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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**22 March 2007, London**
Project:	**Financial Statement Presentation**
Subject:	**Presentation of Changes in Assets and Liabilities (Agenda Paper 9A)**

INTRODUCTION AND BACKGROUND

1. The objective of this meeting is to continue our discussion of the presentation of changes in assets and liabilities, following the Boards' discussions related to the statement of comprehensive income in October 2006 and the statement of cash flows in December 2006. The focus of this meeting will be on **what** information should be presented in the financial statements, not **how** the information should be presented.

2. At the October 2006 joint meeting, the Boards decided that the financial statements should provide information that will allow a user to distinguish between the various changes in assets and liabilities. The Boards noted that some of those changes are due to fair value changes and other changes in prices or estimates (that is, remeasurements), while other changes in assets and

liabilities are not due to remeasurements. The Boards also directed the staff to consider which types of changes should be presented separately, which should be aggregated, and the manner in which that information should be presented.

3. At a meeting in December 2006, the FASB acknowledged that the statement of cash flows may not be the most effective way to achieve the "cash flow" working principles. The Board directed the staff to explore the possibility of presenting information similar to that currently presented using the direct method and the related reconciliation of operating income to cash flows from operating activities as part of a broader disclosure.

4. In February 2007, the staff held small group meetings with Board advisors of each Board. The purpose of those meetings was to discuss the staff's initial ideas on the issues addressed in this memorandum. Board input is needed at this stage to determine if the staff is moving in the right direction in applying some of the working principles. [remainder of paragraph omitted from Observer Notes].

STRUCTURE OF THIS MEMORANDUM

5. This memorandum is structured as follows:

Part A: Clarification of Working Principles
- Issue A-1: The Cohesiveness Working Principle (paragraphs 7-10)
- Issue A-2: The Disaggregation Working Principle (paragraphs 11-13)

Part B: Reconciliation of Statements of Financial Position
- Issue B-1: Presenting a Reconciliation of Statements of Financial Position (paragraphs 14-18)
- Issue B-2: Cash Transactions (paragraphs 19-27)
- Issue B-3: Direct Cash Transactions and the Classification of Cash (paragraphs 28-33)
- Issue B-4: Disaggregation of Remeasurements (paragraphs 34-42)
- Issue B-5: Other Comprehensive Income Items (paragraphs 43-44)
- Issue B-6: Exceptions to Remeasurements (paragraphs 45-51)

Issue B-7: Disaggregation of Non-cash Non-Remeasurements that are Recognized in Income or Expense for the Current Period (paragraphs 52-55)
Issue B-8: Non-Cash Changes in Assets and Liabilities that are Not Recognized in Income or Expense for the Current Period (paragraphs 56-57)
Part C: Statement of Comprehensive Income
Issue C-1: A Disaggregated Statement of Comprehensive Income (paragraphs 58-63)
Part D: Statement of Cash Flows
Issue D-1: The Direct Method and the Cohesiveness Principle (paragraphs 65-72)
Issue D-2: Reconciliations (paragraphs 73-74)

PART A: CLARIFICATION OF WORKING PRINCIPLES

6. One of the working principles in this project states that "financial statements should present information in a manner that helps a user understand what causes a change in reported amounts of individual assets and liabilities." This memorandum addresses the application of that working principle—what information about changes in assets and liabilities should be presented in the financial statements. In applying this working principle, the staff referred to two other working principles, namely the cohesiveness and the disaggregation working principles.

Issue A-1: The Cohesiveness Working Principle

7. The cohesiveness working principle states, "financial statements should present information in a manner that portrays a cohesive picture of an entity." The staff has interpreted this working principle to mean that changes in assets and liabilities that are classified in a certain category are reported in the corresponding category in the statement of comprehensive income and the statement of cash flows.

8. The question is whether this principle should be applied at the line-item level. The cohesiveness principle applied at the line-item level would mean that information should be presented in a manner that allows users to understand the relationship between the items presented in the statement of financial position and where the changes in those items are presented in the statement of comprehensive income and the statement of cash flows.

9. Moreover, the cohesiveness principle applied at the line-item level would strongly suggest that the line items in the statement of comprehensive income and the statement of cash flows be aligned. However, as in the case of capital expenditure and depreciation, the staff acknowledges that not all line items can be perfectly aligned.

Staff Recommendation

10. The staff recommends that the cohesiveness principle be applied at the line-item level. The cohesiveness principle applied at the line-item level would provide more granularity in the information. Moreover, users would be able to reclassify certain assets and liabilities and changes thereto when they disagree with an entity's classification of assets and liabilities.

Question for the Boards:

1. Should the cohesiveness working principle be applied at the line-item level?

Issue A-2: The Disaggregation Working Principle

11. The disaggregation working principle states, "financial statements should present information in a manner that disaggregates line items if that disaggregation enhances the usefulness of that information in predicting future cash flows." Paragraph B3 of the Preliminary Views, *Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of*

Decision-Useful Financial Reporting Information (the Conceptual Framework PV), states, "financial reporting should provide information to help present and potential investors and creditors and others to assess the amounts, timing, and uncertainty of the entity's future cash inflows and outflows (the entity's future cash flows)."

12. The staff is of the view that a valuation multiple, which is assigned to changes in assets and liabilities in order to estimate the value of an entity, represents the amounts, timing, and uncertainty of an entity's future cash inflows and outflows. An entity's price-earnings (P/E) multiple can be viewed as the weighted-average valuation multiple of the components of its earnings. The staff asserts that disaggregating the components of earnings based on (a) the valuation multiple assigned to those components and (b) the reasons for assigning that valuation multiple will assist users in predicting future cash flows and thus assessing the value of an entity.

Staff Recommendation

13. To be useful in predicting future cash flows, the staff recommends that information related to changes in assets and liabilities should be disaggregated based on whether the information is assigned the same valuation multiple for the same reason.

Question for the Boards:

2. Should disaggregation of information related to changes in assets and liabilities be based on whether the information is assigned the same valuation multiple for the same reason?

PART B: RECONCILIATION OF STATEMENTS OF FINANCIAL POSITION

Issue B-1: Presenting a Reconciliation of Statements of Financial Position

14. *"A Comprehensive Business Reporting Model: Financial Reporting for Investors"* (the CFA paper), issued by the CFA Centre for Financial Market Integrity, proposes a reconciliation of the beginning and ending statements of financial position of the period. The proposed reconciliation uses the following classifications, although the definition for each classification is not necessarily clear in that paper:

    a. Cash effect of prior-period accruals
    b. Current period cash transactions
    c. Accruals
    d. Valuation adjustments – estimates
    e. Valuation adjustments – fair value

15. Because a reconciliation of statements of financial position would include changes in the reported amounts of assets and liabilities, the staff considered whether such a reconciliation should be presented as an application of the working principle regarding helping users understand what causes a change in individual assets and liabilities.

16. As discussed in Issue A-1, the staff recommends that the cohesiveness working principle be applied at the line-line item level. A reconciliation of the beginning and ending statements of financial position would be a powerful tool to achieve this principle because it would explain how the changes in the assets and liabilities tie into the statement of comprehensive income and the statement of cash flows.

17. The staff notes that changes in assets and liabilities are due to the following:

    a. Cash transactions
    b. Remeasurements

c. Non-cash, non-remeasurements that give rise to income or expense for the current period
d. Non-cash changes in assets and liabilities that do not give rise to income or expense for the current period.

Thus, a reconciliation of the changes in assets and liabilities has the potential to satisfy the "understanding what causes changes" working principle. Each of the above components is discussed in Issues B2-B8.

Staff Recommendation

18. The staff recommends that all entities be required to present a reconciliation of statements of financial position in the notes to financial statements for each period financial statements are presented.

Question for the Boards:

3. Should a reconciliation of statements of financial position be presented in the notes to financial statements for each period financial statements are presented?

Issue B-2: Cash Transactions

19. The staff considered the following Alternatives for how cash transactions should be presented in the reconciliation of statements of financial position:

Alternative 1: Present all cash transactions during the period as one component. The amounts presented should tie directly into the statement of cash flows.

Alternative 2: Disaggregate cash transactions during the period into the following components:

(a) cash transactions that give rise directly to income or expense for the current period and any collections of receivables and payments of payables related to income and expense items for the current period; and
(b) all other cash transactions.

20. Under Alternative 1, all collections of receivables, including those that relate to income from current and prior periods, would be presented together. Under Alternative 2, the collection of receivables that relate to income for the current period are discerned from those that relate to income from prior periods.

21. Alternative 1 is fairly straightforward. Academic studies conducted thus far indicate that it would be useful to users if information was presented under both accrual accounting and cash-based accounting. Cash-based accounting in this context covers all cash, which is consistent with Alternative 1.

22. Alternative 2 would present the portion of income and expense recognized during the current period that accompanies cash transactions within the same period. The CFA Paper proposes this disaggregation (see paragraph 14), although their rationale is not clearly stated.

23. The staff is of the view that Alternative 2 can be justified because income and expense recognized during the current period that accompanies cash transactions within the same period are more certain than income and expense items that do not accompany cash transactions. Accordingly, type (a) cash transactions in Alternative 2 are likely to be assigned a valuation multiple that is higher than other components of comprehensive income.

24. Moreover, presenting only information under Alternative 1 may be misleading because users would not be able to discern changes in assets and liabilities due to cash transactions related to income and expense recognized in prior periods and those recognized in the current period.

25. Another advantage of Alternative 2 is that a subtotal for comprehensive income could be presented in the reconciliation. That is because Alternative 2 disaggregates type (a) cash transactions, which give rise to components of

comprehensive income, and type (b) cash transactions that do not give rise to components of comprehensive income. Because Alternative 1 would include all cash transactions, a subtotal for comprehensive income cannot be presented in the reconciliation under that Alternative.

26. One concern with Alternative 2 may be that presenting this information cannot be justified from a cost-benefit perspective. Under Alternative 2, an entity would be required to track which cash receipts and payments relate to income and expenses for the current period. If the Boards decide to pursue disaggregating cash transactions in the reconciliation (Alternative 2), the staff is of the view that the forthcoming preliminary views document explicitly asks constituents the costs and benefits of this information.

Staff Recommendation

27. The staff recommends Alternative 2. The staff is of the view that the disaggregation under Alternative 2 would provide additional useful information that cannot be obtained from Alternative 1 in the sense that it allows users to assess the quality of earnings by contrasting income and expense for the current period and cash flows related to income and expense for the current period. By adding the type (a) cash transactions and type (b) cash transactions in Alternative 2, information under Alternative 1 is always available.

Question for the Boards:

4. Should cash transactions be further disaggregated into those that relate to income and expense for the current period and others?

Issue B-3: Direct Cash Transactions and the Classification of Cash

28. Some cash transactions directly affect income or expense. When working on this reconciliation, it came to the staff's attention that cohesiveness would not be

fully achieved in the reconciliation for these direct cash transactions if cash were classified in a single category in the statement of financial position. That is, the changes in assets and liabilities in each category would not equal the subtotal presented for each category in the statement of comprehensive income. For example, if an entity classifies its cash as a financing asset, direct cash sales would give rise to changes in financing assets only; it would not affect any operating assets or liabilities. The staff notes that this issue arises because in their respective December 2006 Board meetings, the Boards confirmed that cash and cash equivalents should be classified in a single category.

29. In Memorandum #50C or Agenda Paper 9C, the staff recommends using cash only as the basis for preparing the statement of cash flows. This change would not affect this issue.

30. The staff considered the following Alternatives to resolve this issue:

Alternative 1:	All direct cash transactions would be constructed to flow through an accrual account (an item on the statement of financial position). For example, direct cash sales would be accounted for as two transactions: (a) the recognition of sales and a receivable and (b) the immediate collection of that receivable. By classifying the accrual account (in this example, the receivable) in the appropriate category (for example, the operating category), cohesiveness would be achieved. This construct would not prevent an entity from disaggregating cash sales from credit sales; in that case, an entity would similarly disaggregate its receivables. Cash would continue to be classified in a single category.
Alternative 2:	Allow an entity to allocate its cash into multiple categories. The Boards would need to change their decision related to the classification of cash.

31. The staff notes that under Alternative 2 in Issue B-1 (see paragraph 19), direct cash transactions and credit transactions with cash collections within the current

period are not distinguished. The staff is of the view that, in many cases, there is little value in separating direct cash transactions from credit transactions that are realized or settled within the same period. Reporting direct cash transactions as a change in cash effectively requires this distinction.

32. The staff observes difficulty in implementing Alternative 2 because cash can be used interchangeably across categories and it would be impossible to develop a method to allocate cash among categories that is not arbitrary. Thus the staff does not support Alternative 2.

Staff Recommendation

33. The staff recommends Alternative 1. In order to achieve cohesiveness within each category, direct cash transactions should be accounted for as two transactions for the purpose of presenting the reconciliation.

Question for the Boards:

5. How should direct cash transactions be accounted for, for the purpose of presenting the reconciliation?

Issue B-4: Disaggregation of Remeasurements

34. Remeasurements are defined as "changes in prices or estimates." This definition does not include initial recognition of assets and liabilities, nor does it include any systematic allocation of costs (such as depreciation).

35. At the October 2006 joint Board meeting, the Boards instructed the staff to explore whether remeasurements can be further disaggregated. The staff considered the reason for disaggregating remeasurements. While remeasurements usually are assigned a valuation multiple of one (which indicates that the change in the asset or liability affects the value of the entity for that

change only and does not extend to the future), there are two types of remeasurements:

a. Remeasurements that are assigned a valuation multiple of one because the probability of change in the asset or liability occurring in the future is very high (or almost certain) but the probability-weighted expected change in the asset or liability is zero. This is often referred to as a "random walk" because past and future price changes are not indicative of future price changes.

b. Remeasurements that are assigned a valuation multiple of one because the probability of change in the asset or liability occurring in the future is very low (or uncertain).

36. The staff is of the view that there is value in disaggregating type (a) remeasurements from type (b) remeasurements because the expected change in assets and liabilities for type (a) remeasurements are constantly zero while the expected change in assets and liabilities for type (b) remeasurements would depend on the users' assessment of the change occurring in the future.

37. The staff notes that the timing and frequency of remeasurements are promulgated in accounting standards, even though the value of the asset or liability is changing every minute. Recurring remeasurements, such as changes in the value of trading securities, would usually be classified as type (a) remeasurements, whereas non-recurring remeasurements, such as impairment losses, would usually be classified as type (b) remeasurements.

38. The staff considered the following Alternatives for determining which recurring changes in assets and liabilities should be discerned from other remeasurements:

Alternative 1: Only recurring fair value changes (as used in FASB Statement No. 157, *Fair Value Measurements*) should be discerned from other remeasurements.

Alternative 2: Recurring fair value changes and recurring fair value-like measurement changes should be discerned from other remeasurements. Examples of recurring fair value-like measurement changes include inventories measured at market value under ARB 43, Chapter 4, *Inventory Pricing,* and biological assets measured at fair value less estimated point-of-sale costs under IAS 41, *Agriculture.*

Alternative 3: All recurring remeasurements should be discerned from other remeasurements.

39. Alternative 3 would include various remeasurements of estimates, including bad debt allowances. The staff is of the view that these estimates do not necessarily follow a "random walk" because the estimate is made from the entity's perspective, rather than a market participant perspective. The staff is of the view that remeasurements included in Alternative 1 would follow a "random walk" based on the definition of fair value. Remeasurements included in Alternative 2 are likely to follow a "random walk" but would depend on the definition of fair value-like measurements.

40. Thus, one disadvantage of Alternative 2 would be that changes in fair value-like measurements would need to be defined. Alternative 1 would not have definitional issues because fair value is clearly defined in Statement 157.

Staff Recommendation

41. The staff recommends Alternative 1. While Alternative 1 may be too narrow in its scope and Alternative 2 would be conceptually preferable, the staff is of the view that Alternative 1 is the practical solution.

42. The staff is of the view that Alternative 1 has additional benefits. Limiting fair value changes to all recurring fair value changes would present the changes in assets and liabilities that are measured under a "pure" fair value model (that is, assets and liabilities are initially recognized at fair value and are subsequently measured at fair value on a recurring basis) separately. Moreover, the Boards have indicated, on several occasions, that fair value is the most relevant

measurement attribute. Under Alternative 1, changes in fair value-like measurements would not be mixed with fair value changes.

Question for the Boards:

6. Should recurring fair value changes be presented separately from other remeasurements?

Issue B-5: Other Comprehensive Income Items

43. The staff considered whether other comprehensive income (OCI) items, which would all meet the definition of remeasurements, should be presented separately from other remeasurements in the reconciliation. As discussed at the October 2006 joint Board meeting, OCI items will be presented in the statement of comprehensive income for the time being.

Staff Recommendation

44. The staff does not recommend presenting OCI items separately from other remeasurements in the reconciliation because the staff is of the view that those two types of remeasurements are no different in terms of predicting future cash flows. In the reconciliation, the effects of recycling are likely to be presented in multiple places: (a) the changes in assets and liabilities for the period; (b) change in non-OCI items (currently net income) due to recycling; and (c) change in OCI due to recycling.

Question for the Boards:

7. Should other comprehensive income items be presented separately from other remeasurements?

Issue B-6: Exceptions to Remeasurements

45. Before this project became a joint project, the IASB considered a statement of comprehensive income with a remeasurement column. Participants of the field test of the IASB's proposed statement of comprehensive income challenged, on both conceptual and measurement-related grounds, the presentation of write-downs of accounts receivable and inventory impairments as remeasurements. While those write-downs meet the definition of remeasurements, the staff considered whether remeasurements related to certain assets and liabilities should be excluded from being presented as remeasurements.

46. As discussed in paragraph 35, remeasurements are usually assigned a valuation multiple of one. However, certain remeasurements may be assigned a valuation multiple higher than one when the probability of a change in the asset or liability occurring in the future is very high (or certain) and the probability-weighted expected change in the asset or liability is different than zero. Consider, for example, an entity that trades securities as its major business. The unrealized gains on its trading securities are likely to be assigned a valuation multiple higher than one because there is an expectation of ongoing gains from trading activity.

47. The staff is of the view that remeasurements that may be assigned a valuation multiple higher than one are remeasurements of short-term operating assets and liabilities.

48. To address the concerns of IASB constituents, the staff considered the following Alternatives related to the presentation of remeasurements related to operating assets and liabilities:

Alternative 1: An entity would be **allowed**, as an accounting policy choice, to present remeasurements related to certain short-term operating assets and liabilities in the non-remeasurements component, provided that the reason can be justified based on the persistence of the change in those asset and liabilities.

Alternative 2: An entity would be **required** to present remeasurements related to short-term operating assets and liabilities in the non-remeasurements component.

Alternative 3: There would be no exceptions to what is presented in the remeasurement component.

49. The staff notes that the Boards have discussed in their respective December 2006 Board meetings that not all entities will present a classified statement of financial position. Therefore, some entities will not have identified their assets and liabilities as short- and long-term. At the same time, the staff is of the view that including all operating assets and liabilities in the scope of this exception would make the scope too broad.

Staff Recommendation

50. The staff recommends Alternative 3. The staff is of the view that users would be able to discern which remeasurements relate to short-term operating assets and liabilities within the reconciliation, regardless of whether a classified statement of financial position is presented. Users would be able to assign a valuation multiple that is higher than one if they desire to do so.

51. The staff notes that there is some overlap with this issue and the discussion of Alternative E in Issue 1 of Memorandum #50B or Agenda Paper 9B (which discusses short- and long-term subcategorization on the statement of comprehensive income). If an exception to remeasurements is required (Alternative 2), remeasurements of short-term operating assets and liabilities would be presented in the non-remeasurements component and, therefore, the distinction between the items presented in the remeasurements component and the non-remeasurements component would function similarly to the distinction between short-term income and long-term income. Accordingly, the staff is of

the view that under Alternative 2 there would be no need for short- and long-term subcategories on the statement of comprehensive income. Conversely, if the Boards prefer short- and long-term subcategories on the statement of comprehensive income (Alternative E of Memorandum #50B or Agenda Paper 9B), there would be no need to consider exceptions to remeasurements because short- and long-term remeasurements would be clearly distinguished.

Question for the Boards:

8. Should there be exceptions to what is included in the remeasurements component for certain short-term operating assets and liabilities?

Issue B-7: Disaggregation of Non-cash Non-Remeasurements that are Recognized in Income or Expense for the Current Period

52. Non-remeasurement items that are not cash transactions but are recognized in income or expense for the current period consist of the following:

    a. Initial recognition of an estimate (for example, initial recognition of provisions)
    b. Systematic allocation of costs (for example, depreciation and unwinding of a discount rate for asset retirement obligations (AROs))
    c. Other timing differences between the period income or expense is recognized and the period actual cash flows occur (for example, the recognition of rent expense prepaid in prior periods and accrued expenses).

53. The staff considered whether these components should be presented separately from other components within non-remeasurements that are recognized in income or expense for the current period.

Staff Recommendation

54. The staff recommends that other timing differences (items in (c)) should be presented separately within non-remeasurements that are not cash transactions but are recognized in income or expense for the current period. The staff is of the

view that items in (c) are different from those in (a) and (b) in the sense that the recognition of income and expense requires little judgment by the entity. Accordingly, items in (c) are likely to be assigned a valuation multiple higher than items classified in (a) and (b) and thus should be presented separately.

55. The staff further recommends that other non-remeasurements (items in (a) and (b)) should be presented together as “other non-remeasurements.”

Question for the Boards:

9. Should timing differences other than initial recognition of estimates and systematic allocation of costs be presented separately from other non-remeasurements?

Issue B-8: Non-Cash Changes in Assets and Liabilities that are Not Recognized in Income or Expense for the Current Period

56. In order to complete the reconciliation, changes in assets and liabilities that neither affect income or expense nor accompany cash would need to be presented separately. This column in the reconciliation would include typical non-cash transactions (such as converting debt to equity or obtaining an asset by entering into a capital lease) as well as transfers between categories (for example, from the operating category to the discontinued operations category).

Staff Recommendation

57. The staff recommends that changes in assets and liabilities that neither affect income or expense nor accompany cash should be presented separately.

Question for the Boards:

10. Should changes in assets and liabilities that neither affect income or expense nor accompany cash be presented separately in the reconciliation?

PART C: STATEMENT OF COMPREHENSIVE INCOME

Issue C-1: A Disaggregated Statement of Comprehensive Income

58. At the October 2006 joint Board meeting, the Boards discussed how components of comprehensive income should be disaggregated within the statement of comprehensive income or note thereto. This section discusses whether that disaggregation is still necessary if the reconciliation of the statements of financial position is presented.

59. The staff acknowledges that users usually predict future cash flows based on the captions provided in the statement of comprehensive income, statement of cash flows, or both. That is, users usually do not predict future cash flows based on the captions provided in the statement of financial position.

60. The staff considered recommending both a reconciliation of the statements of financial position and a disaggregated statement of comprehensive income. However, the staff concluded that providing both of these pieces of information would be redundant because the disaggregation criteria would be basically the same.

Staff Recommendation

61. The staff recommends that a disaggregated statement of comprehensive income not be included, either within the statement of comprehensive income or note thereto, as it is unnecessary. The staff is of the view that redundancy can be avoided by presenting the captions used in the statement of comprehensive income and the statement of cash flows in the reconciliation of the statements of financial position.

62. As discussed in Issue A-1, the staff recommends that the cohesiveness principle be applied at the line-item level. If a change in an asset or liability relates to

more than one line item in the statement of comprehensive income or the statement of cash flows, the reconciliation for that asset or liability would be presented using multiple rows. By relating the changes in assets and liabilities to the captions in the statement of comprehensive income and the statement of cash flows, the reconciliation will provide users with cohesive financial statements at the line-item level.

63. The staff does not support presenting a disaggregated statement of comprehensive income but not presenting a reconciliation of statements of financial position. This is because the reconciliation is more intuitive and consistent with the cohesiveness principle.

Question for the Boards:

11. Should the reconciliation of statements of financial position include information that indicates how the changes in assets and liabilities relate to the line items presented in the statement of comprehensive income and the statement of cash flows?

12. Should a disaggregated statement of comprehensive income be presented, either within the statement of comprehensive income or note thereto, in addition to the reconciliation of statements of financial position?

PART D: STATEMENT OF CASH FLOWS

64. This section discusses how the statement of cash flows should be presented, given the staff recommendation thus far.

Issue D-1: The Direct Method and the Cohesiveness Working Principle

65. At the December 2006 IASB Board meeting, Board members asked the staff to clarify the meaning of the direct method of presenting cash flows from operating

activities. Under existing guidance (FASB Statement No. 95, *Statement of Cash Flows,* as amended, and IAS 7, *Cash Flow Statements*), the direct method presents information regarding the actual receipts and payments of cash and cash equivalents.

66. The staff is of the view that the perspective of presenting cash flow information that enhances the understanding of information generated by accrual accounting is missing in existing guidance. The Boards agreed at their respective December 2006 Board meetings that the objectives of the statement of cash flows provided in Statement 95 should be incorporated as working principles that would apply to financial statements as a whole. One of those "cash flow" working principles states that "financial statements should present information in a manner that will help investors, creditors, and others to assess the differences between cash transactions and accrual accounting."

67. In general, information generated by accrual accounting provides more useful information than that generated by cash-based accounting. Paragraph OB19 of the Conceptual Framework PV states:

> The accrual accounting information in financial reports about an entity's resources and claims and changes in resources and claims generally provides a better basis for assessing cash flow prospects than information solely about the entity's current cash receipts and payments.

68. At the same time, paragraph OB24 of the Conceptual Framework PV notes the importance of cash flow information as follows:

> Cash flow information provides a perspective on the entity's economic activities that is different from the one provided by accrual accounting – a perspective that is largely free from the measurement and related issues inherent in accrual accounting.

69. Consistent with the above views in the Conceptual Framework PV, the staff is of the opinion that cash flow information should be presented in a way that provides users a basis for assessing cash flow prospects based on accrual accounting.

70. As discussed in Issue A-1, the staff recommends that the cohesiveness principle be applied at the line-item level. The staff is of the view that the cohesiveness principle applied at the line-item level would lead to the conclusion that all categories within the statement of cash flows should be presented such that actual receipts and payments of cash are disaggregated in a manner that parallels the line items in the statement of comprehensive income. For example, cash collected from customers, which includes cash sales and collection of receivables from customers, should be presented as a line item called *cash receipts from sales* in the statement of cash flows so that it is comparable to the line item labeled *sales* in the statement of comprehensive income.

71. The staff acknowledges that the line items in the statement of cash flows cannot completely parallel the line items in the statement of comprehensive income. An example would be capital expenditure in the statement of cash flows and depreciation expense in the statement of comprehensive income. Nevertheless, the staff is of the view that the line items in the two statements should be aligned to the extent possible.

Staff Recommendation

72. Based on the above discussions, the staff recommends that the statement of cash flows be presented based on actual receipts and payments and that the line items in the statement of cash flows are disaggregated in a manner that parallels the line items in the statement of comprehensive income to the extent possible.

Question for the Boards:

13. Should the statement of cash flows be presented such that actual receipts and payments of cash are disaggregated in a manner that parallels the line items in the statement of comprehensive income to the extent possible?

Issue D-2: Reconciliations

73. At their respective December 2006 Board meetings, the Boards indicated a leaning that, if the direct method were used for the presentation of cash flows from operating activities, a reconciliation between operating income and cash flows from operating activities should be presented in the financial statements.

Staff Recommendation

74. The staff recommends that reconciliations between items in the statement of comprehensive income and the statement of cash flows not be required. The staff is of the view that if line items in the statement of cash flows are aligned with the line items in the statement of comprehensive income, there should be no need to reconcile items in the statement of comprehensive income and the statement of cash flows.

Question for the Boards:

14. Should any reconciliation between items in the statement of comprehensive income and the statement of cash flows be required?