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International Accounting Standards Board

This document is provided as a convenience to observers at the World Standard Setters meeting, to assist them in following the discussion. 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 World Standard Setters meeting. Paragraph numbers correspond to the paragraph numbers in the staff papers.

INFORMATION FOR OBSERVERS
WORLD STANDARD SETTERS MEETING, SEPTEMBER 2007, LONDON

Financial Statement Presentation
Overview of Preliminary Model

INTRODUCTION AND PURPOSE OF MEETING

1. By the end of June, the Boards had expressed their preliminary views on most of the substantive issues that will be addressed in Phase B of the financial statement presentation project. The Boards plan to issue an initial discussion document explaining their preliminary views in the first quarter of 2008.

OVERVIEW OF PRELIMINARY MODEL

Objective and Working Principles

2. The Boards' objective is to present information in the financial statements in ways that enable investors, creditors, and other financial statement users to:
   a. Understand an entity's present and past financial position
   b. Understand how past operating, financing, and other activities caused an entity's financial position to change and the components of those changes
   c. Use that financial statement information (along with information from other sources) to assess the amounts, timing, and uncertainty of an entity's future cash flows.

3. The working principles of financial statement presentation follow.

   Financial statements should:

   a. Portray a cohesive financial picture of an entity
   b. Separate an entity's financing activities from its business and other activities and further separate financing activities between transactions with owners in their capacity as owners and all other financing activities
   c. Disaggregate line items if that disaggregation enhances the usefulness of that information in predicting future cash flows.
   d. Help a user assess an entity's ability to:
      (1) Meet its financial commitments as they come due (including, but not limited to, its ability to raise capital and to use existing assets for generating future cash flows)
      (2) Invest in business opportunities.
   e. Help a user understand:
      (1) The basis on which assets and liabilities are measured
      (2) The uncertainty in measurements of individual assets and liabilities
      (3) What causes a change in reported amounts of individual assets and liabilities
      (4) The difference between cash-based accounting and accrual accounting
      (5) The effects of noncash activities during the period on an entity's financial position.

The Working Format and Cohesiveness of the Financial Statements

4. The Boards have agreed that the first working principle (financial statements should portray a cohesive financial picture of an entity) is the governing principle. Some think about this cohesiveness principle in terms of articulation or linkage—a cohesive financial picture will clarify the relationships between related items in the financial statements. The following table represents the format for classifying and presenting information within the financial statements excluding the notes (referred to as the working format).

Statement of Financial Position	Statement of Comprehensive Income	Statement of Cash Flows
Business	**Business**	**Business**
◆ Operating assets and liabilities ◆ Investing assets and liabilities	◆ Operating income and expenses ◆ Investing income and expenses	◆ Operating cash flows ◆ Investing cash flows
Discontinued operations	**Discontinued operations**	**Discontinued operations**
Financing	**Financing**	**Financing**
◆ Financing assets ◆ Financing liabilities	◆ Financing asset inc/exp ◆ Financing liability inc/exp	◆ Financing asset cash flows ◆ Financing liability cash flows
Income taxes	**Income taxes**	**Income taxes**
Equity	**Statement of Changes in Equity**	**Equity**

Note: The Boards have not addressed totals, subtotals, or the order in which sections would be presented, nor have they finalized the labels of the categories and sections.

5. Application of the cohesiveness working principle would result in an entity classifying its assets, liabilities, and equity items into one of the prescribed categories or sections in the statement of financial position and then similarly classifying changes in assets, liabilities, and equity items in the statement of comprehensive income and the statement of cash flows. The Boards are of the view that, ideally, the financial statements should be cohesive at the line-item level. Thus, to the extent practical, an entity would label line items similarly across the financial statements.

Management Approach to Classification

6. The working format would separate the different functional activities of an entity and apply to all business entities, including financial institutions. Because functional activities vary from entity to entity, an entity would choose the classification that best affects management's view of what constitutes its business (operating and investing) and financing activities. Thus, a manufacturing entity may classify the exact same asset (or liability) differently from a financial institution because of differences in the businesses in which those entities engage. This management approach to classification will allow an entity's financial statements to communicate clearly about the various aspects of its activities.

7. An entity would be required to explain, as a matter of accounting policy, its bases for classifying assets and liabilities in the operating category, the investing category, and

the financing categories. The Boards anticipate that that disclosure would include a discussion of the type(s) of businesses in which the entity engages. Any change in the basis for classification would be viewed as a change in accounting policy and would be implemented through retrospective application to prior periods (consistent with FASB Statement No. 154, *Accounting Changes and Error Corrections*, and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

Classification Guidelines

8. An entity consisting of different businesses would apply the classification guidance to its assets and liabilities at the reportable segment level (as that term is defined in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and IFRS 8 *Operating Segments*). Thus, an entity may classify similar assets (or liabilities) differently because of differences in the businesses in which it engages.

Business Section

9. The business section of the statement of financial position would include all assets and liabilities that management views as part of the entity's continuing business activities.

Operating Category

10. The operating category would include assets and liabilities that management views as integral to the business activities it is currently engaged in and unrelated to financing those activities. Assets and liabilities that are integral to an entity's business would be those that management views as related to producing and delivering goods or providing services (for example, accounts receivable, inventory, equipment, accounts payable, pension obligations, and, for a financial services business, deposits and loans). An entity would include operating assets and liabilities in the same category.

Investing Category

11. The investing category would include assets and liabilities that management views as related to the entity's investing activities. The term *investing* is used in the economic sense—committing money or capital with the expectation of earning a financial return. Examples of assets that an entity might classify in the investing category

include real estate purchased solely for the purpose of earning a return (and the entity is not in the real estate business); an investment in a joint venture or an associate that is not related to the entity's business; or a speculative investment such as artwork.

Financing Section

12. The financing section of the statement of financial position would include only financial assets and financial liabilities that management views as part of the financing of the entity's business activities (referred to as *financing assets and liabilities*).

13. In determining whether a financial asset or liability is part of the financing of the business, management would consider whether the item is interchangeable with other sources of financing and whether the item could be characterized as independent of specific business activities. For example, the financing section would normally *exclude* assets and liabilities related to transactions with customers, suppliers, and employees because transactions of that nature usually relate to an entity's operations. The financing section would normally *include* liabilities that originated from an entity's capital-raising activities because capital is usually raised as a means to fund operating activities (for example, money market funds, a bank loan, bonds).

14. As financial assets and liabilities are generally part of the operations of a financial services business, the financing section of a bank, for example, could include fewer types of financial instruments than that of a retail business. While a financial institution would most likely classify cash as an operating asset and a bank overdraft as an operating liability, an entity that is not a financial institution would usually classify those items in the financing section.

Other sections

15. The **Equity section** in the statement of financial position would include all equity items. Changes in equity items would be presented in the equity section of the statement of cash flows and in the statement of changes in equity.

16. All *income taxes*, including taxes related to transactions with owners, would be presented separately in an **Income Taxes section**.

a. Income taxes would not be allocated to continuing operations, discontinued operations, and so forth (that is, all items, including discontinued operations and other comprehensive income (OCI) items would be presented on a pre-tax basis).

b. The notes to financial statements will include information to assist users in analyzing income tax information due to this change in presentation. (The Boards have yet to discuss possible disclosure requirements.)

17. Discontinued operations would be presented separately in the **Discontinued Operations section**. Guidance on reporting a discontinued operation and the additional disclosures for components that have been or will be disposed of should be separated from the financial statement presentation project.

DISCUSSION QUESTIONS (Agenda Paper 1)

1) Based on the working principles developed by the Boards (refer to paragraph 3),

   a. Do you think they are complete? If not what principle would you add?

   b. Do you agree that cohesiveness should be the governing principle in deciding how information should be presented in the financial statements?

2) As illustrated in the table following paragraph 4, **Assets** and **Liabilities and equity** would no longer be the primary sections on the statement of financial position, nor would there be totals for assets and liabilities on that statement. Rather, the statement of financial position would be formatted such that all **Business assets *and* liabilities** would be in one section, all **Financing assets *and* liabilities** would be in another section, and all **Equity** items would be in another section. (Total assets and total liabilities would be disclosed in the notes to financial statements.)

   a. Does separating an entity's "value-creating" activities (business section) from the funding of that value creation (financing and equity sections) provide more useful information than separating an entity's assets from its liabilities?

b. In your view, is this the appropriate way to segregate business and financing activities? Should equity items be in a separate category in the financing section rather than in a separate section?

3) As described in paragraph 6, the Boards support a management approach to financial statement presentation. That is, entities are to classify their assets and liabilities in the operating, investing, and financing categories in a manner that reflects how management views their business(es).[1] Thus, while the classification and application guidance applies to all industries, the Boards fully expect that the financial statements of entities in different industries will look different.

a. Do you support a management approach to classification?

b. Is there additional classification guidance that should be provided?

[1] Assets, liabilities, and equity items are to be classified in the other sections (discontinued operations, equity, and income tax) based on their accounting treatment rather than management's view of the item.

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INFORMATION FOR OBSERVERS
WORLD STANDARD SETTERS MEETING, SEPTEMBER 2007, LONDON

Financial Statement Presentation
Statement of Comprehensive Income

INTRODUCTION

1. This paper describes the Boards' preliminary views on preparing and presenting the statement of comprehensive income and is organized as follows:
    a. Disaggregation by function and by nature
    b. Presentation of income tax expense
    c. Presentation of other comprehensive income (OCI)
    d. Totals and subtotals.

DISAGGREGATION BY FUNCTION AND BY NATURE

2. As noted in Agenda Paper 1, the following categories or sections would be presented in the statement of comprehensive income:
    - Business section
        - Operating category
        - Investing category
    - Financing section
        - Financing income category
        - Financing expense category

- Discontinued operations section
- Income Tax section

3. Within the operating, investing, and financing categories, an entity would disaggregate its income and expenses by *function*. *Function* refers to the primary activities in which an entity is engaged, such as selling a product or providing a service, cost of sales, research and development, marketing, and administrative activities.

4. Each of those functions would be further disaggregated by *nature* to the extent that it enhances the usefulness of the statement of comprehensive income. If this presentation is impractical, it would present the information in the notes to financial statements. *Nature* refers to the inputs (costs) required to accomplish those functional activities, such as costs related to people (labor and benefits), materials, energy, equipment (depreciation), and occupancy (rent). (Refer to the statement of comprehensive income for a manufacturing company on the Appendix.)

5. If, in the opinion of management, presenting disaggregated information by function would not provide relevant information (because, for example, the entity does not engage in a variety of functions, that is, it provides mainly services), an entity would disaggregate its revenues, expenses, gains, and losses by their nature within the operating, investing, and financing categories.

6. In addition, an entity would be required to separately report any expense that is important in understanding its operating results that may not relate to a functional line item (for example, impairment of goodwill).

PRESENTATION OF INCOME TAX EXPENSE AND RELATED DISCLOSURE

7. The Boards are of the view that all income taxes, including those related to transactions with owners, should be presented in a separate section of the financial statements as income taxes are not related to the underlying transaction. Rather, income taxes are a form of income appropriation to taxing authorities. Moreover, members of both Boards generally agreed that any income tax allocation would be arbitrary and that the costs of providing this information exceed the benefits.

8. Therefore, the Boards agreed that income taxes should no longer be allocated to continuing operations, discontinued operations, and so forth (that is, all items, including discontinued operations and other comprehensive income (OCI) items would be presented on a pre-tax basis).

9. The Boards agreed that the notes should include information to assist users in analyzing income tax information due to the change in presentation (that is, no intra-period tax allocation). The Boards have yet to discuss possible disclosure requirements; however, some ideas discussed include an entity providing the following in the notes:

   a. Information regarding the drivers and sustainability of its effective tax rate
   b. A detailed analysis of effective tax rates and how those rates vary by activity, segment, or geographic region
   c. The tax amount related to significant items or to items for which it can objectively calculate the tax effect.

PRESENTATION OF OTHER COMPREHENSIVE INCOME

Long Term Goal

10. 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 issue, both Boards agreed to address those standards individually and separately, rather than as part of this project.

Alternative Presentations

11. 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 13-18 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 preferred the first. Those alternatives are illustrated on page 1 of the Appendix.

12. 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—it's unclear whether all would support it if it retained the notion of recycling as an interim step. The third alternative is illustrated on page 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 10).

Alternative 1 (Interim View)

13. 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.

14. 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.

15. An entity would present foreign currency translation adjustments in the statement of comprehensive income:

a. in the operating category if related to consolidated subsidiaries and proportionately consolidated joint ventures (IASB only; the FASB has not discussed)

b. in the same category as the equity method investment if related to an equity method investment.

16. 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)

17. 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.

18. 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)

19. 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.

20. 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.

21. 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.

22. 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)

23. 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

24. 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.

25. 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
Subtotal ***(A1)***	*Subtotal* ***(A1)***	*Subtotal* ***(A1)***
Investing assets and liabilities	Cash flows from investing activities	Investing income and expenses
Subtotal ***(A2)***	*Subtotal* ***(A2)***	*Subtotal* ***(A2)***
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
Subtotal ***(B1)***	Subtotal ***(B1)***	Subtotal ***(B1)***
Financing liabilities	Cash flows from financing liabilities	Financing liabilities income/expense
Subtotal ***(B2)***	Subtotal ***(B2)***	Subtotal ***(B2)***
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	--
Total Assets and Total Liabilities will be presented in notes	**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

26. Alternatives 1 and 2 are presented side-by-side on 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 (operating, investing)
c. Comprehensive income before tax
d. Total comprehensive income.

27. 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.

28. 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).

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

30. 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 (Agenda Paper 2)

1) **Do participants have any comments on the disaggregation by function and nature or any suggestions for further improvement (particularly whether and when the by-nature information should be presented in the statement as opposed to the notes)?**

2) **Should income taxes be presented in a separate section or allocated to categories despite the problems in doing so?**

3) **Are the four Alternatives presented reasonable given the Boards' expressed interim view and long-term goal described in paragraph 10? 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?

4) **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)?**

The illustrations for the Statement of Comprehensive Income, shown in the following pages, are presented for discussion purposes only. Not all aspects of the sample financial statements have been discussed by or represent the current position of the Boards. Specifically, the Boards have yet to discuss subtotals, totals, and the order in which the sections and categories are presented. Accordingly, those aspects of the sample financial statements are not necessarily representative of the Boards' position on those issues

Appendix to Agenda Paper 2

Manufacturing Co.

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 buikding	(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 buikding	(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
Total business income	341,420	356,984
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

Appendix to Agenda Paper 2

Manufacturing Co.

Alternative 3

STATEMENT OF COMPREHENSIVE INCOME	2006	2005
SHORT TERM		
BUSINESS		
Operating Income		
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 buikding	(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)
Interest expense on lease liability	(2,378)	-
Loss on sale of receivables	(200)	-
Research and development	(1,120)	(1,042)
Litigation expense	(2,600)	-
Other operating expenses	(80,000)	(74,400)
Total	(101,298)	(89,392)
Total short-term operating income	316,630	336,208
Investing income		
Short-term		
Realized gain on available-for-sale	450	-
Dividend income	9,250	8,603
Total short-term investing income	9,700	8,603
Total short-term business income	326,330	344,810
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operationis	(30,000)	
FINANCING		
Short term		
Interest expense	(225,000)	-
Financing expense	(225,000)	-
Total short-term income before tax	71,330	344,810
LONG TERM		
Long -term operating		
Gain on sale of building	2,000	-
Gain on revaluation of building	160,000	148,800
Actuarial gain on pension obligation	-	4,580
Total long-term operating income	162,000	153,380
Long -term investing		
Equity in earnings of affiliate	12,250	11,393
Fair value adjustment on affiliate	840	781
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

Alternative 4

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 buikding	(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
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
Unrealized gain on available-for-sale sec.	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