,717)							(670,717)
Interest checking deposits	(78,282)							(78,282)
Savings deposits	(1,330,728)							(1,330,728)
Time deposits		(416,514)	(654,522)	(95,203)	(23,801)			(1,190,039)
Long-term debt		(82,067)	(41,034)	(123,101)	(246,202)	(328,269)		(820,673)

4. Reconciliation of cash flows to comprehensive income

The schedules reconciling cash flows to comprehensive income for years ended December 31, 2009 and 2010, are provided on the following pages. In the unusual/infrequent events column:

a. The impairment of goodwill in 2009 relates to the erosion of the brand value of a mortgage origination subsidiary that was purchased in 2008. The impairment loss represents the entire carrying amount for goodwill related to that subsidiary.
b. The share-based compensation in 2010 for the incoming CEO is considered an infrequent transaction because of the tenure and longevity historically experienced by members of our executive team.

Illustration 2A: Bank Corp Financial Statements
(Proposed Format)

RECONCILIATION OF CASH FLOWS TO COMPREHENSIVE INCOME
For the year ended December 31, 2009

A	B	C	D	E	F	G	
	Changes in Assets and Liabilities, Excluding Transactions with Owners						**Unusual / Infrequent**
	Not from Remeasurements		**From Remeasurements**			**Statement of Comprehensive Income**	
Caption in Statement of Cash Flows	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Fair Value Changes**	**All Other**	**Comprehensive Income (B+C+D+E)**	**Caption in Statement of Comprehensive Income**	
BUSINESS						**BUSINESS**	
Operating						**Operating**	
Cash received from deposits, net							
Savings deposits	40,000	(40,000)					
Time deposits	30,000	(30,000)					
Noninterest-bearing deposits	25,000	(25,000)					
Interest checking deposits	5,620	(5,620)					
Cash received from loans						Interest income	
Interest	125,000	79,000			204,000	Loans, including fees	
Principal	80,000	(80,000)					
Cash interest received from available-for-sale securities	12,500	9,295			21,795	Available-for-sale securities	
Cash received from trading securities	2,500	(1,205)			1,295	Trading securities	
						Interest expense	
		(41,170)			(41,170)	Time deposits	
		(20,290)			(20,290)	Savings deposits	
		(414)			(414)	Interest checking deposits	
Cash paid for loan originations	(96,000)	96,000					
Cash paid for advances and loans to banks, net	(406)	406					
Total cash from lending and deposits	*224, 214*	*(58,997)*			*165,217*	*Net interest income*	
		(11,922)			(11,922)	Provision for credit losses	
	224,214	*(70,919)*			*153,295*	*Net interest income after provision for credit losses*	
Cash received from (paid for) noninterest operating activities						Noninterest operating income (expense)	
Purchase of available-for-sale securities	(79,000)	80,000	1,000		2,000	Realized gain on available-for-sale securities, net	
Service charges on deposits	31,033				31,033	Service charges on deposits	
Sale of loans	10,000	(10,000)		(2,000)	(2,000)	Loss on sale of loans	
Mortgage banking revenue	8,931				8,931	Mortgage banking revenue	
Other nondeposit fees and commissions	2,000				2,000	Other nondeposit fees and commissions	
Other noninterest income	1,000				1,000	Other noninterest income	
Settlement of derivatives	315	(55)	110		370	Realized gain on derivatives	
Wages, salaries and benefits	(30,000)	(5,000)			(35,000)	Wages, salaries and benefits	
Purchase of equipment	(25,000)	25,000					
Transaction processing expense	(25,000)				(25,000)	Transaction processing expense	
Investment in affiliate A	(12,000)	12,000		3,500	3,500	Earnings in affiliate A	
Occupancy expense	(7,000)				(7,000)	Occupancy expense	
Other noninterest expense	(1,200)				(1,200)	Other noninterest expense	
			3,890		3,890	Realized gain on trading securities, net	
		(5,850)			(5,850)	Depreciation expense	
		(12,000)	(5,000)		(17,000)	Share-based compensation expense	
		(3,544)			(3,544)	Amortization of core deposit intangible	
		(1,850)			(1,850)	Litigation expense	
				(9,000)	(9,000)	Impairment loss on goodwill	(9,000)
Total cash from noninterest operating activities	*(125,921)*	*78,701*	*0*	*(7,500)*	*(54,720)*	*Total noninterest operating expense*	
Net cash from operating activities	**98,293**	**7,782**	**0**	**(7,500)**	**98,575**	**Total operating income**	
Investing						**Investing**	
			3,250		3,250	Fair value change in investment in company B	
Cash dividends rec'd from investment in company B	2,500				2,500	Dividend income from investment in company B	
Net cash from investing activities	**2,500**		**3,250**		**5,750**	**Total investing income**	
NET CASH FROM BUSINESS ACTIVITIES	**100,793**	**7,782**	**3,250**	**(7,500)**	**104,325**	**TOTAL BUSINESS INCOME**	
FINANCING						**FINANCING**	
Cash provided for federal funds sold	(6,600)	10,000			3,400	Interest income on federal funds sold	
Total cash from financing assets	**(6,600)**	**10,000**			**3,400**	**Total financing asset income**	
Proceeds from issuance of long-term debt	135,780	(135,780)					
Cash received from federal funds purchased, net	8,500	(26,300)			(17,800)	Interest expense on federal funds purchased	
Cash paid for borrowings	(150,000)	105,543			(44,457)	Interest expense on long-term debt	
Cash dividends paid	(80,000)	80,000					
Total cash from financing liabilities	**(85,720)**	**23,463**			**(62,257)**	**Total financing liability expense**	
NET CASH FROM FINANCING ACTIVITIES	**(92,320)**	**33,463**			**(58,857)**	**TOTAL NET FINANCING EXPENSE**	
Change in cash before taxes and equity	*8,473*	*41,245*	*3,250*	*(7,500)*	*45,468*	*Income before taxes and other comprehensive income*	
INCOME TAXES						**INCOME TAXES**	
Cash taxes paid	(15,667)	(3,469)			(19,137)	Income tax expense	
Change in cash before equity	**(7,194)**	**37,776**	**3,250**	**(7,500)**	**26,331**	**NET INCOME**	
						OTHER COMPREHENSIVE INCOME (after tax)	
				(500)	(500)	Foreign currency translation adjust—affiliate A	
			43,000		43,000	Unrealized gain on available-for-sale securities, net	
			260		260	Unrealized gain on derivatives	
			43,260	**(500)**	**42,760**	**TOTAL OTHER COMPREHENSIVE INCOME**	
Change in cash before equity	**(7,194)**	**37,776**	**46,510**	**(8,000)**	**69,091**	**TOTAL COMPREHENSIVE INCOME**	

Illustration 2A: Bank Corp Financial Statements
(Proposed Format)

RECONCILIATION OF CASH FLOWS TO COMPREHENSIVE INCOME
For the year ended December 31, 2010

A	B	C	D	E	F	G	
	Changes in Assets and Liabilities, Excluding Transactions with Owners						**Unusual / Infrequent**
	Not from Remeasurements		**From Remeasurements**			**Statement of Comprehensive Income**	
Caption in Statement of Cash Flows	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Fair Value Changes**	**All Other**	**Comprehensive Income (B+C+D+E)**	**Caption in Statement of Comprehensive Income**	
BUSINESS						**BUSINESS**	
Operating						**Operating**	
Cash received from deposits, net							
Savings deposits	38,000	(38,000)					
Time deposits	36,000	(36,000)					
Noninterest-bearing deposits	24,500	(24,500)					
Interest checking deposits	6,126	(6,126)					
Cash received from loans						Interest income	
Interest	118,750	101,570			220,320	Loans, including fees	
Principal	86,400	(86,400)					
Cash interest received from available-for-sale securities	11,875	11,664			23,539	Available-for-sale securities	
Cash received from trading securities	2,375	(976)			1,399	Trading securities	
						Interest expense	
		(46,296)			(46,296)	Time deposits	
		(21,644)			(21,644)	Savings deposits	
		(564)			(564)	Interest checking deposits	
Cash paid for loan originations	(103,680)	103,680					
Cash paid for advances and loans to banks, net	(4,924)	4,924					
Total cash from lending and deposits	*215,422*	*(38,668)*			*176,754*	*Net interest income*	
		(12,853)			(12,853)	Provision for credit losses	
	215,422	*(51,521)*			*163,901*	*Net interest income after provision for credit losses*	
Cash received from (paid for) noninterest operating activities						Noninterest operating income	
Sale of available-for-sale securities	55,080	(54,000)	1,080		2,160	Realized gain on available-for-sale securities, net	
Service charges on deposits	32,079				32,079	Service charges on deposits	
Sale of loans	8,000	(8,000)		(4,960)	(4,960)	Loss on sale of loans	
Mortgage banking revenue	7,907				7,907	Mortgage banking revenue	
Other nondeposit fees and commissions	3,000				3,000	Other nondeposit fees and commissions	
Other noninterest income	1,500				1,500	Other noninterest income	
Settlement of derivatives	340	(59)	119		400	Realized gain on derivatives	
Wages, salaries and benefits	(35,000)	(3,000)			(38,000)	Wages, salaries and benefits	
Purchase of equipment	(25,000)	25,000					
Transaction processing expense	(24,000)				(24,000)	Transaction processing expense	
Occupancy expense	(6,860)				(6,860)	Occupancy expense	
Other noninterest expense	(1,800)				(1,800)	Other noninterest expense	
Investment in affiliate A				3,780	3,780	Earnings in affiliate A	
			2,313		2,313	Realized gain on trading securities, net	
		(29,922)	(6,250)		(36,172)	Share-based compensation expense	(10,000)
		(2,658)			(2,658)	Amortization of core deposit intangible	
		(6,400)			(6,400)	Depreciation expense	
		(1,998)			(1,998)	Litigation expense	
Total cash from noninterest operating activities	*15,246*	*(81,037)*	*(2,738)*	*(1,180)*	*(69,709)*	*Total noninterest operating income*	
Net cash from operating activities	**230,668**	**(132,558)**	**(2,738)**	**(1,180)**	**94,192**	**Total operating income**	
Investing						**Investing**	
			(7,500)		(7,500)	Fair value change in investment in company B	
Cash dividends received from investment in B	2,700				2,700	Dividend income from investment in company B	
Net cash from investing activities	**2,700**		**(7,500)**		**(4,800)**	**Total investing income**	
NET CASH FROM BUSINESS ACTIVITIES	**233,368**	**(132,558)**	**(10,238)**	**(1,180)**	**89,392**	**TOTAL BUSINESS INCOME**	
FINANCING						**FINANCING**	
Cash provided for federal funds sold	(7,128)	10,800			3,672	Interest income on federal funds sold	
Total cash from financing assets	**(7,128)**	**10,800**			**3,672**	**Total financing asset income**	
Cash received from federal funds purchased, net	9,180	(28,404)			(19,224)	Interest expense on federal funds purchased	
Cash paid for borrowings	(150,000)	102,873			(47,127)	Interest expense on long-term debt	
Cash dividends paid	(86,400)	86,400					
Total cash from financing liabilities	**(227,220)**	**160,869**			**(66,351)**	**Total financing liability expense**	
NET CASH FROM FINANCING ACTIVITIES	**(234,348)**	**171,669**			**(62,679)**	**TOTAL NET FINANCING EXPENSE**	
Cash flows before taxes and equity	*(980)*	*39,111*	*(10,238)*	*(1,180)*	*26,713*	*Income before taxes and other comprehensive income*	
INCOME TAXES						**INCOME TAXES**	
Cash taxes paid	(10,566)	1,292			(9,274)	Income tax expense	
Change in cash before equity	**(11,546)**	**40,403**	**(10,238)**	**(1,180)**	**17,439**	**NET INCOME**	
						OTHER COMPREHENSIVE INCOME (after tax)	
				(540)	(540)	Foreign currency translation adjust—affiliate A	
			(49,920)		(49,920)	Unrealized loss on available-for-sale securities, net	
			281		281	Unrealized gain on derivatives	
			(49,639)	**(540)**	**(50,179)**	**TOTAL OTHER COMPREHENSIVE INCOME**	
Change in cash before equity	**(11,546)**	**40,403**	**(59,877)**	**(1,720)**	**(32,740)**	**TOTAL COMPREHENSIVE INCOME**	

Illustration 2B: Traditional Format

A.24. The following statements are included only to illustrate possible differences in the formats used for financial statements today and the proposed formats (Illustration 2A). Notes to financial statements are not included.

CONSOLIDATED INCOME STATEMENT

	For the year ended December 31,	
	2010	**2009**
Interest income		
Interest and fees on loans	220,320	204,000
Interest on available-for-sale securities	23,539	21,795
Interest on federal funds sold	3,672	3,400
Interest on trading securities	1,399	1,295
Total interest income	248,929	230,490
Interest expense		
Interest on deposits	(68,503)	(61,873)
Interest on long-term debt	(47,127)	(44,457)
Interest on federal funds purchased	(19,224)	(17,800)
Total interest expense	(134,854)	(124,130)
Net interest income	**114,075**	**106,360**
Provision for credit losses	(12,853)	(11,922)
Net interest income after provision for credit losses	**101,222**	**94,438**
Noninterest income		
Service charges on deposits	32,079	31,033
Mortgage banking revenue	7,907	8,931
Realized gains on trading securities, net	2,713	4,260
Realized gain on available-for-sale securities, net	2,160	2,000
Other	10,980	9,000
Total noninterest income	55,839	55,224
Noninterest expense		
Personnel expense	(87,432)	(64,850)
Fair value change in investment in company B	(7,500)	3,250
Impairment loss on goodwill	-	(9,000)
Other	(35,416)	(33,594)
Total noninterest expense	(130,348)	(104,194)
Income before tax expense	**26,713**	**45,468**
Income tax expense	(9,274)	(19,137)
NET INCOME	**17,439**	**26,331**
Basic earnings per share	0.17	0.26
Diluted earnings per share	0.16	0.24

Illustration 2B: Bank Corp Financial Statements (Traditional Format)

CONSOLIDATED BALANCE SHEET

	As of December 31,	
	2010	**2009**
ASSETS		
Cash and cash equivalents	38,074	36,272
Federal funds sold	45,800	35,000
Trading securities at fair value	34,022	32,685
Available-for-sale securities at fair value	653,636	744,812
Derivatives at fair value, net	655	315
Loans, net of unearned income	3,874,389	3,883,029
Less allowance for loan losses	(37,947)	(38,054)
Loans, net	3,836,442	3,844,975
Premises and equipment, net of accumulated depreciation	195,250	176,650
Goodwill	81,330	81,330
Other assets	300,554	206,829
TOTAL ASSETS	**5,185,763**	**5,158,869**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	(670,717)	(646,217)
Interest checking deposits	(78,282)	(71,743)
Savings deposits	(1,330,728)	(1,272,439)
Time deposits	(1,190,039)	(1,112,869)
Total deposits	(3,269,767)	(3,103,268)
Federal funds purchased	(404,704)	(376,300)
Long-term debt	(820,673)	(923,547)
Other liabilities	(200,610)	(155,029)
Total liabilities	**(4,695,754)**	**(4,558,143)**
Common stock (CU.25 par, 500,000 shares authorized, 100,000 issued and outstanding in both years)	(25,000)	(25,000)
Additional paid-in capital	(105,642)	(101,025)
Treasury stock (47,400 shares in 2009, 3,019 shares sold in 2010)	55,918	59,725
Retained earnings	(347,004)	(415,966)
Accumulated other comprehensive income, net	(68,281)	(118,460)
Total stockholders' equity	**(490,009)**	**(600,726)**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**(5,185,763)**	**(5,158,869)**

Illustration 2B: Bank Corp Financial Statements (Traditional Format)

CONSOLIDATED CASH FLOW STATEMENT

	For the year ended December 31,	
	2010	**2009**
Cash flow from operating activities		
Net income	17,439	26,331
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Provision for credit losses	12,853	11,922
Depreciation and amortization	9,058	9,394
Federal funds purchased, net	15,552	14,400
(Gain) on trading account	(2,313)	(3,890)
(Gain) on available-for-sale securities	(2,160)	(2,000)
(Gain) on derivatives	(400)	(370)
Loss on sale of loans	4,960	2,000
Impairment loss on goodwill	-	9,000
Interests received, net	(113,560)	(113,633)
Change in loans	(15,170)	1,000
Other	43,598	20,569
Cash flow from operating activities	**(30,143)**	**(25,277)**
Cash flow from investing activities		
Purchase of available-for-sale securities	-	(130,000)
Sale of available-for-sale securities	55,080	51,000
Sale of loans	8,000	10,000
Loan origination	(103,680)	(96,000)
Purchase of equipment	(25,000)	(25,000)
Investment in affiliate A	-	(12,000)
Proceeds from settlement of derivatives	340	315
Cash flow from investing activities	**(65,260)**	**(201,685)**
Cash flow from financing activities		
Net increase (decrease) in deposits	173,129	162,493
Cash received from federal funds purchased, net	2,052	1,900
Proceeds from issuance of long-term debt	-	135,780
Proceeds from reissuance of treasury stock	8,424	7,800
Dividends paid	(86,400)	(80,000)
Cash flow from financing activities	**97,205**	**227,973**
Change in cash and cash equivalents	**1,802**	**1,012**
Beginning cash and cash equivalents	**36,272**	**35,260**
Ending cash and cash equivalents	**38,074**	**36,272**

Illustration 2B: Bank Corp Financial Statements (Traditional Format)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Equity
Balance at December 31, 2008	**25,000**	**96,750**	**(63,250)**	**469,634**	**75,700**	**603,834**
Comprehensive income (loss)						
Net income				26,331		26,331
Foreign currency translation adjustment—affiliate A					(500)	(500)
Unrealized gain on derivatives					260	260
Unrealized gain on available-for-sale securities					43,000	43,000
Cash dividends on common stock (CU.8 per share)				(80,000)		(80,000)
Reissue of treasury stock		4,275	3,525			7,800
Balance at December 31, 2009	**25,000**	**101,025**	**(59,725)**	**415,966**	**118,460**	**600,726**
Comprehensive income (loss)						
Net income				17,439		17,439
Foreign currency translation adjustment—affiliate A					(540)	(540)
Unrealized gain on derivatives					281	281
Unrealized gain on available-for-sale securities					(49,920)	(49,920)
Cash dividends on common stock (CU.864 per share)				(86,400)		(86,400)
Reissue of treasury stock		4,617	3,807			8,424
Balance at December 31, 2010	**25,000**	**105,642**	**(55,918)**	**347,004**	**68,281**	**490,009**

Appendix B

THE RECONCILIATION SCHEDULE—ADDITIONAL EXAMPLES AND ALTERNATIVES CONSIDERED

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Appendix B

THE RECONCILIATION SCHEDULE—ADDITIONAL EXAMPLES AND ALTERNATIVES CONSIDERED

B.1. This appendix provides additional background information about the reconciliation schedule described in Chapter 4, beginning with paragraph 4.19. Paragraphs B.2–B.9 include an example that demonstrates how applying different accounting methods to the same facts and circumstances can produce differences in the persistence of components of income. Reviewing this example should help explain why the Boards propose that an entity should present remeasurements separately from other accruals. This appendix concludes with a description and illustration of two other multicolumn formats that were considered for presenting disaggregated information: the statement of financial position reconciliation and the statement of comprehensive income matrix.

Example Illustrating the Interaction between Remeasurements and Persistence

B.2. The following example demonstrates how applying different accounting methods to the same facts and circumstances (Scenarios B and C below) can produce differences in the persistence of components of income. In general, if an unexpected piece of information produces an increase or decrease in the value of a long-term asset or liability and that asset or liability is remeasured, then the remeasurement gain or loss presented in the financial statements is unlikely to persist. This is true even if the change in value is derived from something that is persistent. The Boards believe this is one reason why users want financial statements to distinguish between remeasurement gains and losses and other components of income. However, the Boards do not intend to suggest that all remeasurement gains and losses are transitory. Nor do they intend to suggest that historical cost methods always produce persistent income effects. Rather, income attributable to unexpected information based on two accounting methods will often have different persistence, and users need to understand that fact.

B.3. At the beginning of 2009, the equipment that Company XYZ uses to produce widgets has a remaining productive life of ten years. Early in 2009, XYZ learns of a general increase in demand for widget-type products that is expected to increase its widget revenues by CU50 in 2006 and each future year. Assume the equipment is not unique to XYZ's type of widget and, therefore, another company could generate an additional CU45 of revenue per year from using the equipment (XYZ has a small synergy from using the equipment, so its increased revenue of CU50 per year is slightly larger than that of the potential buyer). The other company (the potential buyer) would be willing to pay more for the equipment at the end of 2009 (after the increase in demand becomes known) than at the beginning of 2009. Paragraphs B.4–B.6 present three possible scenarios.

B.4. Scenario A: XYZ sells the equipment to another company. Because the other company can increase its revenues by CU45 in each of the 10 years that the equipment remains in service, the market price of the equipment increases by the present value of a 10-year annuity of CU45 (assuming the market for the equipment is reasonably liquid and efficient). For example, the increase in market price would be CU302 if the discount rate was 8 percent. In this scenario, XYZ's 2009 profit or loss or net income reflects a gain on sale that includes the CU302 attributable to the news about increased demand. The total gain (or loss) on the sale will depend on the equipment's book value and market value before the news about the increase in demand. The point is that the gain from selling the equipment **after** the news will be CU302 higher than the gain would have been **before** the news. After the equipment is sold, XYZ has no future profits from the equipment.

B.5. Scenario B: XYZ operates the equipment for the next 10 years (2009–2018) and the applicable accounting guidance requires some form of allocated historical cost accounting. In 2009, revenues are CU50 higher, and this amount of additional income is expected to repeat in each of the next 9 years; the CU50 increase in income is persistent.

B.6. Scenario C: XYZ operates the equipment for the next 10 years and the applicable accounting guidance requires some form of remeasurement accounting for this type of equipment. At the time XYZ learns of the increase in demand for widgets, it recognizes an unrealized gain of CU302 (the increase in market value from Scenario A above). For the remainder of 2009 and in each of the next 9 years, revenues are higher by CU50. But XYZ's production expenses for the 10 years are also higher by CU302 either because XYZ allocates the increased carrying value of the equipment using some form of depreciation or because it recognizes a remeasurement loss each period as the asset's productive ability declines.

B.7. To summarize the example, three alternatives produce the following patterns of additional income associated with the news of increased demand:

Scenario	Additional 2009 income	Additional future income
A: Sell	Gain on sale = CU302	0
B: Operate without remeasurement	Revenue = CU50 Production cost = 0	Revenue = CU50 each year Production cost = 0
C: Operate with remeasurement	Remeasurement gain of CU302 Revenue = CU50 Production cost = CU302/10	Revenue = CU50 each year Production cost = CU302/10 each year

B.8. In Scenario A, the gain on sale is not persistent. The remeasurement gain in Scenario C (CU302) also does not repeat in the future. In Scenario C, the additional operating profit in 2009 (the additional revenue minus the additional production expense) persists, although the precise amount of persistence depends on the method used to compute annual production expenses. For simplicity, the additional production cost in

Scenario C is allocated equally to each year. An alternative is to remeasure the asset's value at the end of each year. In that case, the pattern of declines in the equipment's value attributable to using up some of its productive capacity is unlikely to be equal across years.[27] The income in Scenario C results from recognizing the increase in the equipment's value in 2009 and then recognizing the expected return on that increased asset value in the remainder of 2009 and in future years. Finally, Scenario B—operate without remeasuring—produces a persistent increase in revenues and earnings because the assumed facts and circumstances include news of a persistent increase in sales.

B.9. Using existing guidance, unless the remeasurement gain of CU302 in Scenario C can be included in other comprehensive income, it likely would be combined in a single line in the statement of comprehensive income with the CU50 of additional revenues less the additional production costs. Users have complained that such a presentation combines persistent and nonpersistent components of income on the same line, and this numerical example illustrates that problem. One benefit of the reconciliation schedule is that the remeasurement gain in Scenario C would appear in one of the remeasurement columns, whereas the increased revenues in Scenarios B and C and the increased production costs in Scenario C would appear in either the "cash flow" or the "accruals, allocations, and other" column. Thus, users can separately analyze those components of income.

Alternative Reconciliation Formats Considered

B.10. The Boards discussed two other multicolumn formats for presenting disaggregated information that would help users of financial statements understand the cause of a change in carrying amounts of assets and liabilities—the statement of financial position reconciliation and the statement of comprehensive income matrix. For the reasons described in paragraphs B.18–B.22, the Boards preferred the reconciliation schedule format to the other multicolumn formats.

Statement of Financial Position Reconciliation

B.11. A statement of financial position reconciliation would start with the amount in a statement of financial position line item (that is, an asset, liability, or equity item) at the beginning of the period. The change in the amount of that line item then would be disaggregated into a cash component and the three accrual components in the reconciliation schedule. To complete the statement of financial position reconciliation and end with the amount of the line item at the end of the period, the reconciliation also

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[27] If no additional news about the demand for widgets is released in 2009, then remeasuring the equipment's value from just after the news is released until the end of 2009 would yield a loss of CU21 because the CU45 annual increase in revenues will last for 9 years rather than 10 years. With an 8 percent discount rate, the value of those savings will decline from CU302 to CU281 by the end of 2009. That loss represents the reduction in the amount the market would be willing to pay for equipment with one less year of productive capacity. Thus, the pattern of production expenses in a remeasurement scenario may reflect what some refer to as "economic" depreciation of the initial remeasurement gain.

would include changes in the amount of the line item that (a) affect cash flows but never affect comprehensive income and (b) affect neither income nor cash in the current period. Examples of the latter include typical noncash/nonincome transactions (such as converting debt to equity or obtaining an asset by entering into a finance lease) as well as transfers between categories (such as from the operating category to the discontinued operations section). (An illustrative example for Bank Corp is on pages 105 and 106 of this appendix.)

B.12. The statement of financial position reconciliation includes captions from the statement of cash flows and the statement of comprehensive income that link the statement of financial position line items to those two statements. The captions are included so that the relationships between the line items in financial statements are clear, to the extent that is practicable. Thus, the cohesiveness objective would be achieved in a single schedule across the statements of financial position, comprehensive income, and cash flows.

B.13. In the statement of financial position reconciliation, the reconciling items between the statement of comprehensive income and the statement of cash flows are arranged by the statement of financial position line item they affect rather than by the line items on the statement of cash flows and the statement of comprehensive income. Thus, the statement of financial position reconciliation does not reconcile the statements of comprehensive income and cash flows in the same manner as is done in the reconciliation schedule. However, the statement of financial position reconciliation provides information that would help a user assess the differences between cash transactions and accrual accounting—an important application of the disaggregation objective.

Statement of Comprehensive Income Matrix

B.14. The statement of comprehensive income matrix disaggregates the statement of comprehensive income into components similar to those on the reconciliation schedule. It is not reconciled to either the statement of financial position or the statement of cash flows. (An illustrative example for ToolCo is on pages 107 and 108 of this appendix.)

B.15. The main difference between the comprehensive income matrix and the reconciliation schedule is that the latter provides more information. Because the schedule reconciles the cash flow amounts to the income amounts, it provides a more complete comparison of accruals and cash flows than does the matrix. For example, the matrix does not contain information about capital expenditures because those do not appear as a line item in the statement of comprehensive income. Thus, although the matrix will show that the depreciation expense for the period did not directly affect cash flows, users do not get a sense of how much cash was spent to maintain or increase capital assets. The reconciliation schedule shows net cash flows for capital expenditures as well as the adjustment for depreciation expense. Users interested in comparing free cash flows and accrual income can obtain most of this information from the reconciliation schedule, but they would need additional information if the matrix were used.

B.16. Another difference between the matrix and the two reconciliation formats is that the matrix does not include line items or captions from either the statement of cash flows or the statement of financial position. Therefore, it does not allow users to track line items across statements, thereby diminishing their understanding of the relationships between those financial statements.

Costs and Benefits Consideration

B.17. In reaching their preliminary views on how disaggregated information about changes in assets and liabilities should be presented in the notes to financial statements, the Boards considered the benefits of each of the three possible formats, particularly in terms of how the formats achieve the proposed objectives of financial statement presentation, as well as the costs associated with each format.

B.18. The benefits of the reconciliation schedule are that it:

a. Provides a straightforward description of the difference between cash transactions and accrual accounting
b. Illustrates in a transparent manner the relation between the line items on the statement of cash flows and the statement of comprehensive income
c. Reconciles all cash flows from all sections and categories (except the equity section) to the corresponding sections and categories in the statement of comprehensive income, not only the operating category
d. Requires an entity to disaggregate changes in its receivables and payables at the line-item level in the statement of comprehensive income.

B.19. Users have stated that the reconciliation schedule will provide information on remeasurements, accruals, and noncash items that will help them predict future cash flows and assess earnings quality. The Boards believe that the benefits of the reconciliation schedule outweigh the incremental costs associated with preparing that schedule.

B.20. The Boards believe that the comprehensive income matrix would result in the least costly change from current practice and would provide information that would assist users in predicting future cash flows. However, the matrix does not explain the relation between the statement of comprehensive income and the statement of cash flows as clearly as the other alternatives, which limits the matrix's ability to help users understand an entity's accrual accounting approach.

B.21. The statement of financial position reconciliation was conceptually appealing to the Boards because it provided information about the relations between all three statements, which would further the cohesiveness objective. However, the Boards were not inclined to pursue that reconciliation for the following reasons:

a. Users usually do not predict future cash flows using the line items in the statement of financial position. Rather, users tend to predict future cash flows using the line items in the statements of comprehensive income and cash flows.

b. The statement of financial position reconciliation would include numerous columns if the reconciling items were to be disaggregated into meaningful groups. The Boards' advisory groups noted that the reconciliation schedule would be too detailed and complicated to be an effective communication tool. In addition, they observed that it would be too complex and costly to prepare because of the practical difficulties associated with foreign currency translation and consolidation procedures.

B.22. However, the Boards acknowledged that for some entities, such as those in the financial services industry, the statement of financial position reconciliation might be more useful than the reconciliation schedule. This is because users of those entities' financial statements do not find the statement of cash flows as useful as it is for entities in other industries.

BANK CORP

RECONCILIATION OF STATEMENT OF FINANCIAL POSITION

December 31, 2008—December 31, 2009

A	B	C	D	E	F	G	H	I	J	K
				Changes in Assets and Liabilities						
				Not from Remeasurements	**From Remeasurements**		**Statement of Comprehensive Income**			
Caption in Statement of Financial Position	**Dec. 31, 2008 Balance**	**Cash Flows**	**Caption in Statement of Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Fair Value Changes**	**All Other**	**Comprehensive Income (C+E+F+G)**	**Caption in Statement of Comprehensive Income**	**Noncash / Nonincome**	**Dec. 31, 2009 Balance (B+E+F+G+J)**
BUSINESS			**BUSINESS**					**BUSINESS**		
Operating			**Operating**					**Operating**		
Assets										
Cash	25,387	*605*	*Change in cash*							25,993
Advances and loans to banks	9,873	(406)	Cash paid for advance and loans to banks, net	406						10,279
Trading securities at fair value	30,000	2,500	Cash received from trading securities	(1,205)			1,295	Interest income on trading securities		32,685
					3,890		3,890	Realized gain on trading securities, net		
Available-for-sale (AFS) securities at fair value	611,517	(79,000)	Cash paid for purchase of AFS securities	80,000	1,000		2,000	Realized gain on AFS securities, net		744,812
		12,500	Cash interest received from AFS securities	9,295			21,795	Interest income on AFS securities		
					43,000		43,000	Unrealized gain on AFS securities		
Derivatives at fair value, net		315	Cash received from settlement of derivatives	(55)	110		370	Realized gain on derivatives		315
					260		260	Unrealized gain on derivatives		
Loans, net of unearned income	3,891,029	80,000	Cash collected from loan principals	(80,000)						3,883,029
		10,000	Cash received from sale of loans	(10,000)		(2,000)	(2,000)	Loss on sale of loans		
		(96,000)	Cash paid for loan originations	96,000					(12,000)	
Less allowance for loan losses	(38,132)			(11,922)			(11,922)	Provision for credit losses	12,000	(38,054)
Loans, net	3,852,897									3,844,975
Interests receivable on loans		125,000	Cash collected from loan interest	79,000			204,000	Interest income—loans, including fees		79,000
Premises and equipment	175,000	(25,000)	Cash paid for equipment	25,000						200,000
Less accumulated depreciation	(17,500)			(5,850)			(5,850)	Depreciation expense		(23,350)
Premises and equipment, net	157,500									176,650
Investment in affiliate A	35,000	(12,000)	Cash paid for investment in affiliate A	12,000		3,500	3,500	Earnings in affiliate A		50,000
						(500)	(500)	Foreign currency translation adjustment—affiliate A		
Goodwill	90,330					(9,000)	(9,000)	Impairment loss on goodwill		81,330
Core deposit intangible, net	9,037			(3,544)			(3,544)	Amortization of core deposit intangible		5,493
Total operating assets	*4,821,541*									*5,051,532*
Liabilities			Cash received from deposits, net							
Noninterest-bearing deposits	(621,217)	25,000	Noninterest-bearing deposits	(25,000)						(646,217)
Interest checking deposits	(66,123)	5,620	Interest checking deposits	(5,620)						(71,743)
Savings deposits	(1,232,439)	40,000	Savings deposits	(40,000)						(1,272,439)
Time deposits	(1,082,869)	30,000	Time deposits	(30,000)						(1,112,869)
Total deposit liabilities	*(3,002,648)*									*(3,103,268)*
Accrued interest payable	-			(41,170)			(41,170)	Interest expense—time deposits		(61,873)
				(20,290)			(20,290)	Interest expense—savings deposits		
				(414)			(414)	Interest expense—interest checking deposits		
Wages payable	(2,500)	(30,000)	Wages, salaries and benefits paid	(5,000)			(35,000)	Wages, salaries and benefits expense		(7,500)
Share-based compensation liability	(42,500)			(12,000)	(5,000)		(17,000)	Share-based compensation expense		(59,500)
Litigation provision	-			(1,850)			(1,850)	Litigation expense		(1,850)
Total operating liabilities	*(3,047,648)*		Cash received from (paid for)							*(3,233,991)*
		31,033	Service charges on deposits				31,033	Service charges on deposits		
		8,931	Mortgage banking revenue				8,931	Mortgage banking revenue		
		2,000	Other nondeposit fees and commissions				2,000	Other nondeposit fees and commissions		
		1,000	Other noninterest revenue				1,000	Other noninterest revenue		
		(25,000)	Transaction processing expense				(25,000)	Transaction processing expense		
		(7,000)	Occupancy expense				(7,000)	Occupancy expense		
		(1,200)	Other noninterest expense				(1,200)	Other noninterest expense		
Net operating assets	**1,773,894**	**98,293**	**Net cash from operating activities**	**7,782**	**43,260**	**(8,000)**	**141,335**	**Operating income *plus other comprehensive income***	**0**	**1,817,542**
Investing			**Investing**					**Investing**		
Investment in company B at fair value	36,000				3,250		3,250	Fair value change in investment in company B		39,250
		2,500	Cash dividends from investment in company B				2,500	Dividend income from company B		
Total investing assets	**36,000**	**2,500**	**Net cash from investing activities**		**3,250**		**5,750**	**Investing income**		**39,250**
NET BUSINESS ASSETS	**1,809,894**	**100,793**	**NET CASH FROM BUSINESS ACTIVITIES**	**7,782**	**46,510**	**(8,000)**	**147,085**	**TOTAL BUSINESS INCOME *plus other comprehensive income***	**0**	**1,856,792**
FINANCING			**FINANCING**					**FINANCING**		
Assets										
Federal funds sold	25,000	(6,600)	Cash provided for federal funds sold	10,000			3,400	Interest income on federal funds sold		35,000
Total financing assets	**25,000**	**(6,600)**	**Net cash from financing assets**	**10,000**			**3,400**	**Financing asset income**		**35,000**
Liabilities										
Federal funds purchased	(350,000)	8,500	Cash received from federal funds purchased, net	(26,300)			(17,800)	Interest expense on federal funds purchased		(376,300)
Dividends payable	(20,000)	(80,000)	Dividends paid	80,000					(80,000)	(20,000)
Long-term debt	(893,310)	135,780	Proceeds from issuance of long-term debt	(135,780)						(923,547)
		(150,000)	Cash paid for borrowings	105,543			(44,457)	Interest expense on long-term debt		
Total financing liabilities	**(1,263,310)**	**(85,720)**	**Net cash from financing liabilities**	**23,463**			**(62,257)**	**Financing liability expense**	**(80,000)**	**(1,319,847)**
NET FINANCING LIABILITIES	**(1,238,310)**	**(92,320)**	**NET CASH FROM FINANCING ACTIVITIES**	**33,463**			**(58,857)**	**TOTAL FINANCING EXPENSE**	**(80,000)**	**(1,284,847)**
INCOME TAXES			**INCOME TAXES**					**INCOME TAXES**		
Deferred tax asset, net	35,000			(1,914)			(1,914)			33,086
Income taxes payable	(2,750)	(15,667)	Cash taxes paid	(1,556)			(17,223)			(4,306)
Net income tax asset	**32,250**	**(15,667)**	**NET CASH FROM INCOME TAX ACTIVITIES**	**(3,469)**			**(19,137)**	**Income tax expense**		**28,781**
NET ASSETS	**603,834**	*(7,194)*	*Change in cash before equity*	**37,776**	**46,510**	**(8,000)**	**69,091**	**TOTAL COMPREHENSIVE INCOME**	**(80,000)**	**600,726**
EQUITY										
Common stock	(25,000)									(25,000)
Additional paid-in capital	(96,750)	4,275	Proceeds from reissue of treasury stock	(4,275)						(101,025)
Treasury stock	63,250	3,525	Proceeds from reissue of treasury stock	(3,525)						59,725
Retained earnings	(469,634)			(30,581)	(3,250)	7,500	(26,331)		80,000	(415,966)
Accumulated other comprehensive income	(75,700)				(43,260)	500	(42,760)			(118,460)
TOTAL EQUITY	**(603,834)**	**7,800**	**NET CASH FROM EQUITY**	**(38,381)**	**(46,510)**	**8,000**	**(69,091)**		**80,000**	**(600,726)**

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BANK CORP

RECONCILIATION OF STATEMENT OF FINANCIAL POSITION

December 31, 2009—December 31, 2010

A	B	C	D	E	F	G	H	I	J	K
				Changes in Assets and Liabilities						
				Not from Remeasurements	From Remeasurements		Statement of Comprehensive Income			
Caption in Statement of Financial Position	**Dec. 31, 2009 Balance**	**Cash Flows**	**Caption in Statement of Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Fair Value Changes**	**All Other**	**Comprehensive Income (C+E+F+G)**	**Caption in Statement of Comprehensive Income**	**Noncash / Nonincome**	**Dec. 31, 2010 Balance (B+E+F+G+J)**
BUSINESS			**BUSINESS**					**BUSINESS**		
Operating			**Operating**					**Operating**		
Assets										
Cash	25,993	*(3,122)*	*Change in cash*							22,871
Advances and loans to banks	10,279	(4,924)	Cash paid for advance and loans to banks, net	4,924						15,203
Trading securities at fair value	32,685	2,375	Cash received from trading securities	(976)			1,399	Interest income on trading securities		34,022
					2,313		2,313	Realized gain on trading securities, net		
Available-for-sale securities at fair value	744,812	55,080	Cash received from sale of AFS securities	(54,000)	1,080		2,160	Realized gain on AFS securities, net		653,636
		11,875	Cash interest received from AFS securities	11,664			23,539	Interest income on AFS securities		
					(49,920)		(49,920)	Unrealized loss on AFS securities, net		
Derivatives at fair value, net	315	340	Cash received from settlement of derivatives	(59)	119		400	Realized gain on derivatives		655
					281		281	Unrealized gain on derivatives		
Loans, net of unearned income	3,883,029	86,400	Cash collected from loan principals	(86,400)						3,874,389
		8,000	Cash received from sale of loans	(8,000)		(4,960)	(4,960)	Loss on sale of loans		
		(103,680)	Cash paid for loan originations	103,680					(12,960)	
Less allowance for loan losses	(38,054)			(12,853)			(12,853)	Provision for credit losses	12,960	(37,947)
Loans, net	3,844,975									3,836,442
Interest receivable on loans	79,000	118,750	Cash collected from loan interest	101,570			220,320	Interest income—loans, including fees		180,570
Premises and equipment	200,000	(25,000)	Cash paid for equipment	25,000						225,000
Less accumulated depreciation	(23,350)			(6,400)			(6,400)	Depreciation expense		(29,750)
Premises and equipment, net	176,650									195,250
Investment in affiliate A	50,000					3,780	3,780	Earnings in affiliate A		53,240
						(540)	(540)	Foreign currency transl. adjust—affiliate A		
Goodwill	81,330									81,330
Core deposit intangible	5,493			(2,658)			(2,658)	Amortization of core deposit intangible		2,835
Total operating assets	*5,051,532*									*5,076,054*
Liabilities			Cash received from deposits, net							
Noninterest-bearing deposits	(646,217)	24,500	Noninterest-bearing deposits	(24,500)						(670,717)
Interest checking deposits	(71,743)	6,126	Interest checking deposits	(6,126)					(414)	(78,282)
Savings deposits	(1,272,439)	38,000	Savings deposits	(38,000)					(20,290)	(1,330,728)
Time deposits	(1,112,869)	36,000	Time deposits	(36,000)					(41,170)	(1,190,039)
Total deposit liabilities	*(3,103,268)*									*(3,269,767)*
Accrued interest payable	(61,873)			(46,296)			(46,296)	Interest expense—time deposits	61,873	(68,503)
				(21,644)			(21,644)	Interest expense—savings deposits		
				(564)			(564)	Interest expense—interest checking deposits		
Wages payable	(7,500)	(35,000)	Wages, salaries and benefits paid	(3,000)			(38,000)	Wages, salaries and benefits expense		(10,500)
Share-based compensation liability	(59,500)			(29,922)	(6,250)		(36,172)	Share-based compensation expense		(95,672)
Litigation provision	(1,850)			(1,998)			(1,998)	Litigation expense		(3,848)
Total operating liabilities	*(3,233,991)*		Cash received from (paid for)							*(3,448,290)*
		32,079	Service charges on deposits				32,079	Service charges on deposits		
		7,907	Mortgage banking revenue				7,907	Mortgage banking revenue		
		3,000	Other nondeposit fees and commissions				3,000	Other nondeposit fees and commissions		
		1,500	Other noninterest revenue				1,500	Other noninterest revenue		
		(24,000)	Transaction processing expense				(24,000)	Transaction processing expense		
		(6,860)	Occupancy expense				(6,860)	Occupancy expense		
		(1,800)	Other noninterest expense				(1,800)	Other noninterest expense		
Net operating assets	**1,817,542**	**230,668**	**Net cash from operating activities**	**(132,558)**	**(52,377)**	**(1,720)**	**44,013**	**Operating income** ***plus other comprehensive income***	**0**	**1,627,764**
Investing			**Investing**					**Investing**		
Investment in company B at fair value	39,250				(7,500)		(7,500)	Fair value change in investment in Co. B		31,750
		2,700	Cash received from investment in Company B				2,700	Dividend income from Co. B		
Total investing assets	**39,250**	**2,700**	**Net cash from investing activities**		**(7,500)**		**(4,800)**	**Investing income**		**31,750**
NET BUSINESS ASSETS	**1,856,792**	**233,368**	**NET CASH FROM BUSINESS ACTIVITIES**	**(132,558)**	**(59,877)**	**(1,720)**	**39,213**	**TOTAL BUSINESS INCOME** ***plus other comprehensive income***	**0**	**1,659,514**
FINANCING			**FINANCING**					**FINANCING**		
Assets										
Federal funds sold	35,000	(7,128)	Cash provided for federal funds sold	10,800			3,672	Interest income on federal funds sold		45,800
Total financing assets	**35,000**	**(7,128)**	**Net cash from financing assets**	**10,800**			**3,672**	**Financing asset income**		**45,800**
Liabilities										
Federal funds purchased	(376,300)	9,180	Cash received from federal funds purchased, net	(28,404)			(19,224)	Interest expense on federal funds purchased		(404,704)
Dividends payable	(20,000)	(86,400)	Dividends paid	86,400					(86,400)	(20,000)
Long-term debt	(923,547)									(820,673)
		(150,000)	Cash paid for borrowings	102,873			(47,127)	Interest expense on long-term debt		
Total financing liabilities	**(1,319,847)**	**(227,220)**	**Net cash from financing liabilities**	**160,869**			**(66,351)**	**Financing liability expense**	**(86,400)**	**(1,245,377)**
NET FINANCING LIABILITIES	**(1,284,847)**	**(234,348)**	**NET CASH FROM FINANCING ACTIVITIES**	**171,669**			**(62,679)**	**TOTAL FINANCING EXPENSE**	**(86,400)**	**(1,199,577)**
INCOME TAXES			**INCOME TAXES**					**INCOME TAXES**		
Deferred tax asset	33,086			(927)			(927)			32,159
Income taxes payable	(4,306)	(10,566)	Cash taxes paid	2,219			(8,347)			(2,087)
Net income tax asset	**28,781**	**(10,566)**	**NET CASH FROM INCOME TAX ACTIVITIES**	**1,292**			**(9,274)**	**Income tax expense**		**30,072**
NET ASSETS	**600,726**	*(11,546)*	*Change in cash before equity*	**40,403**	**(59,877)**	**(1,720)**	**(32,740)**	**TOTAL COMPREHENSIVE INCOME**	**(86,400)**	**490,009**
EQUITY										
Common stock	(25,000)									(25,000)
Additional paid-in capital	(101,025)	4,617	Proceeds from reissue of treasury stock	(4,617)						(105,642)
Treasury stock	59,725	3,807	Proceeds from reissue of treasury stock	(3,807)						55,918
Retained earnings	(415,966)			(28,857)	10,238	1,180	(17,439)		86,400	(347,004)
Accumulated other comprehensive income	(118,460)				49,639	540	50,179			(68,281)
TOTAL EQUITY	**(600,726)**	**8,424**	**NET CASH FROM EQUITY**	**(37,281)**	**59,877**	**1,720**	**32,740**		**86,400**	**(490,009)**

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TOOLCO

STATEMENT OF COMPREHENSIVE INCOME MATRIX

For the year ended 31 December 2009					
A	B	C	D	E	F
		Changes in Assets and Liabilities, Excluding Transactions with Owners			
Statement of Comprehensive Income		Not from Remeasurements		From Remeasurements	
	Comprehensive Income (C+D+E+F)	Cash Flows	Accruals, Allocations, and Other	Recurring Valuation Adjustments	All Other
BUSINESS					
Operating					
Sales—wholesale	2,591,400	1,928,798	662,602		
Sales—retail	647,850	643,275	4,575		
Total revenue	*3,239,250*	*2,572,073*	*667,177*		
Cost of goods sold					
Materials	(925,000)	(785,000)	(140,000)		
Labour	(450,000)	(475,313)	25,313		
Overhead—depreciation	(215,000)		(215,000)		
Overhead—transport	(108,000)	(108,000)			
Pension	(47,250)	(157,500)	104,250	6,000	
Change in inventory	(46,853)		(46,853)		
Overhead—other	(27,000)	(27,000)			
Loss on obsolete and damaged inventory	(9,500)				(9,500)
Total cost of goods sold	*(1,828,603)*	*(1,552,813)*	*(272,290)*	*6,000*	*(9,500)*
Gross profit	*1,410,647*	*1,019,260*	*394,887*	*6,000*	*(9,500)*
Selling expenses					
Wages, salaries and benefits	(52,500)	(55,453)	2,953		
Advertising	(50,000)	(75,000)	25,000		
Bad debt	(15,034)		(15,034)		
Other	(12,500)	(12,500)			
Total selling expenses	*(130,034)*	*(142,953)*	*12,919*		
General and administrative expenses					
Wages, salaries and benefits	(297,500)	(314,234)	16,734		
Pension	(47,250)	(157,500)	104,250	6,000	
Depreciation	(58,500)		(58,500)		
Share-based remuneration	(17,000)	(3,335)	(8,665)	(5,000)	
Interest on lease liability	(16,500)		(16,500)		
Research and development	(7,850)	(7,850)			
Other	(14,600)	(12,000)	(2,600)		
Total general and administrative expenses	*(459,200)*	*(494,919)*	*34,719*	*1,000*	
Income before other operating items	*821,413*	*381,388*	*442,525*	*7,000*	*(9,500)*
Other operating income (expense)					
Share of profit of associate A	22,000				22,000
Realized gain on cash flow hedge	3,700	3,150	(550)	1,100	
Impairment loss on goodwill	(35,033)				(35,033)
Loss on sale of receivable	(2,025)	10,000	(10,000)		(2,025)
Total other operating income	*(11,358)*	*13,150*	*(10,550)*	*1,100*	*(15,058)*
Total operating income	**810,055**	**394,538**	**431,975**	**8,100**	**(24,558)**
Investing					
Dividend income	50,000	50,000			
Realized gain on available-for-sale financial assets	7,500	51,000	(43,500)		
Share of profit of associate B	3,250				3,250
Total investing income	**60,750**	**101,000**	**(43,500)**		**3,250**
TOTAL BUSINESS INCOME	**870,805**	**495,538**	**388,475**	**8,100**	**(21,308)**
FINANCING					
Interest income on cash	5,500	5,500			
Total financing asset income	**5,500**	**5,500**			
Interest expense	(110,250)	(82,688)	(27,563)		
Total financing liability expense	**(110,250)**	**(82,688)**	**(27,563)**		
TOTAL NET FINANCING EXPENSE	**(104,750)**	**(77,188)**	**(27,563)**		
Profit from continuing operations before taxes and other comprehensive income	*766,055*	*418,350*	*360,912*	*8,100*	*(21,308)*
INCOME TAXES					
Income tax expense	(295,266)	(193,786)	(101,480)		
Net profit from continuing operations	*470,789*	*224,564*	*259,432*	*8,100*	*(21,308)*
DISCONTINUED OPERATIONS					
Loss on discontinued operations	(35,000)	(11,650)			(23,350)
Tax benefit	12,250		12,250		
NET LOSS FROM DISCONTINUED OPERATIONS	**(22,750)**	**(11,650)**	**12,250**		**(23,350)**
NET PROFIT	**448,039**	**212,914**	**271,682**	**8,100**	**(44,658)**
OTHER COMPREHENSIVE INCOME (after tax)					
Unrealized gain on available-for-sale financial assets, net	15,275			15,275	
Unrealized gain on cash flow hedge	1,690			1,690	
Foreign currency translation adjustment—consolidated subsidiary	(1,492)				(1,492)
Foreign currency translation adjustment—associate A	(1,300)				(1,300)
TOTAL OTHER COMPREHENSIVE INCOME	**14,173**			**16,965**	**(2,792)**
TOTAL COMPREHENSIVE INCOME	**462,212**	**212,914**	**271,682**	**25,065**	**(47,450)**

TOOLCO

STATEMENT OF COMPREHENSIVE INCOME MATRIX

For the year ended 31 December 2010

A	B	C	D	E	F
		Changes in Assets and Liabilities, Excluding Transactions with Owners			
Statement of Comprehensive Income		**Not from Remeasurements**		**From Remeasurements**	
	Comprehensive Income (C+D+E+F)	**Cash Flows**	**Accruals, Allocations, and Other**	**Recurring Valuation Adjustments**	**All Other**
BUSINESS					
Operating					
Sales—wholesale	2,790,080	2,108,754	681,326		
Sales—retail	697,520	703,988	(6,467)		
Total revenue	*3,487,600*	*2,812,742*	*674,859*		
Cost of goods sold					
Materials	(1,043,100)	(935,544)	(107,556)		
Labour	(405,000)	(418,966)	13,966		
Overhead—depreciation	(219,300)		(219,300)		
Overhead—transport	(128,640)	(128,640)			
Change in inventory	(60,250)		(60,250)		
Pension	(51,975)	(170,100)	109,125	9,000	
Overhead—other	(32,160)	(32,160)			
Loss on obsolete and damaged inventory	(29,000)				(29,000)
Total cost of goods sold	*(1,969,425)*	*(1,685,409)*	*(264,016)*	*9,000*	*(29,000)*
Gross profit	*1,518,175*	*1,127,333*	*410,843*	*9,000*	*(29,000)*
Selling expenses					
Advertising	(60,000)	(65,000)	5,000		
Wages, salaries and benefits	(56,700)	(58,655)	1,955		
Bad debt	(23,068)		(23,068)		
Other	(13,500)	(13,500)			
Total selling expenses	*(153,268)*	*(137,155)*	*(16,112)*		
General and administrative expenses					
Wages, salaries and benefits	(321,300)	(332,379)	11,079		
Pension	(51,975)	(170,100)	109,125	9,000	
Depreciation	(59,820)		(59,820)		
Share-based remuneration	(22,023)	(3,602)	(12,171)	(6,250)	
Interest on lease liability	(14,825)	(50,000)	35,175		
Research and development	(8,478)	(8,478)			
Other	(15,768)	(12,960)	(2,808)		
Total general and administrative expenses	*(494,189)*	*(577,519)*	*80,580*	*2,750*	
Income before other operating items	*870,718*	*412,659*	*475,311*	*11,750*	*(29,000)*
Other operating income (expense)					
Gain on disposal of property, plant and equipment	22,650	37,650	(15,000)		
Share of profit of associate A	23,760				23,760
Realized gain on cash flow hedge	3,996	3,402	(594)	1,188	
Loss on sale of receivable	(4,987)	8,000	(8,000)		(4,987)
Total other operating income	*45,419*	*49,052*	*(23,594)*	*1,188*	*18,773*
Total operating income	**916,137**	**461,711**	**451,717**	**12,938**	**(10,227)**
Investing					
Dividend income	54,000	54,000			
Realized gain on available-for-sale financial assets	18,250	56,100	(37,850)		
Share of profit of associate B	7,500				7,500
Total investing income	**79,750**	**110,100**	**(37,850)**		**7,500**
TOTAL BUSINESS INCOME	**995,887**	**571,811**	**413,867**	**12,938**	**(2,727)**
FINANCING					
Interest income on cash	8,619	8,619			
Total financing asset income	**8,619**	**8,619**			
Interest expense	(111,352)	(83,514)	(27,838)		
Total financing liability expense	**(111,352)**	**(83,514)**	**(27,838)**		
TOTAL NET FINANCING EXPENSE	**(102,733)**	**(74,895)**	**(27,838)**		
Profit from continuing operations before taxes and other comprehensive income	*893,154*	*496,916*	*386,029*	*12,938*	*(2,727)*
INCOME TAXES					
Income tax expense	(333,625)	(281,221)	(52,404)		
Net profit from continuing operations	*559,529*	*215,695*	*333,625*	*12,938*	*(2,727)*
DISCONTINUED OPERATIONS					
Loss on discontinued operations	(32,400)	(12,582)			(19,818)
Tax benefit	11,340		11,340		
NET LOSS ON DISCONTINUED OPERATIONS	**(21,060)**	**(12,582)**	**11,340**		**(19,818)**
NET PROFIT	**538,469**	**203,113**	**344,965**	**12,938**	**(22,545)**
OTHER COMPREHENSIVE INCOME (after tax)					
Unrealized gain on available-for-sale financial assets, net	17,193			17,193	
Unrealized gain on cash flow hedge	1,825			1,825	
Foreign currency translation adjustment—consolidated subsidiary	2,094				2,094
Foreign currency translation adjustment—associate A	(1,404)				(1,404)
Revaluation surplus	3,653			3,653	
TOTAL OTHER COMPREHENSIVE INCOME	**23,361**	**-**	**-**	**22,671**	**690**
TOTAL COMPREHENSIVE INCOME	**561,830**	**203,113**	**344,965**	**35,609**	**(21,855)**