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

INFORMATION FOR OBSERVERS

SAC Meeting: November, London
Project: Statement of Comprehensive Income
(*Agenda Paper 3b*)

STATEMENT OF COMPREHENSIVE INCOME

INTRODUCTION

1. This paper describes the Boards' preliminary views on preparing and presenting the statement of comprehensive income.

PRESENTATION OF OTHER COMPREHENSIVE INCOME

Long Term Goal

2. The Boards expressed their view that **all** current period changes in assets and liabilities should be presented in one of the functional categories on the statement of comprehensive income, thereby rendering OCI and the mechanism of recycling unnecessary. The Boards believe that achieving that view is a long-term goal. To achieve it, current standards that require recognition of amounts in OCI will need to be changed. 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.

Alternative Presentations

3. While the Boards' long-term goal would have items currently recognized in other comprehensive income classified in the same manner as all other changes in assets and liabilities, the Boards acknowledged that, as an interim step, OCI items might need to be presented in a separate section of the statement of comprehensive income rather than included in the functional categories. Paragraphs 5-10 describe two alternatives for presenting other comprehensive income items during this interim period. While both alternatives will be included in the discussion document, more Board members prefer the first. Those alternatives are illustrated on page 1 of the Appendix.
4. A third alternative—which breaks away from the working format and requires an entity to recognize all changes in assets and liabilities in the period in which they occur—is described following those two interim views. 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 (presumably as part of this project). A number of IASB members prefer the third alternative. The third alternative is illustrated on pages 2 of the Appendix and is presented alongside a fourth alternative (that is consistent with the working format and with the Boards' long-term goal as described in paragraph 2).

Alternative 1 (Interim View)

5. 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. An entity would reclassify (recycle) OCI items, as required by other standards, from the OCI subcategory to the corresponding operating, investing, or financing category.
6. An entity would present OCI items other than foreign currency translation adjustments 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.

7. 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 (IASB leaning at October meeting; the FASB will discuss in late October)
 - b. in the same category as the equity method investment if related to an equity method investment.
8. Under Alternative 1, cohesiveness is achieved without exception, as all items would be classified within the predefined sections and categories and there would be a clear distinction between OCI items and non-OCI items. This is somewhat responsive to the view that OCI items are sufficiently different from other items of income and expense. However, under Alternative 1 OCI items are dispersed among the other functional sections and categories. This could make the analysis of an entity's business and financing activities exclusive of OCI items difficult.

Alternative 2 (Interim View)

9. 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, and financing 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.
10. Alternative 2 presents all OCI items in a section separate from the other sections allowing all OCI items to be analyzed and considered as a whole. However, Alternative 2 would introduce an exception to the cohesiveness principle, as OCI items would be classified in a section that does not appear on the statements of financial position and cash flows. This would require a user to reclassify certain information (the OCI items) to create a cohesive picture of an entity. In addition, in

Alternative 2, OCI items that are recycled would be recycled between sections; in Alternative 1 the recycling would occur within the same category (from the OCI subcategory to the non-OCI subcategory).

Alternative 3 (Long-Term View)

11. As noted earlier, the third alternative is not consistent with the overall working format. Instead of the sections of the statement of comprehensive income being based on functional activities (business and financing), there would be two sections based on whether the items are short-term (some might label it the “trading” section) or long-term (non-trading) in nature. The short-term and long-term sections would each be further separated into the same functional categories and sections (operating, investing, financing, and so forth) as the working format.
12. An entity would classify changes in assets and liabilities in the short-term and long-term sections in the statement of comprehensive income based on whether the related asset or liability is short- or long-term in nature. However, there would be an exception to that classification principle—an entity would present changes in long-term assets and liabilities in the short-term section if the income and expense items are closely related to an entity’s operating cycle. For example, depreciation expense related to long-term assets would tend to be shown in the short-term section, as that expense is associated with the consumption of an operating asset.
13. The staff is in the process of better articulating Alternative 3 based on further discussion with IASB members. The key principle behind the alternative presentation is dividing gains and losses into those that have an effect in the near future and those that relate to a longer time span (such as gains and losses due to price changes, or holding gains and losses). In addition, entities that trade investments as part of their main activity would tend to classify gains arising on price movements of certain investment assets as part of their trading (short-term) activities.
14. Under Alternative 3 there would be short-term and long-term sections on the statement of comprehensive income, thus it could be viewed as cohesive with a classified statement of financial position (which has short- and long-term subcategories). However, as some Board members noted, there would be exceptions

to the short-term/long-term classification principle and not all entities would present a classified statement of financial position. Also, while most OCI items would be classified in the long-term section, that section would include changes in other long-term assets and liabilities (such as pension and lease obligations). Thus, similar to Alternative 1, OCI items will not be in their own section which could make analysis of an entity's business and financing activities exclusive of OCI items difficult (for those that desire to exclude all OCI items from their analysis). However, others would view the fact that the long-term section includes changes that have similar characteristics to OCI items as an advantage of Alternative 3.

Alternative 4 (Long-Term View)

15. The fourth alternative is what the Boards initially considered when discussing how items currently reported as OCI items should be presented in the working format. Thus, unlike Alternative 3, the classification of revenues, expenses, gains, and losses is consistent with the classification of the related assets and liabilities. 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.

TOTALS AND SUBTOTALS

16. While the Boards have yet to discuss totals and subtotals nor have they confirmed the terminology used for categories and sections, they did agree to include the following based on the general principles for aggregation and disaggregation in IAS 1 in the preliminary model.

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.

17. The Boards will discuss common subtotals for each of the financial statements and additional subtotals for specific statements at a meeting later this year. The staff plans to recommend that there be a subtotal for each category and section on each of the primary financial statements so that, consistent with the cohesiveness working principle, each financial statement has similar subtotals. An illustration of those common subtotals is presented in the following table:

Statement of financial position	Statement of cash flows	Statement of comprehensive income
BUSINESS	BUSINESS	BUSINESS
Operating assets and liabilities	Cash flows from operating activities	Operating income and expenses
<i>Subtotal (A1)</i>	<i>Subtotal (A1)</i>	<i>Subtotal (A1)</i>
Investing assets and liabilities	Cash flows from investing activities	Investing income and expenses
<i>Subtotal (A2)</i>	<i>Subtotal (A2)</i>	<i>Subtotal (A2)</i>
TOTAL (A) = Subtotals (A1) + (A2)	TOTAL (A) = Subtotals (A1) + (A2)	TOTAL (A) = Subtotals (A1) + (A2)
FINANCING	FINANCING	FINANCING
Financing assets	Cash flows from financing assets	Financing asset income/expense
<i>Subtotal (B1)</i>	<i>Subtotal (B1)</i>	<i>Subtotal (B1)</i>
Financing liabilities	Cash flows from financing liabilities	Financing liabilities income/expense
<i>Subtotal (B2)</i>	<i>Subtotal (B2)</i>	<i>Subtotal (B2)</i>
TOTAL (B) = Subtotals (B1) + (B2)	TOTAL (B) = Subtotals (B1) + (B2)	TOTAL (B) = Subtotals (B1) + (B2)
DISCONTINUED OPERATIONS	DISCONTINUED OPERATIONS	DISCONTINUED OPERATIONS
Assets held for sale (disposal group)		
Liabilities (disposal group)		
TOTAL (C) —∑ Net assets of Discontinued operations	TOTAL (C) —∑ cash flows from Discontinued operations	TOTAL (C) —∑ income/expense of Discontinued operations
INCOME TAXES	INCOME TAXES	INCOME TAXES
Income tax assets		
Income tax liabilities		
TOTAL (D) —∑ income tax asset/liability	TOTAL (D) —∑ cash flows from income taxes	TOTAL (D) —∑ income tax expense/benefit
EQUITY	EQUITY	--
TOTAL (E) —∑ equity	TOTAL (E) —∑ equity	--
<i>Total Assets and Total Liabilities will be presented in notes</i>	BOTTOM LINE = ∑Totals A + B + C + D + E (Net change in cash)	BOTTOM LINE = ∑Totals A + B + C + D (Total comprehensive income)

Subtotals Unique to the Statement of Comprehensive Income

18. Alternatives 1 and 2 are presented side-by-side on page 1 of the Appendix. In addition to the “common” subtotals and the bottom line totals (illustrated in the table

above), the statement of comprehensive income will have subtotals unique to that statement. The following possible additional subtotals could be presented in either Alternatives 1 or 2, or both (as appropriate) (refer to shaded lines in the appendices):

- a. Gross profit
- b. Other comprehensive income for each category
- c. Comprehensive income before tax
- d. Total comprehensive income.

19. Alternative 2 also could present subtotals for:

- a. Total income before other comprehensive income (and taxes—depending on order of sections)
- b. Total other comprehensive income.

20. Alternative 3 would present the common subtotals (subtotals for each section (business, financing) and category (operating, investing)) in both the short-term and long-term sections along with a subtotal (or total) for short-term income and long-term income, and possibly a total for comprehensive income. Alternative 3 would not include the additional subtotals contemplated in Alternatives 1 and 2 except for gross profit. Alternative 3 also could include a subtotal in both the short-term and long-term for income before taxes (depending on how taxes are presented).

21. Alternative 4 would have all of the common subtotals, a total for comprehensive income, and no unique subtotals except for gross profit.

22. The staff notes that a subtotal equal to current net income could not be presented under any of the Alternatives because all items on the statement of comprehensive income, including OCI items, would be presented on a pre-tax basis under the preliminary model.

DISCUSSION QUESTIONS

- 1) Are the four Alternatives presented reasonable given the Boards' expressed interim view and long-term goal described in paragraph 2? Which of the two interim views (Alternatives 1 and 2) do you prefer and why? Which of the two long-term views (Alternatives 3 and 4) do you prefer and why?**

2) Do you find the subtotals proposed for each of the Alternatives useful (as illustrated in the Appendix)? Should any subtotals be eliminated or added? Do you have any suggestions for the order in which the sections are presented (this could impact the subtotals that are drawn)?

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.

Appendix to Agenda Paper 3B

INTERIM VIEW

Alternative 1

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
BUSINESS		
Operating		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
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)
Total operating income	318,630	336,208
Other comprehensive income		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Total other comprehensive operating income	160,000	153,380
Comprehensive operating income	478,630	489,588
Investing		
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
Total investing income	22,790	20,776
Other comprehensive income		
Unrealized gain on available-for-sale sec.	10,650	1,247
Total comprehensive investing income	10,650	1,247
Comprehensive investing income	33,440	22,023
Comprehensive business income	512,070	511,611
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	
FINANCING		
Interest expense	(225,000)	-
Comprehensive financing expense	(225,000)	-
Comprehensive income before tax	257,070	511,611
INCOME TAXES		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

Alternative 2

STATEMENT OF COMPREHENSIVE INCOME		
	2006	2005
BUSINESS		
Operating		
Sales	2,775,000	2,580,750
Cost of goods sold		
Change in inventory	(446,250)	(415,013)
Materials	(1,275,000)	(1,185,750)
Labor	(110,000)	(102,300)
Overhead - depreciation of building	(100,000)	(93,000)
Overhead - depreciation of leased asset	(5,944)	(5,528)
Interest expense	(50,000)	
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)
Total operating income	318,630	336,208
Investing		
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
Total investing income	22,790	20,776
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(30,000)	
FINANCING		
Interest expense	(225,000)	-
Total financing expense	(225,000)	-
Income before other comprehensive income and taxes	116,420	356,984
OTHER COMPREHENSIVE INCOME		
Operating Income		
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Investing Income		
Unrealized gain on available-for-sale sec.	10,650	1,247
Total Other Comprehensive Income	170,650	154,627
Comprehensive income before tax	257,070	511,611
INCOME TAXES		
Current tax expense	(75,451)	(70,169)
Deferred tax expense	(33,120)	(30,802)
Total income tax (expense)	(108,571)	(100,971)
Total comprehensive income	148,499	410,640

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Appendix to Agenda Paper 3B

LONG-TERM VIEW

Alternative 3				Alternative 4					
STATEMENT OF COMPREHENSIVE INCOME				STATEMENT OF COMPREHENSIVE INCOME					
SHORT TERM				SHORT TERM					
	2006	2005		2006	2005		2006	2005	
BUSINESS				BUSINESS					
Operating Income				Operating					
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 buikding	(100,000)	(93,000)	Overhead - depreciation of buikding	(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)				
Interest expense on lease liability	(2,378)	-	Litigation expense	(2,600)	-				
Loss on sale of receivables	(200)	-	Interest expense on lease liability	(2,378)	-				
Research and development	(1,120)	(1,042)	Loss on sale of receivables	(200)	-				
Litigation expense	(2,600)	-	Research and development	(1,120)	(1,042)				
Other operating expenses	(80,000)	(74,400)	Gain on sale of building	2,000	-				
Total	(101,298)	(89,392)	Other operating expenses	(80,000)	(74,400)				
Total short-term operating income	316,630	336,208	Gain on revaluation of building	160,000	148,800				
Investing income			Actuarial gain on pension obligation	-	4,580				
Short-term			Total	60,702	63,988				
Realized gain on available-for-sale	450	-	Comprehensive operating income	478,630	489,588				
Dividend income	9,250	8,603	Investing						
Total short-term investing income	9,700	8,603	Equity in earnings of affiliate	12,250	11,393				
Total short-term business income	326,330	344,810	Fair value adjustment on affiliate	840	781				
DISCONTINUED OPERATIONS (before tax)			Realized gain on available-for-sale	450	-				
Loss on discontinued operations	(30,000)		Dividend income	9,250	8,603				
FINANCING			Unrealized gain on available-for-sale sec.	10,650	1,247				
Short term			Comprehensive investing income	33,440	22,023				
Interest expense	(225,000)	-	Comprehensive business income	512,070	511,611				
Financing expense	(225,000)	-	DISCONTINUED OPERATIONS (before tax)						
Total short-term income before tax	71,330	344,810	Loss on discontinued operations	(30,000)					
LONG TERM			FINANCING						
Long -term operating			Interest expense	(225,000)	-				
Gain on sale of building	2,000	-	Comprehensive financing expense	(225,000)	-				
Gain on revaluation of building	160,000	148,800	Comprehensive income before tax	257,070	511,611				
Actuarial gain on pension obligation	-	4,580	INCOME TAXES						
Total long-term operating income	162,000	153,380	Current tax expense	(75,451)	(70,169)				
Long -term investing			Deferred tax expense	(33,120)	(30,802)				
Equity in earnings of affiliate	12,250	11,393	Total income tax (expense)	(108,571)	(100,971)				
Fair value adjustment on affiliate	840	781	Total comprehensive income	148,499	410,640				
Unrealized gain on available-for-sale sec.	10,650	1,247							
Long-term investing income	23,740	13,421							
long-term business income	185,740	166,801							
Total Long-term income before tax	185,740	166,801							
INCOME TAXES									
Comprehensive income before tax	257,070	511,611							
Provisions for income taxes									
Current tax expense	(75,451)	(70,169)							
Deferred tax expense	(33,120)	(30,802)							
Total income tax expense	(108,571)	(100,971)							
Total comprehensive income	148,499	410,640							