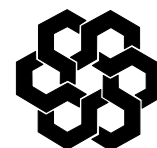


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**International
Accounting
Standards
Board**

This document is provided as a convenience to observers at the Analyst Representative Group meeting, to assist them in following the discussions. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff papers prepared for the ARG meeting. Paragraph numbers correspond to paragraph numbers used in the ARG agenda paper.

INFORMATION FOR OBSERVERS

Board Meeting: 7 November 2007, London

Project: Financial Statement Presentation

Subject: Disaggregating changes in assets and liabilities
(Agenda Paper 4)

INTRODUCTION

1. The Financial Statement Presentation project is a joint project of the IASB and the FASB. Since April 2006, the Boards have been discussing fundamental issues related to the presentation and display of information in the financial statements. The current plan is to issue an initial discussion document including the Boards' preliminary views on those issues in the first half of 2008. At the November 2007 ARG meeting, the Board would like to discuss the three alternatives considered for the disaggregation of changes in assets and liabilities and some related issues regarding the statement of cash flows.

RECONCILIATION SCHEDULE

2. One of the project's working principles states that the financial statements should help investors and other users of the financial statements understand the causes of a change in reported amounts of individual assets and liabilities. For example, a change in an asset or liability recognized as income or expense could be due to a change in price, a transaction, or a change in estimate. An investor or other user might weigh each of those changes differently in their analysis, particularly in their assessment of the amounts, timing, and uncertainty of future cash flows.
3. The Boards have been discussing the application of that working principle since October 2006. In June 2007, the Boards considered three alternatives for presenting this information, taking into consideration the following two working principles in addition to the working principle mentioned above:

Financial statements should present information in a manner that:

- (a) Portrays a cohesive financial picture of an entity
- (b) Helps a user assess the differences between cash transactions and accrual accounting.

Those three alternatives are described below.

Alternative A: Reconciliation of Statements of Financial Position

4. A columnar reconciliation of the beginning and ending statements of financial position that would disaggregate the changes in each line item on the statement of financial position into a number of components. The reconciliation would include a column for
 - a. Various components of comprehensive income (those components are based on whether the change was a fair value change and whether it had predictive value) (such as those in paragraph 9 (b)-(e) or 11(b)-(c))
 - b. Cash transactions
 - c. Captions from the statement of cash flows and statement of comprehensive income that would "link" the statement of financial position line items to the statement of comprehensive income and the statement of cash flows
 - d. Non-cash, non-income changes (to reconcile to ending balances).

An illustration of a columnar reconciliation of the beginning and ending statements of financial position is illustrated on page 2 of the Appendix.

Alternative B: Comprehensive Income Matrix

5. A comprehensive income statement matrix that begins with the statement of comprehensive income and includes a column for each of the components of comprehensive income. There would be no linkage to the statement of financial position or the statement of cash flows. A comprehensive income statement matrix is illustrated on page 3 of the Appendix.

Alternative C: Reconciliation of Statements of Cash Flows and Comprehensive Income

6. A reconciliation of the statement of cash flows to the statement of comprehensive income would start with the amounts and line items in the statement of cash flows (based on cash receipts and payments, that is, the direct method), provide details about the items needed to reconcile to the statement of comprehensive income (disaggregated into the various components), and end with the amounts and line items presented in the statement of comprehensive income. This format would link the two change statements and would provide information about the changes in assets and liabilities.

The Boards' Preliminary View - Reconciliation Schedule

7. As described in the paragraphs below, the Boards prefer Alternative C—a reconciliation of the statement of cash flows to the statement of comprehensive income (referred to as the reconciliation schedule). However, the Boards decided that all three Alternatives should be discussed in the forthcoming preliminary views document.
8. In order to reconcile to the statement of comprehensive income, both Boards agreed that the reconciliation must begin with a statement of cash flows that presents cash receipts and cash payments (the direct method). However, the Boards differed on the reconciling items (columns). Their views are described below and illustrated in the Appendix.

FASB View

9. The FASB would include the following reconciling items (items b-e are non-cash items affecting income) (see page 5 of the Appendix):
- a. Cash (cash flows not affecting income)
 - b. Contractual accruals (for example, payables and receivables; those primarily due to timing differences)
 - c. Other accruals, systematic allocations, and other non-remeasurements (for example, depreciation expense and bad debt provisions)
 - d. Recurring fair value changes (as defined in FASB Statement No. 157, *Fair Value Measurements*; this category would include Level 1-3 changes in the Statement 157 hierarchy and would consist of marks of assets and liabilities to fair value from fair value)
 - e. Remeasurements other than recurring fair value changes (remeasurements are changes in the carrying amount of an asset or a liability due to a change in a price or an estimate).
10. In addition, the FASB would require an entity to present as part of that note disclosure information about amounts related to an unusual or infrequent event or transaction (as those concepts are used in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*).
- a. Unusual—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
 - b. Infrequent—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

IASB View

11. The IASB would include the following reconciling items (items b and c are non-cash items affecting income) (see page 6 of the Appendix):
- a. Cash (cash flows not affecting income)
 - b. Valuation adjustments (a change due to subsequent measurement of an asset or liability to a current value, which would include fair value)
 - c. All other changes.
12. Because valuation adjustments can behave more like other changes in assets and liabilities for certain types of businesses, in preparing the reconciliation schedule the IASB would permit an entity, as a matter of accounting policy, to classify valuation

adjustments as “other changes.” For example, management may consider it more useful to present inventory impairments in the same category as other costs of goods sold and not separately as a valuation adjustment.

THE STATEMENT OF CASH FLOWS

Use of the Direct and Indirect Method

13. The Boards have different views on whether, in reporting cash flows from operating activities, an entity should be encouraged (IASB preference) or required (FASB preference) to report major classes of gross cash receipts and gross cash payments (that is, use the direct method). They do agree that an entity that does so would disaggregate and present operating cash receipts and payments in a manner consistent with the line items on the statement of comprehensive income. A statement of cash flows prepared using the direct method is illustrated on page 4 of the Appendix.
14. The Boards also agree that an entity should continue to report cash flow information related to investing, financing, discontinued operations, and income tax activities in a similar direct manner.
15. Similar to what is required in current practice, an entity that chooses **not** to provide information about major classes of *operating* cash receipts and payments by the direct method would present that information using the indirect method. That is, the entity would indirectly determine and present in the statement of cash flows the same amount for net cash flow from operating activities by adjusting operating income to reconcile it to net cash flow from operating activities (the indirect method). A statement of cash flows prepared using the indirect method is illustrated on page 4 of the Appendix (along side the direct method cash flow statement).

Interaction with the Reconciliation Schedule

16. As discussed at a recent meeting with the members of the financial statement presentation Joint International Group (JIG) and Financial Institutions Advisory Group (FIAG), a preference for continuing to permit the indirect method conflicts with a preference for requiring the reconciliation schedule in the notes (as that schedule requires a direct method cash flow statement as a starting point). Thus, if

the indirect method continues to be permitted, one could assert that a reconciliation schedule should not be required for any entity, including those that choose to prepare a direct method statement of cash flows. This is because it would be unfair to require the reconciliation schedule for certain entities but not others.

- 17.** Under the premise that the indirect method would continue to be permitted and the reconciliation schedule would not be required, the staff is considering ways to improve the presentation of cash flow information on an indirect statement of cash flows.

DISCUSSION QUESTIONS

- 1) From what perspective should disaggregated information be presented:
 - the statement of financial position (Alternative A),
 - the statement of comprehensive income (Alternative B) or
 - the statement of cash flows (Alternative C)?

Should there be a link between two or more of the financial statements in providing this disaggregated information?
- 2) Which breakdown of reconciling items do you support (FASB view or IASB view) for the reconciliation schedule? That is,
 - a. Is it helpful to segregate contractual accruals from other accruals?
 - b. Is it helpful to segregate recurring fair value changes from other remeasurements?
- 3) Should the reconciliation schedule include a column for unusual or infrequent transactions as described in paragraph 10? If so, should those transactions be defined as described or should management have more flexibility in determining which transactions to “highlight” in this column?
- 4) The reconciliation schedule essentially would include the statement of cash flows prepared under the direct method. Historically, the Boards have encouraged but not required the use of the direct method to prepare the statement of cash flows mainly because it was not considered to be cost beneficial (that is, the costs were too large, the benefits were too small, or both).
 - a. Would the statement of cash flows prepared under the direct method and the reconciliation schedule provide information that is cost beneficial?
 - b. Should the direct method be required when preparing the statement of cash flows?
- 5) If neither the direct method nor the reconciliation schedule were required, should the indirect statement of cash flows be modified? And if so, how?

FINANCIAL STATEMENT PRESENTATION PROJECT

Methods of Presenting Disaggregated Information

November 2007

As discussed in this paper, an entity might be required to present information that will allow a user to distinguish between the various changes in assets and liabilities. This information could be presented in a variety of formats, three of which are illustrated on the following pages (the illustrations below are abbreviated versions of the complete schedules; only select line items are included and, therefore, certain subtotals and totals may not foot):

Alternative A A reconciliation of statements of financial position

Alternative B A comprehensive income matrix

Alternative C A reconciliation of the statements of cash flows and comprehensive income.

The reconciliations and matrix illustrated below are for potential consideration of the FASB and IASB. The illustration represents the results of preliminary staff research and should not be construed to represent an official position of the Boards, which are established only after extensive due process and deliberation.

Appendix to Agenda Paper 4

ALTERNATIVE A-STATEMENT OF FINANCIAL POSITION RECONCILIATION

	A	B	C	D	E	F	G	H	I	J	L	M
	2006 Beginning Balance	Total Cash Flows (Inflows/Outflows)	Caption in Statement of Cash Flows	Cash Flows Not Affecting Income	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-Recurrences	Fair Value Changes	Reinsurance than Fair Value Changes	Total Comprehensive Income (D+E+H-G-H)	Caption in Statement of Comprehensive Income	Non-Cash / Non-	2006 Ending Balance (A+D+E+H+G-H+L)
BUSINESS												
Operating assets and liabilities												
Accounts receivable	395,000	2,590,000	Cash received from sales	-	259,000	-	-	-	2,750,000	Sales	1,000	642,600
Less: Allowance for bad debts	(20,000)	1,200	Cash received from sale of receivables	-	-	(1,600)	-	200	(200)	Loss on sale of receivables	-	(25,278)
Inventory	580,000	(110,000)	Cash paid for inventory purchases	-	-	(446,250)	-	3,680	(446,250)	COGS-Change in Inventory	-	133,750
Accounts payable	(750,000)	(300,000)	Cash paid for inventory purchases	-	475,000	-	-	-	(110,000)	COGS-Label	-	(275,600)
Accrued liabilities	(8,000)	(1,450,000)	Cash paid for other expenses	-	(50,000)	-	-	-	(975,000)	COGS-Materials	-	(68,600)
Advances from customers	(15,000)	(20,000)	Cash received from sales	-	(73,000)	-	-	-	(30,000)	Other expenses	-	(190,600)
Current portion of lease liability	-	-	-	-	2,750	-	-	-	(9,000)	Interest expense	-	(9,000)
Share-based compensation liability	(6,000)	-	-	-	-	-	(7,500)	-	(2,378)	Interest expense	(6,850)	(2,308)
Leased asset	3,600,000	(500,000)	Cash paid for capital expenditures	(300,000)	-	5,944	-	-	(7,500)	Stock compensation expense	31,700	(1,530)
Less: Accumulated depreciation	(100,000)	17,500	Cash received from sale of building	-	-	(177,000)	-	160,000	(5,944)	COGS- MOH dep. of leased asset	8,755	25,756
Asset retirement obligation	-	-	-	-	-	(2,600)	-	160,000	2,000	Gain on revaluation of building	(20,500)	(2,500)
Less: Contingency	-	-	-	-	-	(2,600)	-	(1,500)	(1,770,000)	Depreciation expense	(8,755)	(256,500)
Lease liability (excl. current portion)	(2,400)	(1,200)	Cash contributions to pension plan	(1,200)	-	(3,600)	-	-	(500)	Accretion expense	(2,600)	(9,255)
Accrued rental liability	(2,400)	(880,750)	Cash paid for research and development	(90,200)	-	-	1,200	-	(4,600)	Litigation expense	(24,870)	(24,870)
Net Operating Assets	3,675,600	36,390	Net Cash provided by Operating Activities	(50,200)	447,622	(646,852)	(7,500)	147,780	(478,630)	Comprehensive operating income	-	416,850
INVESTING ASSETS AND LIABILITIES												
Available-for-sale securities	-	(185,000)	Purchase of available-for-sale securities	(185,000)	-	-	-	-	-	Research and development expense	(1,120)	(4,800)
Investment in affiliate-equity method	-	5,000	Sale of available-for-sale securities	-	-	5,000	450	-	12,250	COGS- MOH dep. of leased asset	10,650	191,100
Investment in affiliate-at-fair value	-	(100,000)	Purchase of investment in affiliate	(400,000)	-	12,250	840	-	9,250	Fair value adjustment on affiliate	-	412,250
Total investing assets	-	(880,750)	Net Cash used in investing activities	(695,800)	-	7,250	1,200	-	22,750	Dividend income	-	310,890
DISCONTINUED OPERATIONS												
Assets classified as held for sale	420,000	(880,750)	Net cash provided by operating activities	(1,396,200)	447,622	(639,602)	4,400	147,780	512,070	Comprehensive business income	-	560,000
Liabilities classified as held for sale	(120,000)	(200,000)	Cash flow from disposals	-	(100,000)	-	-	(50,000)	(80,000)	Loss from discontinued operations	-	(20,000)
Net assets held for sale	300,000	(200,000)	Cash flow from disposals	-	(10,000)	-	-	(50,000)	(80,000)	Loss from discontinued operations	-	20,000
FINANCING												
Financing assets	-	-	-	-	-	-	-	-	-	-	-	-
Short term	4,000,000	1,920,000	Change in cash	-	-	-	-	-	(33,440)	Comprehensive investing income	-	5,020,200
Total financing assets	4,000,000	1,920,000	Change in cash	-	-	-	-	-	33,440	Comprehensive investing income	-	5,020,200
Financing liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Short term	(37,450)	(35,000)	Precedents from issuance of short-term debt	(35,000)	-	-	-	-	(31,120)	Deferred income tax expense	(10,000)	(72,450)
Dividends payable	-	300,000	-	300,000	-	-	-	-	(225,000)	Interest expense	-	(90,000)
Long term	-	(125,000)	Cash paid for interest	-	(100,000)	-	-	-	(225,000)	Interest expense	(100,000)	(100,000)
Bonds payable	-	2,590,000	Precedents from issuance of bonds	-	2,590,000	-	-	-	-	-	-	(2,590,000)
Total financing liabilities	(37,450)	4,760,000	Net cash provided by financing activities	2,965,000	(100,000)	-	-	-	(225,000)	Comprehensive financing expense	-	6,172,450
Net financing assets	3,962,550	4,760,000	Net cash provided by financing activities	2,965,000	(100,000)	-	-	-	(225,000)	Comprehensive financing expense	-	2,765,511
INGOME TAXES												
Short term	-	(54,630)	Cash paid on income tax payable	-	-	-	4,400	-	(225,000)	Comprehensive financing expense	-	(58,870)
Income tax payable	-	(54,630)	-	-	-	-	4,400	-	(225,000)	Comprehensive financing expense	-	(58,870)
Deferred tax liability	(23,600)	(44,630)	Net cash used in income tax activities	-	(20,812)	(31,120)	-	-	(31,120)	Deferred income tax expense	-	(58,870)
Net income tax (Multi-line)	(75,330)	(129,260)	Net cash used in income tax activities	-	(20,812)	(31,120)	-	-	(62,932)	Deferred income tax expense	-	(58,870)
Total net assets	7,857,812	1,920,000	Net Cash Flows	1,568,800	316,610	(672,722)	4,400	97,780	(80,570)	Comprehensive income tax expense	-	7,886,511
EQUITY												
Common stock and APIC	(500,000)	-	-	-	-	-	-	-	-	Comprehensive income	-	(500,000)
Treasury stock	100,000	-	-	-	-	-	-	-	-	Comprehensive income	-	100,000
Retained earnings	2,803,185	1,568,800	Net cash used in equity activities	1,568,800	316,610	(672,722)	4,400	97,780	(80,570)	Comprehensive income	-	(2,661,654)
Accumulated OCI	(154,627)	-	-	-	316,610	(672,722)	4,400	97,780	98,400	Other Comprehensive Income	-	(35,277)
Total (Group)	7,857,812	-	Net cash used in equity activities	1,568,800	316,610	(672,722)	4,400	97,780	98,400	Comprehensive income	-	(2,661,654)

Appendix to Agenda Paper 4

	A	B	C	D	E	
	Non Cash Items Affecting Income					
	Comprehensive Income (A+B+C+D+E)	Cash Flows	Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-Remeasurements	Fair Value Changes	Remeasurements Other than Fair Value Changes
BUSINESS						
Operating						
Sales	2,775,000	2,700,000	75,000			
Cost of goods sold						
Change in inventory	(446,250)			(446,250)		
Materials	(1,275,000)	(1,750,000)	475,000			
Labor	(110,000)	(110,000)				
Overhead - depreciation of buikding	(100,000)			(100,000)		
Overhead - depreciation of leased asset	(5,944)			(5,944)		
Interest expense	(50,000)		(50,000)			
Total	(1,987,194)	(1,860,000)	425,000	(552,194)	-	-
Gross profit on sales	787,806					
Selling expenses						
Compensation expense	(85,000)	(85,000)				
Pension expense	(2,000)	(700)		(1,300)		
Bad debt expense (decreased allowance)	(6,278)			(9,358)		3,080
Other operating expenses	(70,000)	(45,000)	(25,000)			
Total	(163,278)	(130,700)	(25,000)	(10,658)	-	3,080
General and administrative expenses						
Rent expense	(120,000)	(120,000)				
Pension expense	(1,600)	(500)		(1,100)		
Stock compensation expense	(7,500)				(7,500)	
Depreciation expense	(77,000)			(77,000)		
Accretion expense on ARO	(500)			(500)		
Total	(206,600)	(120,500)	-	(78,600)	(7,500)	-
Other operating expenses						
Compensation expense	(15,000)	(15,000)				
Litigation expense	(2,600)			(2,600)		
Interest expense on lease liability	(2,378)		(2,378)			
Loss on sale of receivables	(200)	1,200		(1,600)		200
Research and development	(1,120)	(1,120)				
Gain on sale of building	2,000	17,500				(15,500)
Other operating expenses	(80,000)	(55,000)	(25,000)			
Total	(99,298)	(52,420)	(27,378)	(4,200)	-	(15,300)
Total operating income	318,630	536,380	447,622	(645,652)	(7,500)	(12,220)
Other comprehensive income						
Gain on revaluation of building	160,000					160,000
Total other comprehensive income	160,000					
Comprehensive operating income	478,630	536,380	447,622	(645,652)	(7,500)	147,780
Investing						
Equity in earnings of affiliate	12,250			12,250		
Fair value adjustment on affiliate	840				840	
Realized gain on available-for-sale	450	5,000		(5,000)	450	
Dividend income	9,250	9,250				
Net investing income	22,790	14,250	-	7,250	1,290	-
Other comprehensive income						
Unrealized gain on available-for-sale sec.	10,650				10,650	
Comprehensive investing income	33,440	14,250	-	7,250	11,940	-
Comprehensive business income	512,070	550,630	447,622	(638,402)	4,440	147,780
Loss from discontinued operations	(80,000)	(20,000)	(10,000)			(50,000)
FINANCING						
Interest expense	(225,000)	(125,000)	(100,000)			
Comprehensive financing (expense)	(225,000)	(125,000)	(100,000)	-	-	-
Comprehensive income before tax and disc ops	287,070	425,630	347,622	(638,402)	4,440	147,780
INCOME TAXES						
Current tax expense	(75,451)	(54,639)	(20,812)			
Deferred tax expense	(33,120)			(33,120)		
Comprehensive income tax (expense)	(108,571)	(54,639)	(20,812)	(33,120)	-	-
Total comprehensive income	98,499	350,991	316,810	(671,522)	4,440	97,780

Appendix to Agenda Paper 4

STATEMENT OF CASH FLOWS

	<u>2006</u>	<u>2005</u>
Cash flows from business activities		
Operating (DIRECT)		
Cash received from sales	2,700,000	2,511,000
Cash paid for goods sold		
Inventory purchases	(1,750,000)	(1,627,500)
Labor	(110,000)	(102,300)
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>
Investing		
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>
Cash flows from Discontinued Operations		
Net cash flow from disc. Ops. (pre-tax)	(20,000)	
Cash flows from financing activities		
Financing liabilities		
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>
Cash flows from income taxes		
Net cash used in income tax activities	(54,639)	(50,814)
Change in cash	<u>1,920,991</u>	<u>156,877</u>
Beginning cash	<u>4,000,000</u>	<u>3,843,123</u>
Ending cash	<u>5,920,991</u>	<u>4,000,000</u>

STATEMENT OF CASH FLOWS

	<u>2006</u>	<u>2005</u>
Cash flows from business activities		
Operating (INDIRECT)		
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	<u>(156,500)</u>	<u>(131,598)</u>
Comprehensive operating income	<u>478,630</u>	<u>489,588</u>
Investing		
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>
Cash flows from Discontinued Operations		
Net cash flow from disc. Ops. (pre-tax)	(20,000)	
Cash flows from financing activities		
Financing liabilities		
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>
Cash flows from income taxes		
Net cash used in income tax activities	(54,639)	(50,814)
Change in cash	<u>1,920,991</u>	<u>189,427</u>
Beginning cash	<u>4,000,000</u>	<u>3,843,123</u>
Ending cash	<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

Appendix to Agenda Paper 4

RECONCILIATION OF THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS								
FASB View	A	B	C	D	E	F	G	I
	Cash Flows	Cash Flows Not Affecting Income	Non Cash Items Affecting Income				Comprehensive Income (A-B+C+D+E+F)	Unusual or Infrequent Events or Transactions
			Contractual Accruals	Other Accruals, Systematic Allocations, and Other Non-Remeasurements	Fair Value Changes	Remeasurements Other than Fair Value Changes		
CASH FLOWS FROM BUSINESS								BUSINESS
Operating								Operating
Cash received from sales	2,700,000		75,000				2,775,000	Sales
Cash paid for goods sold				(446,250)			(446,250)	Cost of goods sold
Inventory purchases	(1,750,000)		475,000				(1,275,000)	Change in inventory
Labor	(110,000)			(100,000)			(110,000)	Materials
				(5,944)			(100,000)	Labor
							(5,944)	Overhead - depreciation of building
							(50,000)	Overhead - depreciation of leased asset
							(50,000)	Interest expense
Total	(1,860,000)	-	425,000	(552,194)	-	-	(1,987,194)	Total
							787,806	Gross profit on sales
Cash paid for selling activities								Selling expenses
Compensation	(85,000)						(85,000)	Compensation expense
Contributions to pension plan	(700)			(1,300)			(2,000)	Pension expense
				(9,358)		3,080	(6,278)	Bad debt expense (decreased allowance)
Operating expenses	(45,000)		(25,000)				(70,000)	Other operating expenses
Total	(130,700)	-	(25,000)	(10,658)	-	3,080	(163,278)	Total
Cash paid for general and admin activities								General and administrative expenses
Rent	(120,000)						(120,000)	Rent expense
Contributions to pension plan	(500)			(1,100)			(1,600)	Pension expense
				(77,000)	(7,500)		(7,500)	Stock compensation expense
				(500)			(77,000)	Depreciation expense
							(500)	Accretion expense on ARO
Total	(120,500)	-	-	(78,600)	(7,500)	-	(206,600)	Total
Cash paid for other operating activities								Other operating expenses
Compensation	(15,000)			(2,600)			(15,000)	Compensation expense
				(2,378)			(2,600)	Litigation expense
				(1,600)		200	(2,378)	Interest expense on lease liability
Sale of receivables	1,200						(200)	Loss on sale of receivables
Research and development	(1,120)						(1,120)	Research and development
Sale of building	17,500					(15,500)	2,000	Gain on sale of building
Capital expenditures	(500,000)	(500,000)						Other operating expenses
Other expenses	(55,000)		(25,000)				(80,000)	Total
Total	(552,420)	(500,000)	(27,378)	(4,200)	-	(15,300)	(99,298)	Total
Net cash provided by operating activities	36,380	(500,000)	447,622	(645,652)	(7,500)	(12,220)	318,630	Total operating income
							160,000	Other comprehensive income
							160,000	Gain on revaluation of building
							160,000	Total other comprehensive income
Net cash provided by operating activities	36,380	(500,000)	447,622	(645,652)	(7,500)	147,780	478,630	Comprehensive operating income
Investing								Investing
				12,250			12,250	Equity in earnings of affiliate
Sale of available-for-sale securities	5,000			(5,000)	450		840	Fair value adjustment on affiliate
Dividends received	9,250						450	Realized gain on available-for-sale
Purchase of investment in affiliates	(710,000)	(710,000)					9,250	Dividend income
Purchase of AFS securities	(185,000)	(185,000)						
Net cash used in operating activities	(880,750)	(895,000)	-	7,250	1,290	-	22,790	Net investing income
							10,650	Other comprehensive income
Net cash used in operating activities	(880,750)	(895,000)	-	7,250	11,940	-	33,440	Unrealized gain on available-for-sale sec.
Net cash used in business activities	(844,370)	(1,395,000)	447,622	(638,402)	4,440	147,780	512,070	Comprehensive investing income
								Comprehensive business income
CASH FLOWS FROM DISC OPS								Loss from discontinued operations
Cash flows from discontinued operations	(20,000)		(10,000)			(50,000)	(80,000)	
CASH FLOWS FROM FINANCING								FINANCING
Dividends paid	(35,000)	(35,000)						Interest expense
Interest paid	(125,000)		(125,000)				(225,000)	
Proceeds from issuance of st debt	500,000	500,000						
Proceeds from issuance of bonds	2,500,000	2,500,000						
Net cash provided by financing activities	2,840,000	2,965,000	(125,000)	-	-	-	(225,000)	Comprehensive financing (expense)
								Comprehensive income before tax and disc ops
CASH FLOWS FROM INCOME TAXES								INCOME TAXES
Income taxes paid	(54,639)		(20,812)				(75,451)	Current tax expense
				(33,120)			(33,120)	Deferred tax expense
Net cash used for income taxes	(54,639)	-	(20,812)	(33,120)	-	-	(108,571)	Comprehensive income tax (expense)
Net cash flows	1,920,991	1,570,000	301,810	(671,522)	4,440	147,780	98,499	Total comprehensive income
Change in cash	1,920,991							
Beginning cash	4,000,000							
Ending cash	5,920,991							

Appendix to Agenda Paper 4

RECONCILIATION OF THE STATEMENTS OF COMPREHENSIVE INCOME AND CASH FLOWS

IASB view	A	B	C		D	E	F
	Cash Flows	Cash Flows Not Affecting Income	Non Cash Items Affecting Income		All Other Transactions	Comprehensive Income (A-B+C+D+E+F)	Caption in Statement of Comprehensive Income
			Valuation Adjustments				
CASH FLOWS FROM BUSINESS							BUSINESS
Operating							Operating
Cash received from sales	2,700,000				75,000	2,775,000	Sales
Cash paid for goods sold							Cost of goods sold
					(446,250)	(446,250)	Change in inventory
Inventory purchases	(1,750,000)				475,000	(1,275,000)	Materials
Labor	(110,000)					(110,000)	Labor
					(100,000)	(100,000)	Overhead - depreciation of building
					(5,944)	(5,944)	Overhead - depreciation of leased asset
					(50,000)	(50,000)	Interest expense
Total	(1,860,000)				(127,194)	(1,987,194)	Total cost of goods sold
						787,806	Gross profit on sales
Cash paid for selling activities							Selling expenses
Compensation	(85,000)					(85,000)	Compensation expense
Pension plan	(700)				(1,300)	(2,000)	Pension expense
					(9,358)	(6,278)	Bad debt expense
Cash paid for other operating expenses	(45,000)				(25,000)	(70,000)	Other operating expenses
Total	(130,700)				(35,658)	(163,278)	Total selling expenses
Cash paid for general and admin activities							General and administrative expenses
Rent	(120,000)					(120,000)	Rent expense
Contributions to pension plan	(500)				(1,100)	(1,600)	Pension expense
					(7,500)	(7,500)	Stock compensation expense
					(77,000)	(77,000)	Depreciation expense
					(500)	(500)	Accretion expense on ARO
Total	(120,500)				(78,600)	(206,600)	Total G&A expenses
Cash flows from other operating activities							Other operating expenses
Compensation	(15,000)					(15,000)	Compensation expense
					(2,600)	(2,600)	Litigation expense
					(2,378)	(2,378)	Interest expense on lease liability
Sale of receivables	1,200				(1,600)	(200)	Loss on sale of receivables
Research and development	(1,120)					(1,120)	Research and development
Sale of building	17,500					2,000	Gain on sale of building
Capital expenditures	(500,000)	(500,000)					
Other expenses	(55,000)				(25,000)	(80,000)	Other operating expenses
Total	(552,420)	(500,000)			(31,578)	(99,298)	Total other operating expenses
Net cash provided by operating activities	36,380	(500,000)			(198,030)	318,630	Net operating income
							Other comprehensive income
						160,000	Gain on revaluation of building
						160,000	Total other comprehensive income
Net cash provided by operating activities	36,380	(500,000)			(198,030)	478,630	Comprehensive operating income
Investing							Investing
							Equity in earnings of affiliate
							Fair value adjustment on affiliate
Sale of available-for-sale securities	5,000					450	Realized gain on available-for-sale
Dividends received	9,250					9,250	Dividend income
Purchase of investment in affiliates	(710,000)	(710,000)					
Purchase of available-for-sale securities	(185,000)	(185,000)					
Net cash used in operating activities	(880,750)	(895,000)				22,790	Net investing income
							Other comprehensive income
						10,650	Unrealized gain on available-for-sale sec.
Net cash used in operating activities	(880,750)	(895,000)				33,440	Comprehensive investing income
Net cash used in business activities	(844,370)	(1,395,000)				512,070	Comprehensive business income
CASH FLOWS FROM DISC OPS							
Cash flows from discontinued operations	(20,000)					(80,000)	Loss from discontinued operations
CASH FLOWS FROM FINANCING							FINANCING
Dividends paid	(35,000)	(35,000)					
Interest paid	(125,000)					(125,000)	Interest expense
Proceeds from issuance of short-term debt	500,000	500,000					
Proceeds from issuance of bonds	2,500,000	2,500,000					
Net cash provided by financing activities	2,840,000	3,000,000				(225,000)	Comprehensive financing (expense)
						287,070	Comprehensive income before tax and disc ops
CASH FLOWS FROM INCOME TAXES							INCOME TAXES
Income taxes paid	(54,639)					(75,451)	Current tax expense
						(33,120)	Deferred tax expense
Net cash used in income tax activities	(54,639)					(53,932)	Comprehensive income tax (expense)
Net cash provided by acts with non-equity holders	1,920,991	1,605,000				152,220	Total comprehensive income
Change in cash	1,920,991						
Beginning cash	4,000,000						
Ending cash	5,920,991						