



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://www.iasb.org)**

**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

### **INFORMATION FOR OBSERVERS**

**Board Meeting:** 15 November 2007, London

**Project:** Financial Statement Presentation

**Subject:** Totals and subtotals in the financial statements  
(Agenda Paper 7B)

---

### **INTRODUCTION**

1. The purpose of the November meeting on financial statement presentation is for the Boards to agree on the totals and subtotals to be presented in the financial statements (the statement of financial position, statement of comprehensive income, and the statement of cash flows). While this memorandum describes the various alternatives for presenting the statement of comprehensive income that will be included in the preliminary views document, the purpose of the meeting is **not** to debate or discuss Board member views on those Alternatives. The issues to be addressed are as follows:
  - Issue 1: Overall Aggregation Principle
  - Issue 2: Common Totals and Subtotals
  - Issue 3: Totals and Subtotals Unique to the Statement of Financial Position
  - Issue 4: Totals and Subtotals Unique to the Statement of Comprehensive Income
  - Issue 5: Totals and Subtotals Unique to the Statement of Cash Flows.

## ISSUE 1: OVERALL AGGREGATION PRINCIPLE

2. In September 2006, the Boards agreed to include the following principle for aggregation and disaggregation in the financial statements, based on IAS 1, *Presentation of Financial Statements (revised 2007)* (paragraphs 55, 85, and 86):

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

3. Based on that aggregation principle, an entity would be permitted to show subtotals in the financial statements that are not explicitly required (required subtotals for each statement is discussed in Issues 3-5). The staff considered whether there should be any modifications to the aggregation principle or any subtotals that should be explicitly precluded. The staff is aware that certain industries, such as the real estate and insurance industries, may want to include subtotals in the financial statements that are important for their industry. The staff is of the view that entities should be able to include subtotals that are relevant for their business. This is consistent with the management approach used in classification and disaggregation and the aggregation principle in IAS 1 noted above. However, the staff believes that there should be some boundaries or guidelines for “discretionary” subtotals.
4. Thus, the staff recommends that the following guidelines be incorporated to the aggregation principle:
  - a. Subtotals must flow from the order of the sections; that is, an entity cannot randomly choose subtotals or line items to add together. (The order of sections on each statement is discussed in Issues 3-5.)
  - b. Additional subtotals an entity chooses to include should be presented with no more prominence than any required subtotals.

**Question for the Boards:**

**Q1 Should entities have flexibility in providing subtotals in the financial statements (consistent with the aggregation principle in IAS 1)? If so, should the additional guidance in paragraph 4a-b be incorporated in that aggregation principle?**

**ISSUE 2: COMMON TOTALS AND SUBTOTALS**

5. The working format is a categorization scheme based on the functional activities of an entity that achieves the working principle of separating financing activities from business activities. The cohesiveness working principle results in common categories and sections on each of the primary financial statements (except for the statement of changes in equity). The working format and cohesiveness principle lead the staff to the conclusion that there should be common subtotals on each of the financial statements. Thus, the staff recommends that a total be presented for each required category and section as illustrated in the table that follows this paragraph. This will result in each financial statement (except the statement of changes in equity) having common totals and subtotals.

| <b>Statement of Financial Position</b>                    | <b>Statement of Cash Flows</b>                              | <b>Statement of Comprehensive Income</b>                         |
|---|---|--|
| <b>BUSINESS</b>   | <b>BUSINESS</b>   | <b>BUSINESS</b>  |
| Operating assets  | Cash flows from operating activities                        | Operating income and expenses                                    |
| Operating liabilities                                     |   |  |
| <i>Subtotal (A1)</i>                                      | <i>Subtotal (A1)</i>  | <i>Subtotal (A1)</i>   |
| Investing assets  | Cash flows from investing activities                        | Investing income and expenses                                    |
| Investing liabilities                                     |   |  |
| <i>Subtotal (A2)</i>                                      | <i>Subtotal (A2)</i>  | <i>Subtotal (A2)</i>   |
| <b>TOTAL (A) = Subtotals (A1) + (A2)</b>                  | <b>TOTAL (A) = Subtotals (A1) + (A2)</b>                    | <b>TOTAL (A) = Subtotals (A1) + (A2)</b>                         |
| <b>DISCONTINUED OPERATIONS</b>                            | <b>DISCONTINUED OPERATIONS</b>                              | <b>DISCONTINUED OPERATIONS</b>                                   |
| <b>TOTAL (B) —</b> ∑Net assets of Discontinued operations | <b>TOTAL (B) —</b> ∑Cash flows from Discontinued operations | <b>TOTAL (B) —</b> ∑ Income/expense from Discontinued operations |
| <b>FINANCING</b>  | <b>FINANCING</b>  | <b>FINANCING</b>   |
| Financing assets  | Cash flows from financing assets                            | Financing income   |
| <i>Subtotal (C1)</i>                                      | <i>Subtotal (C1)</i>  | <i>Subtotal (C1)</i>   |
| Financing liabilities                                     | Cash flows from financing liabilities                       | Financing expenses   |
| <i>Subtotal (C2)</i>                                      | <i>Subtotal (C2)</i>  | <i>Subtotal (C2)</i>   |
| <b>TOTAL (C) = Subtotals (C1) + (C2)</b>                  | <b>TOTAL (C) = Subtotals (C1) + (C2)</b>                    | <b>TOTAL (C) = Subtotals (C1) + (C2)</b>                         |
| <b>INCOME TAXES</b>                                       | <b>INCOME TAXES</b>   | <b>INCOME TAXES</b>  |
| Income tax assets   |   |  |
| Income tax liabilities                                    |   |  |
| <b>TOTAL (D) —</b> ∑Net income tax asset/liability        | <b>TOTAL (D) —</b> ∑Cash flows from income taxes            | <b>TOTAL (D) —</b> ∑ Income tax expense/benefit                  |
| <b>EQUITY</b>   | <b>EQUITY</b>   | --   |
| <b>TOTAL (E) —</b> ∑Equity                                | <b>TOTAL (E) —</b> ∑Equity                                  | --   |

Note: The order of the sections is addressed in Issues 3-5.

### **Question for the Boards:**

**Q2 Should there be a requirement to present subtotals in the financial statements for each of the required categories and sections as illustrated in the table above?**

### **ISSUE 3: TOTALS AND SUBTOTALS UNIQUE TO THE STATEMENT OF FINANCIAL POSITION**

#### **Subtotals in a Classified Statement of Financial Position**

6. Entities that present a classified statement of financial position will classify all assets and liabilities into short-term and long-term subcategories. Consistent with the recommendation in Issue 1, the existence of short and long-term subcategories would lead to the inclusion of subtotals for those subcategories in each of the categories on the statement of financial position (illustrated on page 1 of the Appendix). The staff

suggests that a subtotal not be required if a subcategory includes only one line item as long as it is clear whether the nature of the item is short or long-term.

### **Segregation of Assets and Liabilities in the Operating Category**

7. The Boards had been of the view that the assets and liabilities in the operating category should be presented together; that is, there should be no delineation or subtotal for operating assets or for operating liabilities. Based on Board input earlier this year, the staff modified its illustrative example of the statement of financial position to list all of the assets in the operating category prior to the liabilities. However, to date the staff has not illustrated a subtotal for operating assets or for operating liabilities. Board members had a favorable reaction to the recast financial statements that included those subtotals. Thus, the staff would like the Boards to reconsider whether operating assets should be permitted or required to be separated from operating liabilities.
8. The staff is of the view that an entity should be required to present assets separate from liabilities in the operating assets and liabilities category. However, an entity should not be required to draw subtotals for operating assets and for operating liabilities prior to drawing a subtotal for net operating assets. Not making those subtotals mandatory will provide entities that present a classified statement of financial position the flexibility to present the operating assets and liabilities category in one of two ways (the *italics* would be subtotals):
  - a. **Operating assets:** *short term; long term;*  
**Operating liabilities:** *short-term; long-term*
  - b. **Short-term operating assets and liabilities:** *assets; liabilities;*  
**Long-term operating assets and liabilities:** *assets; liabilities.*

### **Additional Subtotals and Order in Which Sections are Displayed**

9. The staff considered whether an entity should be required to present the sections in the statement of financial position in a certain order from which additional subtotals might be drawn. As illustrated in the following table, possible subtotals could be:
  - a. *Net Assets and Equity*
  - b. *Value Creating and Funding*

| “Net assets/Equity” format         | “Value creating/Funding” format    |
|------------------------------------|------------------------------------|
| <b>BUSINESS</b>                    | <b>BUSINESS</b>                    |
| <b>Operating A/L</b>               | <b>Operating A/L</b>               |
| Short term subtotal                | Short term subtotal                |
| Long term subtotal                 | Long term subtotal                 |
| <i>Net operating A/L</i>           | <i>Net operating A/L</i>           |
| <b>Investing A/L</b>               | <b>Investing A/L</b>               |
| Short term subtotal                | Short term subtotal                |
| Long term subtotal                 | Long term subtotal                 |
| <i>Net investing A/L</i>           | <i>Net investing A/L</i>           |
| <b>∑ Net business activities</b>   | <b>∑ Net business activities</b>   |
| <b>DISCONTINUED OPERATIONS</b>     | <b>DISCONTINUED OPERATIONS</b>     |
| <b>∑ Net A/L held for sale</b>     | <b>∑ Net A/L held for sale</b>     |
| <b>INCOME TAXES</b>                | <b>INCOME TAXES</b>                |
| Short term subtotal                | Short term subtotal                |
| Long term subtotal                 | Long term subtotal                 |
| <b>Net income tax A/L</b>          | <b>Net income tax A/L</b>          |
|                                    | <b>∑ Total Value-Creating</b>      |
| <b>FINANCING</b>                   | <b>FINANCING</b>                   |
| <b>Financing assets</b>            | <b>Financing assets</b>            |
| Short term subtotal                | Short term subtotal                |
| Long term subtotal                 | Long term subtotal                 |
| <i>Total financing assets</i>      | <i>Total financing assets</i>      |
| <b>Financing liabilities</b>       | <b>Financing liabilities</b>       |
| Short term subtotal                | Short term subtotal                |
| Long term subtotal                 | Long term subtotal                 |
| <i>Total financing liabilities</i> | <i>Total financing liabilities</i> |
| <b>Net financing A/L</b>           | <b>Net financing A/L</b>           |
| <b>∑ Total Net Assets</b>          |                                    |
| <b>EQUITY</b>                      | <b>EQUITY</b>                      |
| <b>∑ Total Equity</b>              | <b>∑ Total Funding</b>             |

10. The “Net assets/Equity” format preserves the cohesiveness principle and gives more prominence to the subtotals and totals for each one of the required categories and sections. Some might prefer that format because it preserves the “balancing” aspect of the current display in the statement of financial position as *Total Net Assets* will equal *Total Equity*. However, those subtotals are not consistent with the working format that is moving away from a statement of financial position presentation based on elements to one based on functional activities.
11. On the other hand, the “Value creating/Funding” format provides a clear distinction between the assets and liabilities used in an entity’s value creating activities and the assets, liabilities, and equity used to fund those activities. However, as illustrated, income taxes are included in the value-creating subtotal. Because income taxes relate to **both** value creating and funding activities, the staff is of the opinion that income tax assets and

liabilities should not be included in either subtotal. Thus, the staff does not support the value-creation/funding format as illustrated.

12. The staff is of the view that the statement of financial position should be presented in the order shown below; however, totals drawn from the totals of those sections should not be required.
  - a. Business section
  - b. Discontinued Operations section
  - c. Income Taxes section (note: this is in a different order than the recommended order on the statement of comprehensive income in Issue 4 (paragraph 35))
  - d. Financing section
  - e. Equity section.
13. Consistent with the aggregation principle discussed in Issue 1, the above suggested order will make it easy for a reader to draw subtotals for “value creating” and “funding” activities if useful for analysis.

#### **Total Assets and Total Liabilities**

14. In October 2006, the Boards agreed that total short-term assets, total long-term assets, total assets, and similar totals for liabilities should be disclosed in the notes to financial statements as illustrated below. The staff would like the Boards to confirm that view at their meetings in November 2007.

|                   | <b>Assets</b> | <b>Liabilities</b> |
|-------------------|---------------|--------------------|
| <b>Short-term</b> | 7,032,063     | 1,363,609          |
| <b>Long-term</b>  | 4,916,201     | 2,698,344          |
| <b>Total</b>      | 11,948,264    | 4,061,953          |

#### **Staff Recommendation**

15. The staff recommends the following:
  - a. An entity that presents a classified statement of financial position should be **required** to present a subtotal for each short-term and long-term subcategory in each of the categories (unless there is only one line item in that subcategory).

- b. Operating assets should be separated from operating liabilities and an entity should be permitted but not required to include a subtotal for operating assets and for operating liabilities.
- c. The sections in the statement of financial position should be presented in the following order: business, discontinued operations, income taxes, financing, and equity. No additional subtotals would be required. However, an entity should be permitted to include additional subtotals that flow from those sections consistent with the aggregation principle discussed in Issue 1.
- d. The notes to financial statements should include totals for short-term assets, short-term liabilities, long-term assets, long-term liabilities, total assets, and total liabilities.

### **Question for the Boards**

- Q3** Do the Boards agree that an entity should be required to present a subtotal for each short-term and long-term subcategory in each of the required categories (unless there is only one line item in that subcategory)?
- Q4** Do the Boards agree that an entity should (a) separate assets and liabilities within the operating assets and liabilities category and (b) be permitted but not required to include a subtotal for operating assets and for operating liabilities?
- Q5** Do you agree with the proposed order for the sections in the statement of financial position (paragraph 15c)? Do you agree that additional subtotals should not be *required*? Should any subtotals be *precluded*?
- Q6** Do the Boards confirm that the notes to financial statements should include totals for short-term assets, short-term liabilities, long-term assets, long-term liabilities, total assets, and total liabilities?



## **ISSUE 4: SUBTOTALS AND TOTALS UNIQUE TO THE STATEMENT OF COMPREHENSIVE INCOME**

### **Background—Alternatives for Presenting the Statement of Comprehensive Income**

#### **Long-term goal**

16. The initial discussion document will present principles and guidance for presentation of information in the financial statements that reflects the Boards' long-term goal of recognizing **all** current period changes in assets and liabilities in one of the functional categories or sections in the statement of comprehensive income, thereby rendering presentation of a separate OCI category and the mechanism of recycling unnecessary. However, to achieve this, current standards that require recognition of amounts in OCI will need to be changed. In addition, as the scope of the financial statement presentation project does not include recognition issues, both Boards agreed to address those standards individually and separately, rather than as part of the financial statement presentation project.

#### **Interim view**

17. The Boards decided that, as an interim step, the final standard produced by this project may need to continue to permit the presentation of OCI items in a separate section of the statement of comprehensive income. The Boards directed the staff to develop a presentation format that can be used in the interim (until the long-term goal can be achieved).

18. In March 2007, FASB and IASB Board members expressed their preferred interim view for presenting the components of comprehensive income, including other comprehensive income items (OCI), from six alternatives (Alternatives A—E'). The Boards agreed to include three of those Alternatives in the discussion document (pending some additional work on Alternative E'). While the Boards previously discussed all three alternatives as interim views, the third is more akin to a long-term view because it would eliminate the notion of recycling. The Boards agreed at their October 2007 joint meeting to include that third alternative along with a fourth alternative that is consistent with the working format (and with the Boards' long-term goal) in the discussion document.

19. The following paragraphs describe each of the Alternatives mentioned above and discuss possible additional required subtotals for each Alternative. Those subtotals unique to the statement of comprehensive income will be presented in addition to the “common” subtotals discussed in Issue 2.

**Alternative 1 (Interim View)**

20. Under Alternative 1, illustrated on page 2 of the Appendix, an entity would present all current period changes in assets and liabilities in one of the functional categories or sections (operating, investing, financing, discontinued operations, and income taxes) in the statement of comprehensive income. A subcategory within each functional category would distinguish items of income and expense that are components of OCI from those that are not OCI components. An entity would reclassify (recycle) OCI items, as required by other standards, from the OCI subcategory to the corresponding operating, investing, or financing category.
21. An entity would present OCI items other than foreign currency translation adjustments (FCTAs) in the statement of comprehensive income consistent with the classification of the asset or liability that gives rise to those items. For example, an entity would present an unrealized gain or loss on an available-for-sale security in the investing category if it classified that security in the investing category on the statement of financial position. An entity would present foreign currency translation adjustments in the statement of comprehensive income:
- a. In a new FCTA section if related to consolidated subsidiaries and proportionately consolidated joint ventures
  - b. In the same category as the equity method investment if related to an equity method investment.

**Additional Subtotals for Alternative 1**

22. Consistent with the aggregation principle addressed in Issue 1 and the common subtotals addressed in Issue 2, an entity would present a subtotal for each of the OCI subcategories in Alternative 1. As Alternative 1 makes a distinction between OCI and non-OCI items, the staff is of the view that a subtotal should be required prior to the OCI subcategory in each section. That would result in a subtotal labeled *[Operating/Investing/Financing] income before other comprehensive income*.

23. The *Operating income before other comprehensive income* subtotal would be most similar to *Earnings before interest and taxes (EBIT)*, a popular metric used by analysts. Another subtotal of importance to analysts is *Gross profit*; that subtotal can easily be drawn within the operating category in Alternative 1.

#### **Alternative 2 (Interim View)**

24. Under Alternative 2 (illustrated on page 2 of the Appendix), an entity would present OCI items in the statement of comprehensive income in a separate section (OCI section) that would be presented with the same prominence as the business, financing, income tax, and discontinued operations sections. The OCI section would include operating, investing, financing, and FCTA categories. An entity would reclassify (recycle) OCI items, as required by other standards, from the OCI section to the corresponding category in the business, financing, or discontinued operations section.

#### **Additional Subtotals for Alternative 2**

25. Similar to Alternative 1, a *Gross profit* subtotal can be drawn in Alternative 2 and the *Operating income* subtotal would be most similar to the EBIT metric used in current practice. As OCI is a separate section in Alternative 2, the only additional subtotals in Alternative 2 relate to that section. Those would be *Pretax income before other comprehensive income* (following the OCI items) and *Other comprehensive income*. The *Other comprehensive income* subtotal would allow all OCI items to be analyzed and considered as a whole. While the *Pretax income before other comprehensive income* subtotal is a pretax amount, it would be the closest to *net income* in current practice.

### Additional Subtotals for Alternatives 1 and 2

26. The following table summarizes the unique subtotals that the staff believes should be required in Alternative 1 and 2.

|  | Alternative 1 | Alternative 2 |
|--|---------------|---------------|
| Gross profit   | X             | X             |
| [Operating/Investing/Financing] income before OCI          | X             |               |
| Other comprehensive [operating/investing/financing] income | X             | X             |
| Pre-tax income before other comprehensive income           |               | X             |
| Other comprehensive income                                 |               | X             |
| Pre-tax comprehensive income                               | X             | X             |
| Net Comprehensive Income                                   | X             | X             |

### Alternative 3 (Long-Term View)

27. Alternative 3 (illustrated on page 3 of the Appendix) breaks away from the working format and requires an entity to group changes in assets and liabilities that are of a similar nature together and present them in different sections or columns. Based on previous discussions between the staff and IASB members who supported Alternative E', the price-changing nature of an item will be the prominent characteristic for drawing a distinction. For example, ordinary income and expenses (such as revenues and wage expenses) would be distinguished from gains and losses due to market-related value changes (such as the revaluation of a building or the change in the fair value of a long term investment).

28. Under Alternative 3, the statement of comprehensive income would segregate market-related changes in (a) assets and liabilities that arise outside the core earnings process and (b) intangible assets and long-term fixed assets from all other changes in assets and liabilities. Both a columnar format and a top/bottom format could be used for segregating 'other market-related changes' and all other changes in assets and liabilities. The staff prefers the two-dimensional columnar format as it gives more meaning to the various subtotals and sends the message that all income and expenses of a particular category are equal, rather than some being separated at the bottom of the statement.

**Additional Subtotals for Alternative 3**

29. Similar to Alternatives 1 and 2, Alternative 3 will allow for a *Gross profit* subtotal and a *Net comprehensive income* subtotal. The *Operating income* subtotal (for the first column) would be similar to EBIT. The other possible subtotals in Alternative 3 are a bit unique because of the two column format: a *Pre-tax income* for each column and *(Net) Income* for each column.

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

30. The fourth alternative illustrated on page 3 of the Appendix is what the Boards initially considered when discussing how items currently reported as OCI items should be presented in the working format. Alternative 4 is similar to Alternative 1 (interim view) except that there is no concept of recycling (consistent with the Boards’ long-term goal) and all changes are classified in one of the functional categories—there is no subcategory for “former” OCI items.

**Additional Subtotals for Alternative 4**

31. Because Alternative 4 does not include the concept of other comprehensive income, there would be fewer subtotals than the other Alternatives. As with the other alternatives, *Gross profit* and *Net comprehensive income* would all be natural subtotals that could be drawn on Alternative 4. *Pre-tax comprehensive income* also could be drawn.

**Additional Subtotals for Alternatives 3 and 4**

32. The following table summarizes the additional subtotals that the staff believes should be required in Alternatives 3 and 4.

|                               | <b>Alternative 3</b> | <b>Alternative 4</b> |
|-------------------------------|----------------------|----------------------|
| Gross profit                  | X                    | X                    |
| Pre-tax income (both columns) | X                    |                      |
| (Net) Income (both columns)   | X                    |                      |
| Pre-tax comprehensive income  |                      | X                    |
| Net Comprehensive Income      | X                    | X                    |

### **Alternatives 2 and 3 with Income Taxes Allocated**

33. For illustrative purposes only, Alternatives 2 and 3 are included on page 4 of the Appendix with income taxes allocated. As discussed at the October 2007 joint meeting of the Boards, the discussion paper will include at least one illustration with income taxes allocated on the statement of comprehensive income. As illustrated, both Alternatives allow for a *Net income* subtotal—currently a key metric for both preparers and users.

### **Staff Recommendation**

34. The staff recommends the following subtotals be required to be presented in the statement of comprehensive income for:

- All Alternatives: *Gross profit*  
*Net comprehensive income*
- Alternative 1: *[Operating/Investing/Financing] income before OCI*  
*Other comprehensive [operating/investing/financing] income*  
*Pre-tax comprehensive income*
- Alternative 2: *Pre-tax income before other comprehensive income*  
*Other comprehensive income*  
*Pre-tax comprehensive income*
- Alternative 3: *Pre-tax income (for both columns)*  
*(Net) Income (for both columns)*
- Alternative 4: *Pre-tax comprehensive income*

35. The staff also recommends that the sections in the statement of comprehensive income be presented in the following order: business, discontinued operations, financing, other comprehensive income (Alternative 2), and income taxes. Consistent with the recommendation in Issue 1, an entity should be permitted to include any additional subtotals that flow from those sections, such as a subtotal for each of its functional expenses (for example, *Total cost of good sold* or *Total administrative expenses*).

### **Question for the Boards:**

**Q7 Do the Boards agree with the required additional subtotals and totals recommended in paragraph 34 for purposes of illustrating the various alternatives in the discussion document?**

**Q8** Should the order in which the sections are presented be prescribed? If so, do the Boards agree with the recommended order in paragraph 35?

**Q9** Should any subtotals be precluded from being presented on the statement of comprehensive income?

**ISSUE 5: TOTALS AND SUBTOTALS UNIQUE TO THE STATEMENT OF CASH FLOWS**

36. The staff has not identified any subtotals that should be required on the statement of cash flows other than the common subtotals recommended in Issue 2. Consistent with existing GAAP, the staff recommends that the statement of cash flows include a reconciliation of beginning and ending cash (as illustrated on page 5 of the Appendix). The staff also recommends that the sections in the statement of cash flows be presented in the same order as in the statement of comprehensive income. This is consistent with the notion that there should be line-item cohesiveness across the two statements to the extent practical. As recommended in Issue 4, that would be: business, discontinued operations, financing, other comprehensive income (Alternative 2), and income taxes.

**Question for the Boards:**

**Q10** Do the Boards agree that:

- a. The statement of cash flows should continue to include a reconciliation of beginning and ending cash**
- b. No other subtotals or totals should be required to be presented**
- c. The order of sections should be the same as the statement of comprehensive income?**

These illustrations are presented for discussion purposes only and should be read only in the context of the meeting papers. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards (and those that have are subject to change). Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented.

| <b>Statement of Financial Position</b>  |                    |                    |
|---|--------------------|--------------------|
|   | <b>2006</b>        | <b>2005</b>        |
| <b>BUSINESS</b>                         |                    |                    |
| <b>Operating assets and liabilities</b> |                    |                    |
| <i>Short term</i>                       |                    |                    |
| Accounts receivable                     | 642,600            | 395,000            |
| Less: Allowance for bad debts           | (25,278)           | (20,000)           |
| Inventory                               | 133,750            | 580,000            |
| Short term Assets                       | <u>751,072</u>     | <u>955,000</u>     |
| Accounts payable                        | (275,000)          | (750,000)          |
| Accrued liabilities                     | (58,000)           | (8,000)            |
| Advances from customers                 | (190,000)          | (15,000)           |
| Interest payable                        | (50,000)           |                    |
| Current portion of lease liability      | (9,208)            | -                  |
| Share-based compensation liability      | (13,500)           | (6,000)            |
| Short term Liabilities                  | <u>(595,708)</u>   | <u>(779,000)</u>   |
| <i>Long term</i>                        |                    |                    |
| Leased asset                            | 25,756             | -                  |
| Building                                | 4,232,755          | 3,600,000          |
| Less: Accumulated depreciation          | (256,500)          | (100,000)          |
| Long term Assets                        | <u>4,002,011</u>   | <u>3,500,000</u>   |
| Asset retirement obligation             | (9,255)            | -                  |
| Loss contingency                        | (2,600)            | -                  |
| Lease liability (excl current portion)  | (24,870)           | -                  |
| Accrued pension liability               | (4,800)            | (2,400)            |
| Long term Liabilities                   | <u>(41,525)</u>    | <u>(2,400)</u>     |
| Net operating assets                    | <u>4,115,850</u>   | <u>3,673,600</u>   |
| <b>Investing assets and liabilities</b> |                    |                    |
| <i>Long term</i>                        |                    |                    |
| Available-for-sale securities           | 191,100            | -                  |
| Investment in affiliate--equity method  | 412,250            | -                  |
| Investment in affiliate--at fair value  | 310,840            | -                  |
| Total investing assets                  | <u>914,190</u>     | <u>-</u>           |
| Net business assets                     | <u>5,030,040</u>   | <u>3,673,600</u>   |
| <b>DISCONTINUED OPERATIONS</b>          |                    |                    |
| Assets classified as held for sale      | 360,000            | 420,000            |
| Liabilities classified as held for sale | (120,000)          | (120,000)          |
| Net assets held for sale                | <u>240,000</u>     | <u>300,000</u>     |
| <b>INCOME TAXES</b>                     |                    |                    |
| <i>Short term</i>                       |                    |                    |
| Income tax payable                      | (75,451)           | (54,639)           |
| <i>Long term</i>                        |                    |                    |
| Deferred tax liability                  | (56,819)           | (23,699)           |
| Net income tax (liabilities)            | <u>(132,270)</u>   | <u>(78,338)</u>    |
| <b>FINANCING</b>                        |                    |                    |
| <b>Financing assets</b>                 |                    |                    |
| <i>Short term</i>                       |                    |                    |
| Cash                                    | 5,920,991          | 4,000,000          |
| Total financing assets                  | <u>5,920,991</u>   | <u>4,000,000</u>   |
| <b>Financing liabilities</b>            |                    |                    |
| <i>Short term</i>                       |                    |                    |
| Dividends payable                       | (72,450)           | (37,450)           |
| Short-term debt                         | (500,000)          | -                  |
| Short term financing liabilities        | <u>(572,450)</u>   | <u>(37,450)</u>    |
| <i>Long term</i>                        |                    |                    |
| Interest payable                        | (100,000)          | -                  |
| Bonds payable                           | (2,500,000)        | -                  |
| Long term financing liabilities         | <u>(2,600,000)</u> | <u>-</u>           |
| Net financing assets                    | <u>2,748,541</u>   | <u>3,962,550</u>   |
| <b>EQUITY</b>                           |                    |                    |
| Common stock and APIC                   | (5,000,000)        | (5,000,000)        |
| Treasury stock                          | 100,000            | 100,000            |
| Retained earnings                       | (2,661,034)        | (2,803,185)        |
| Accumulated OCI                         | (325,277)          | (154,627)          |
| Total (equity)                          | <u>(7,886,311)</u> | <u>(7,857,812)</u> |



These illustrations are presented for discussion purposes only and should be read only in the context of the meeting papers. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards (and those that have are subject to change). Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented.

## ALTERNATIVES 1 AND 2

| Alternative 1                                      |             |             | Alternative 2                              |             |             |
|--|-------------|-------------|--|-------------|-------------|
| STATEMENT OF COMPREHENSIVE INCOME                  |             |             | STATEMENT OF COMPREHENSIVE INCOME          |             |             |
|  | 2006        | 2005        |  | 2006        | 2005        |
| <b>BUSINESS</b>                                    |             |             |  |             |             |
| <b>Operating</b>                                   |             |             |  |             |             |
| Sales  | 2,775,000   | 2,580,750   | Sales                                      | 2,775,000   | 2,580,750   |
| Cost of goods sold                                 |             |             | Cost of goods sold                         |             |             |
| Change in inventory                                | (446,250)   | (415,013)   | Change in inventory                        | (446,250)   | (415,013)   |
| Materials  | (1,275,000) | (1,185,750) | Materials                                  | (1,275,000) | (1,185,750) |
| Labor  | (110,000)   | (102,300)   | Labor                                      | (110,000)   | (102,300)   |
| Overhead - depreciation of building                | (100,000)   | (93,000)    | Overhead - depreciation of building        | (100,000)   | (93,000)    |
| Overhead - depreciation of leased asset            | (5,944)     | (5,528)     | Overhead - depreciation of leased asset    | (5,944)     | (5,528)     |
| Interest expense                                   | (50,000)    |             | Interest expense                           | (50,000)    |             |
| Total  | (1,987,194) | (1,801,590) | Total                                      | (1,987,194) | (1,801,590) |
| Gross profit on sales                              | 787,806     | 779,160     | Gross profit on sales                      | 787,806     | 779,160     |
| Selling expenses                                   |             |             | Selling expenses                           |             |             |
| Compensation expense                               | (85,000)    | (79,050)    | Compensation expense                       | (85,000)    | (79,050)    |
| Pension expense                                    | (2,000)     | (1,860)     | Pension expense                            | (2,000)     | (1,860)     |
| Bad debt expense (decreased allowance)             | (6,278)     | (15,412)    | Bad debt expense (decreased allowance)     | (6,278)     | (15,412)    |
| Other operating expenses                           | (70,000)    | (65,100)    | Other operating expenses                   | (70,000)    | (65,100)    |
| Total  | (163,278)   | (161,422)   | Total                                      | (163,278)   | (161,422)   |
| General and administrative expenses                |             |             | General and administrative expenses        |             |             |
| Rent expense                                       | (120,000)   | (111,600)   | Rent expense                               | (120,000)   | (111,600)   |
| Pension expense                                    | (1,600)     | (1,488)     | Pension expense                            | (1,600)     | (1,488)     |
| Stock compensation expense                         | (7,500)     | (6,975)     | Stock compensation expense                 | (7,500)     | (6,975)     |
| Depreciation expense                               | (77,000)    | (71,610)    | Depreciation expense                       | (77,000)    | (71,610)    |
| Accretion expense on ARO                           | (500)       | (465)       | Accretion expense on ARO                   | (500)       | (465)       |
| Total  | (206,600)   | (192,138)   | Total                                      | (206,600)   | (192,138)   |
| Other operating expenses                           |             |             | Other operating expenses                   |             |             |
| Compensation expense                               | (15,000)    | (13,950)    | Compensation expense                       | (15,000)    | (13,950)    |
| Litigation expense                                 | (2,600)     | -           | Litigation expense                         | (2,600)     | -           |
| Interest expense on lease liability                | (2,378)     | -           | Interest expense on lease liability        | (2,378)     | -           |
| Loss on sale of receivables                        | (200)       | -           | Loss on sale of receivables                | (200)       | -           |
| Research and development                           | (1,120)     | (1,042)     | Research and development                   | (1,120)     | (1,042)     |
| Gain on sale of building                           | 2,000       | -           | Gain on sale of building                   | 2,000       | -           |
| Other operating expenses                           | (80,000)    | (74,400)    | Other operating expenses                   | (80,000)    | (74,400)    |
| Total  | (99,298)    | (89,392)    | Total                                      | (99,298)    | (89,392)    |
| Operating income before other comprehensive income | 318,630     | 336,208     | Operating income                           | 318,630     | 336,208     |
| Other comprehensive income                         |             |             | Other comprehensive income                 |             |             |
| Gain on revaluation of building                    | 160,000     | 148,800     | Gain on revaluation of building            | 160,000     | 148,800     |
| Actuarial gain on pension obligation               | -           | 4,580       | Actuarial gain on pension obligation       | -           | 4,580       |
| Other comprehensive operating income               | 160,000     | 153,380     | Other comprehensive operating income       | 160,000     | 153,380     |
| Operating income                                   | 478,630     | 489,588     | Operating income                           | 478,630     | 489,588     |
| <b>Investing</b>                                   |             |             |  |             |             |
| Equity in earnings of affiliate                    | 12,250      | 11,393      | Equity in earnings of affiliate            | 12,250      | 11,393      |
| Fair value adjustment on affiliate                 | 840         | 781         | Fair value adjustment on affiliate         | 840         | 781         |
| Realized gain on available-for-sale                | 450         | -           | Realized gain on available-for-sale        | 450         | -           |
| Dividend income                                    | 9,250       | 8,603       | Dividend income                            | 9,250       | 8,603       |
| Investing income before other comprehensive income | 22,790      | 20,776      | Investing income                           | 22,790      | 20,776      |
| Other comprehensive income                         |             |             | Other comprehensive income                 |             |             |
| Unrealized gain on available-for-sale sec.         | 10,650      | 1,247       | Unrealized gain on available-for-sale sec. | 10,650      | 1,247       |
| Investing income                                   | 33,440      | 22,023      | Investing income                           | 33,440      | 22,023      |
| Business income                                    | 512,070     | 511,611     | Business income                            | 512,070     | 511,611     |
| <b>DISCONTINUED OPERATIONS</b>                     |             |             |  |             |             |
| Loss on discontinued operations                    | (80,000)    |             | Loss on discontinued operations            | (80,000)    |             |
| <b>FINANCING</b>                                   |             |             |  |             |             |
| Interest expense                                   | (225,000)   | -           | Interest expense                           | (225,000)   | -           |
| Financing expense                                  | (225,000)   | -           | Financing expense                          | (225,000)   | -           |
| Pre-tax comprehensive income                       | 207,070     | 511,611     | Pre-tax comprehensive income               | 207,070     | 511,611     |
| <b>INCOME TAXES</b>                                |             |             |  |             |             |
| Current tax expense                                | (75,451)    | (70,169)    | Current tax expense                        | (75,451)    | (70,169)    |
| Deferred tax expense                               | (33,120)    | (30,802)    | Deferred tax expense                       | (33,120)    | (30,802)    |
| Income tax (expense)                               | (108,571)   | (100,971)   | Income tax (expense)                       | (108,571)   | (100,971)   |
| Net Comprehensive Income                           | 98,499      | 410,640     | Net Comprehensive Income                   | 98,499      | 410,640     |

These illustrations are presented for discussion purposes only and should be read only in the context of the meeting papers. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards (and those that have are subject to change). Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented.

## ALTERNATIVES 3 AND 4

| Alternative 3                                  |             |                              |             |                              |
|--|-------------|------------------------------|-------------|------------------------------|
|  | 2006        |                              | 2005        |                              |
|  |             | Other market related changes |             | Other market related changes |
| <b>BUSINESS</b>                                |             |                              |             |                              |
| <b>Operating</b>                               |             |                              |             |                              |
| Sales  | 2,775,000   |                              | 2,580,750   |                              |
| Cost of goods sold                             |             |                              |             |                              |
| Change in inventory                            | (446,250)   |                              | (415,013)   |                              |
| Materials                                      | (1,275,000) |                              | (1,185,750) |                              |
| Labor  | (110,000)   |                              | (102,300)   |                              |
| Overhead - depreciation of building            | (100,000)   |                              | (93,000)    |                              |
| Overhead - depreciation of leased asset        | (5,944)     |                              | (5,528)     |                              |
| Interest expense                               | (50,000)    |                              |             |                              |
| Total  | (1,987,194) |                              | (1,801,590) |                              |
| Gross profit on sales                          | 787,806     |                              | 779,160     |                              |
| Selling expenses                               |             |                              |             |                              |
| Compensation expense                           | (85,000)    |                              | (79,050)    |                              |
| Pension expense                                | (2,000)     |                              | (1,860)     |                              |
| Bad debt expense (decreased allowance)         | (6,278)     |                              | (15,412)    |                              |
| Other operating expenses                       | (70,000)    |                              | (65,100)    |                              |
| Total  | (163,278)   |                              | (161,422)   |                              |
| General and administrative expenses            |             |                              |             |                              |
| Rent expense                                   | (120,000)   |                              | (111,600)   |                              |
| Pension expense                                | (1,600)     |                              | (1,488)     |                              |
| Stock compensation expense                     | (7,500)     |                              | (6,975)     |                              |
| Depreciation expense                           | (77,000)    |                              | (71,610)    |                              |
| Accretion expense on ARO                       | (500)       |                              | (465)       |                              |
| Total  | (206,600)   |                              | (192,138)   |                              |
| Other operating expenses                       |             |                              |             |                              |
| Compensation expense                           | (15,000)    |                              | (13,950)    |                              |
| Litigation expense                             | (2,600)     |                              | -           |                              |
| Interest expense on lease liability            | (2,378)     |                              | -           |                              |
| Loss on sale of receivables                    | (200)       |                              | -           |                              |
| Research and development                       | (1,120)     |                              | (1,042)     |                              |
| Other operating expenses                       | (80,000)    |                              | (74,400)    |                              |
| Gain on sale of building                       |             | 2,000                        |             | -                            |
| Gain on revaluation of building                |             | 160,000                      |             | 148,800                      |
| Actuarial gain on pension obligation           |             | -                            |             | 4,580                        |
| Total  | (101,298)   | 162,000                      | (89,392)    | 153,380                      |
| Operating income                               | 316,630     | 162,000                      | 336,208     | 153,380                      |
| <b>Investing</b>                               |             |                              |             |                              |
| Equity in earnings of affiliate                | 12,250      |                              | 11,393      |                              |
| Dividend income                                | 9,250       |                              | 8,603       |                              |
| Fair value adjustment on affiliate             |             | 840                          |             | 781                          |
| Realized gain on available-for-sale            |             | 450                          |             | -                            |
| Unrealized gain on available-for-sale sec.     |             | 10,650                       |             | 1,247                        |
| Investing income                               | 21,500      | 11,940                       | 19,995      | 2,028                        |
| Business income                                | 338,130     | 173,940                      | 356,203     | 155,408                      |
| <b>DISCONTINUED OPERATIONS</b>                 |             |                              |             |                              |
| Income from discontinued operations            | 11,000      |                              |             |                              |
| Loss on discontinuance                         |             | (91,000)                     |             |                              |
| Discontinued Operations income (loss)          | 11,000      | (91,000)                     |             |                              |
| <b>FINANCING</b>                               |             |                              |             |                              |
| Interest expense                               | (225,000)   |                              | -           |                              |
| Financing expense                              | (225,000)   |                              | -           |                              |
| Pre-tax income                                 | 124,130     | 82,940                       | 356,203     | 155,408                      |
| <b>INCOME TAXES</b>                            |             |                              |             |                              |
| Current tax expense                            | (75,451)    |                              | (70,169)    |                              |
| Deferred tax expense                           | (33,120)    |                              | (30,802)    |                              |
| Income tax (expense)                           | (108,571)   |                              | (100,971)   |                              |
|  |             | 82,940                       |             | 155,408                      |
| Net Income before other market related changes | 15,559      |                              | 255,232     |                              |
| Income from other market related changes       | 82,940      |                              | 155,408     |                              |
| Net Comprehensive Income                       | 98,499      |                              | 410,640     |                              |

| Alternative 4                              |             |         |             |         |
|--|-------------|---------|-------------|---------|
|  | 2006        |         | 2005        |         |
|  |             |         |             |         |
| <b>BUSINESS</b>                            |             |         |             |         |
| <b>Operating</b>                           |             |         |             |         |
| Sales                                      | 2,775,000   |         | 2,580,750   |         |
| Cost of goods sold                         |             |         |             |         |
| Change in inventory                        | (446,250)   |         | (415,013)   |         |
| Materials                                  | (1,275,000) |         | (1,185,750) |         |
| Labor                                      | (110,000)   |         | (102,300)   |         |
| Overhead - depreciation of building        | (100,000)   |         | (93,000)    |         |
| Overhead - depreciation of leased asset    | (5,944)     |         | (5,528)     |         |
| Interest expense                           | (50,000)    |         |             |         |
| Total                                      | (1,987,194) |         | (1,801,590) |         |
| Gross profit on sales                      | 787,806     |         | 779,160     |         |
| Selling expenses                           |             |         |             |         |
| Compensation expense                       | (85,000)    |         | (79,050)    |         |
| Pension expense                            | (2,000)     |         | (1,860)     |         |
| Bad debt expense (decreased allowance)     | (6,278)     |         | (15,412)    |         |
| Other operating expenses                   | (70,000)    |         | (65,100)    |         |
| Total                                      | (163,278)   |         | (161,422)   |         |
| General and administrative expenses        |             |         |             |         |
| Rent expense                               | (120,000)   |         | (111,600)   |         |
| Pension expense                            | (1,600)     |         | (1,488)     |         |
| Stock compensation expense                 | (7,500)     |         | (6,975)     |         |
| Depreciation expense                       | (77,000)    |         | (71,610)    |         |
| Accretion expense on ARO                   | (500)       |         | (465)       |         |
| Total                                      | (206,600)   |         | (192,138)   |         |
| Other operating expenses                   |             |         |             |         |
| Compensation expense                       | (15,000)    |         | (13,950)    |         |
| Litigation expense                         | (2,600)     |         | -           |         |
| Interest expense on lease liability        | (2,378)     |         | -           |         |
| Loss on sale of receivables                | (200)       |         | -           |         |
| Research and development                   | (1,120)     |         | (1,042)     |         |
| Gain on sale of building                   |             | 2,000   |             | -       |
| Other operating expenses                   | (80,000)    |         | (74,400)    |         |
| Gain on revaluation of building            |             | 160,000 |             | 148,800 |
| Actuarial gain on pension obligation       |             | -       |             | 4,580   |
| Total                                      | 60,702      |         | 63,988      |         |
| Operating income                           | 478,630     |         | 489,588     |         |
| <b>Investing</b>                           |             |         |             |         |
| Equity in earnings of affiliate            | 12,250      |         | 11,393      |         |
| Fair value adjustment on affiliate         | 840         |         | 781         |         |
| Realized gain on available-for-sale        | 450         |         | -           |         |
| Dividend income                            | 9,250       |         | 8,603       |         |
| Unrealized gain on available-for-sale sec. | 10,650      |         | 1,247       |         |
| Investing income                           | 33,440      |         | 22,023      |         |
| Business income                            | 512,070     |         | 511,611     |         |
| <b>DISCONTINUED OPERATIONS</b>             |             |         |             |         |
| Loss on discontinued operations            | (80,000)    |         |             |         |
| <b>FINANCING</b>                           |             |         |             |         |
| Interest expense                           | (225,000)   |         | -           |         |
| Financing expense                          | (225,000)   |         | -           |         |
| Pre-tax comprehensive income               | 207,070     |         | 511,611     |         |
| <b>INCOME TAXES</b>                        |             |         |             |         |
| Current tax expense                        | (75,451)    |         | (70,169)    |         |
| Deferred tax expense                       | (33,120)    |         | (30,802)    |         |
| Income tax (expense)                       | (108,571)   |         | (100,971)   |         |
| Net Comprehensive Income                   | 98,499      |         | 410,640     |         |

These illustrations are presented for discussion purposes only and should be read only in the context of the meeting papers. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards (and those that have are subject to change). Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented.

## ALTERNATIVES 2 AND 3 (WITH TAX ALLOCATED)

| Alternative 2 with tax allocated            |             |             |
|---|-------------|-------------|
|   | 2006        | 2005        |
| <b>BUSINESS</b>                             |             |             |
| <b>Operating</b>                            |             |             |
| Sales                                       | 2,775,000   | 2,580,750   |
| Cost of goods sold                          |             |             |
| Change in inventory                         | (446,250)   | (415,013)   |
| Materials                                   | (1,275,000) | (1,185,750) |
| Labor                                       | (110,000)   | (102,300)   |
| Overhead - depreciation of building         | (100,000)   | (93,000)    |
| Overhead - depreciation of leased asset     | (5,944)     | (5,528)     |
| Interest expense                            | (50,000)    |             |
| Total                                       | (1,987,194) | (1,801,590) |
| Gross profit on sales                       | 787,806     | 779,160     |
| Selling expenses                            |             |             |
| Compensation expense                        | (85,000)    | (79,050)    |
| Pension expense                             | (2,000)     | (1,860)     |
| Bad debt expense (decreased allowance)      | (6,278)     | (15,412)    |
| Other operating expenses                    | (70,000)    | (65,100)    |
| Total                                       | (163,278)   | (161,422)   |
| General and administrative expenses         |             |             |
| Rent expense                                | (120,000)   | (111,600)   |
| Pension expense                             | (1,600)     | (1,488)     |
| Stock compensation expense                  | (7,500)     | (6,975)     |
| Depreciation expense                        | (77,000)    | (71,610)    |
| Accretion expense on ARO                    | (500)       | (465)       |
| Total                                       | (206,600)   | (192,138)   |
| Other operating expenses                    |             |             |
| Compensation expense                        | (15,000)    | (13,950)    |
| Litigation expense                          | (2,600)     | -           |
| Interest expense on lease liability         | (2,378)     | -           |
| Loss on sale of receivables                 | (200)       | -           |
| Research and development                    | (1,120)     | (1,042)     |
| Gain on sale of building                    | 2,000       | -           |
| Other operating expenses                    | (80,000)    | (74,400)    |
| Total                                       | (99,298)    | (89,392)    |
| Pretax operating income                     | 318,630     | 336,208     |
| Income tax (expense)                        | (88,946)    | (56,321)    |
| Net operating income                        | 229,685     | 279,887     |
| <b>Investing</b>                            |             |             |
| Equity in earnings of affiliate             | 12,250      | 11,393      |
| Fair value adjustment on affiliate          | 840         | 781         |
| Realized gain on available-for-sale         | 450         | -           |
| Dividend income                             | 9,250       | 8,603       |
| Pretax investing income                     | 22,790      | 20,776      |
| Income tax (expense)                        | (1,595)     | (1,454)     |
| Net investing income                        | 21,195      | 19,322      |
| Net business income                         | 250,879     | 299,209     |
| <b>DISCONTINUED OPERATIONS</b>              |             |             |
| Pretax loss on discontinued operations      | (80,000)    | -           |
| Income tax benefit                          | 6,400       | -           |
| Loss on disposal, net of taxes              | (73,600)    | -           |
| <b>FINANCING</b>                            |             |             |
| Interest expense                            | (225,000)   | -           |
| Pretax financing expense                    | (225,000)   | -           |
| Income tax benefit                          | 22,500      | -           |
| Net financing expense                       | (202,500)   | -           |
| Net loss (income)                           | (25,221)    | 299,209     |
| <b>OTHER COMPREHENSIVE INCOME</b>           |             |             |
| <b>Operating Income</b>                     |             |             |
| Gain on revaluation of building             | 160,000     | 148,800     |
| Actuarial gain on pension obligation        | -           | 4,580       |
| Pretax other comprehensive operating income | 160,000     | 153,380     |
| <b>Investing Income</b>                     |             |             |
| Unrealized gain on available-for-sale sec.  | 10,650      | 1,247       |
| Total Pretax Other Comprehensive Income     | 170,650     | 154,627     |
| Income tax (expense)                        | (46,930)    | (43,196)    |
| Net Other Comprehensive Income              | 123,720     | 111,431     |
| Net Comprehensive Income                    | 98,499      | 410,640     |

\* Disclosure of current tax expense and deferred will be referred in notes.

| Alternative 3 with tax allocated               |             |                              |             |                              |
|--|-------------|------------------------------|-------------|------------------------------|
|  | 2006        | 2006                         | 2005        | 2005                         |
|  |             | Other market related changes |             | Other market related changes |
| <b>BUSINESS</b>                                |             |                              |             |                              |
| <b>Operating</b>                               |             |                              |             |                              |
| Sales  | 2,775,000   |                              | 2,580,750   |                              |
| Cost of goods sold                             |             |                              |             |                              |
| Change in inventory                            | (446,250)   |                              | (415,013)   |                              |
| Materials                                      | (1,275,000) |                              | (1,185,750) |                              |
| Labor  | (110,000)   |                              | (102,300)   |                              |
| Overhead - depreciation of building            | (100,000)   |                              | (93,000)    |                              |
| Overhead - depreciation of leased asset        | (5,944)     |                              | (5,528)     |                              |
| Interest expense                               | (50,000)    |                              |             |                              |
| Total  | (1,987,194) |                              | (1,801,590) |                              |
| Gross profit on sales                          | 787,806     |                              | 779,160     |                              |
| Selling expenses                               |             |                              |             |                              |
| Compensation expense                           | (85,000)    |                              | (79,050)    |                              |
| Pension expense                                | (2,000)     |                              | (1,860)     |                              |
| Bad debt expense (decreased allowance)         | (6,278)     |                              | (15,412)    |                              |
| Other operating expenses                       | (70,000)    |                              | (65,100)    |                              |
| Total  | (163,278)   |                              | (161,422)   |                              |
| General and administrative expenses            |             |                              |             |                              |
| Rent expense                                   | (120,000)   |                              | (111,600)   |                              |
| Pension expense                                | (1,600)     |                              | (1,488)     |                              |
| Stock compensation expense                     | (7,500)     |                              | (6,975)     |                              |
| Depreciation expense                           | (77,000)    |                              | (71,610)    |                              |
| Accretion expense on ARO                       | (500)       |                              | (465)       |                              |
| Total  | (206,600)   |                              | (192,138)   |                              |
| Other operating expenses                       |             |                              |             |                              |
| Compensation expense                           | (15,000)    |                              | (13,950)    |                              |
| Litigation expense                             | (2,600)     |                              | -           |                              |
| Interest expense on lease liability            | (2,378)     |                              | -           |                              |
| Loss on sale of receivables                    | (200)       |                              | -           |                              |
| Research and development                       | (1,120)     |                              | (1,042)     |                              |
| Gain on sale of building                       | 2,000       |                              | -           |                              |
| Other operating expenses                       | (80,000)    |                              | (74,400)    |                              |
| Gain on sale of building                       |             | 2,000                        |             | -                            |
| Gain on revaluation of building                |             | 160,000                      |             | 148,800                      |
| Actuarial gain on pension obligation           |             | -                            |             | 4,580                        |
| Total  | (101,298)   | 162,000                      | (89,392)    | 153,380                      |
| Operating income                               | 316,630     | 162,000                      | 336,208     | 153,380                      |
| <b>Investing</b>                               |             |                              |             |                              |
| Equity in earnings of affiliate                | 12,250      |                              | 11,393      |                              |
| Dividend income                                | 9,250       |                              | 8,603       |                              |
| Fair value adjustment on affiliate             |             | 840                          |             | 781                          |
| Realized gain on available-for-sale            |             | 450                          |             | -                            |
| Unrealized gain on available-for-sale sec.     |             | 10,650                       |             | 1,247                        |
| Investing income                               | 21,500      | 11,940                       | 19,995      | 2,028                        |
| Business income                                | 338,130     | 173,940                      | 356,203     | 155,408                      |
| <b>DISCONTINUED OPERATIONS</b>                 |             |                              |             |                              |
| Income from discontinued operations            | 11,000      |                              |             |                              |
| Loss on discontinuance                         |             | (91,000)                     |             |                              |
| Discontinued Operations income (loss)          | 11,000      | (91,000)                     |             |                              |
| <b>FINANCING</b>                               |             |                              |             |                              |
| Interest expense                               | (225,000)   |                              | -           |                              |
| Financing expense                              | (225,000)   |                              | -           |                              |
| Pre-tax income                                 | 124,130     | 82,940                       | 356,203     | 155,408                      |
| <b>INCOME TAXES</b>                            |             |                              |             |                              |
| Current tax expense                            | (85,851)    | 10,400                       | (70,169)    | -                            |
| Deferred tax expense                           | 26,880      | (60,000)                     | 13,798      | (44,600)                     |
| Income tax (expense)                           | (58,971)    | (49,600)                     | (56,371)    | (44,600)                     |
|  |             | 33,340                       |             | 110,808                      |
| Net Income before other market related changes | 65,159      |                              | 299,831     |                              |
| Income from other market related changes, net  | 33,340      |                              | 110,808     |                              |
| Net Comprehensive Income                       | 98,499      |                              | 410,640     |                              |

These illustrations are presented for discussion purposes only and should be read only in the context of the meeting papers. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards (and those that have are subject to change). Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented.

### STATEMENT OF CASH FLOWS

|  | 2006               | 2005               |
|--|--------------------|--------------------|
| <b>Cash flows from business activities</b>     |                    |                    |
| <b>Operating (DIRECT)</b>                      |                    |                    |
| Cash received from sales                       | 2,700,000          | 2,511,000          |
| Cash paid for goods sold                       |                    |                    |
| Inventory purchases                            | (1,750,000)        | (1,627,500)        |
| Labor  | (110,000)          | (102,300)          |
| Total  | <u>(1,860,000)</u> | <u>(1,729,800)</u> |
| Cash paid for selling activities               |                    |                    |
| Compensation                                   | (85,000)           | (79,050)           |
| Contributions to pension plan                  | (700)              | (651)              |
| Other expenses                                 | (45,000)           | (41,850)           |
| Total  | <u>(130,700)</u>   | <u>(121,551)</u>   |
| Cash paid for general and admin activities     |                    |                    |
| Rent   | (120,000)          | (111,600)          |
| Contributions to pension plan                  | (500)              | (465)              |
| Total  | <u>(120,500)</u>   | <u>(112,065)</u>   |
| Cash flows from other operating activities     |                    |                    |
| Compensation                                   | (15,000)           | (13,950)           |
| Sale of receivables                            | 1,200              | -                  |
| Research and development                       | (1,120)            | (845)              |
| Capital expenditures                           | (500,000)          | (250,000)          |
| Received from sale of building                 | 17,500             | -                  |
| Other expenses                                 | (55,000)           | (51,150)           |
| Total  | <u>(552,420)</u>   | <u>(315,945)</u>   |
| Net cash provided by operating activities      | <u>36,380</u>      | <u>231,639</u>     |
| <b>Investing</b>                               |                    |                    |
| Purchase of investment in affiliates           | (710,000)          | -                  |
| Purchase of available-for-sale securities      | (185,000)          | -                  |
| Sale of available-for-sale securities          | 5,000              | -                  |
| Dividends received                             | 9,250              | 8,603              |
| Net cash used in investing activities          | <u>(880,750)</u>   | <u>8,603</u>       |
| Net cash used in business activities           | <u>(844,370)</u>   | <u>240,242</u>     |
| <b>Cash flows from Discontinued Operations</b> |                    |                    |
| Net cash flow from disc. Ops. (pre-tax)        | (20,000)           |                    |
| <b>Cash flows from financing activities</b>    |                    |                    |
| <b>Financing liabilities</b>                   |                    |                    |
| Dividends paid                                 | (35,000)           | (32,550)           |
| Interest paid                                  | (125,000)          | -                  |
| Proceeds from issuance of short-term debt      | 500,000            | -                  |
| Proceeds from issuance of bonds                | 2,500,000          | -                  |
| Net cash provided by financing activities      | <u>2,840,000</u>   | <u>(32,550)</u>    |
| <b>Cash flows from income taxes</b>            |                    |                    |
| Net cash used in income tax activities         | (54,639)           | (50,814)           |
| <b>Change in cash</b>                          | <u>1,920,991</u>   | <u>156,877</u>     |
| <b>Beginning cash</b>                          | <u>4,000,000</u>   | <u>3,843,123</u>   |
| <b>Ending cash</b>                             | <u>5,920,991</u>   | <u>4,000,000</u>   |

### STATEMENT OF CASH FLOWS

|   | 2006             | 2005             |
|---|------------------|------------------|
| <b>Cash flows from business activities</b>                                  |                  |                  |
| <b>Operating (INDIRECT)</b>   |                  |                  |
| Net cash provided by operating activities                                   | 36,380           | 231,639          |
| Adjustments to reconcile  |                  |                  |
| Net cash provided by operating activities to comprehensive operating income |                  |                  |
| Change in operating assets/liabilities:                                     |                  |                  |
| Accounts receivable   | 247,600          | 207,984          |
| Less: Allowance for bad debts   | (5,278)          | (4,434)          |
| Accounts payable  | 475,000          | 412,599          |
| Accrued liabilities   | (50,000)         | (42,000)         |
| Advances from customers   | (175,000)        | (147,000)        |
| Current portion of lease liability  | (9,208)          | (7,735)          |
| Inventory   | (446,250)        | (274,850)        |
| Interest payable  | (50,000)         |                  |
| Share-based compensation liability  | (7,500)          | (6,300)          |
| Asset retirement obligation   | (9,255)          | (7,774)          |
| Loss contingency  | (2,600)          | (2,184)          |
| Leased asset  | 25,756           | 21,635           |
| Lease liability (excl current portion)                                      | (24,870)         | (20,891)         |
| Accrued pension liability   | (2,400)          | (2,016)          |
| Building  | 632,755          | 262,512          |
| Less: Accumulated depreciation  | (156,500)        | (131,598)        |
| Comprehensive operating income  | <u>478,630</u>   | <u>489,588</u>   |
| <b>Investing</b>  |                  |                  |
| Purchase of investment in affiliates  | (710,000)        | -                |
| Purchase of available-for-sale securities                                   | (185,000)        | -                |
| Sale of available-for-sale securities                                       | 5,000            | -                |
| Dividends received  | 9,250            | 8,603            |
| Net cash used in investing activities                                       | <u>(880,750)</u> | <u>8,603</u>     |
| Net cash used in business activities  | <u>(844,370)</u> | <u>240,242</u>   |
| <b>Cash flows from Discontinued Operations</b>                              |                  |                  |
| Net cash flow from disc. Ops. (pre-tax)                                     | (20,000)         |                  |
| <b>Cash flows from financing activities</b>                                 |                  |                  |
| <b>Financing liabilities</b>  |                  |                  |
| Dividends paid  | (35,000)         | (32,550)         |
| Interest paid   | (125,000)        | -                |
| Proceeds from issuance of short-term debt                                   | 500,000          | -                |
| Proceeds from issuance of bonds   | 2,500,000        | -                |
| Net cash provided by financing activities                                   | <u>2,840,000</u> | <u>(32,550)</u>  |
| <b>Cash flows from income taxes</b>   |                  |                  |
| Net cash used in income tax activities                                      | (54,639)         | (50,814)         |
| <b>Change in cash</b>   | <u>1,920,991</u> | <u>189,427</u>   |
| <b>Beginning cash</b>   | <u>4,000,000</u> | <u>3,843,123</u> |
| <b>Ending cash</b>  | <u>5,920,991</u> | <u>4,000,000</u> |

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