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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**11 March 2008, London**
Project:	**Financial Statement Presentation**
Subject:	**Presentation of income tax information (Agenda Paper 3)**

INTRODUCTION

1. At the March 2008 Board meetings on financial statement presentation, the staff would like to discuss two issues related to the presentation of income taxes:

   a. The first issue revisits the Boards' view, expressed in September 2006, that income taxes should be presented in a separate section in the financial statements, eliminating the need for intraperiod tax allocation[1]. [Sentence omitted from Observer Notes]. Some IASB members have questioned the Boards' preliminary view on this issue. The staff acknowledges that given the amount of constituent input related to this issue, it would be helpful for all Board members to be reminded of the reasoning behind their views.

   b. The second issue relates to the information an entity should disclose in the notes if income taxes are no longer allocated.

[1]*Intraperiod tax allocation* is the process of allocating current period income taxes among the different components of net income, other comprehensive income, and items debited or credited directly to equity.

ISSUE 1: VIEWS ON THE PRESENTATION OF INCOME TAX

2. The following paragraphs are from a draft of the discussion document and summarize the Boards' view on how income taxes should be presented in the financial statements and why.

DP1. When discussing the presentation of income taxes in the financial statements, the Boards considered whether income taxes should be viewed as integral to the transaction or event that gives rise to income taxes (the underlying transaction) or as unrelated to the underlying transaction and related to the entity as a whole.

DP2. Those who hold the view that income taxes **are integral** to the underlying transaction note that presenting income tax information in the same category as the related transaction helps a user better assess the effectiveness of management's decisions, as the decision of whether to enter into a transaction is often made after considering the income tax consequences. Under this view, income taxes would be allocated to the categories/sections in the statement of comprehensive income (operating, investing, financing assets, financing liabilities, discontinued operations, equity, and foreign currencies).

DP3. Those who are of the view that income taxes **are not integral** to the underlying transaction note that income taxes are a form of income appropriation. Tax authorities levy taxes on an entity's taxable income. The amount due tax authorities is determined based on formulas promulgated by tax authorities, which may rely heavily on, but is nonetheless independent from, information presented in the financial statements. Under this view, income taxes would be presented in a separate section.

DP4. In considering that latter view, the Boards noted that presenting income taxes in a separate section is consistent with the working format categories/sections that reflect the functions or activities of an entity. Most entities manage their taxes as a separate function, for the entity as a whole. In line with that notion, the Boards noted that some components of an entity's income tax expense or benefit (such as loss carryforwards) might not be directly related to any one specific transaction recognized in the statement of comprehensive income.

Existing Guidance on Intraperiod Tax Allocation

DP5. In forming their view on this issue, the Boards considered the detailed guidance on intraperiod tax allocation that is in FASB Statement No. 109, *Accounting for Income Taxes*. (In April 2005, the IASB decided to adopt that guidance as part of its short-term convergence project on income taxes that will amend IAS 12 *Income Taxes*.) While the guidance in Statement 109 is detailed enough that the allocated amounts can be calculated unambiguously, the Boards noted that the rules themselves are somewhat arbitrary and in some cases the allocated amounts are not useful to users of financial statements. For example, Statement 109 requires that an entity allocate the effect of a change in income tax rates to income from continuing operations regardless of the asset or liability to which the change relates. Accordingly, any income tax amount related to other comprehensive income (OCI) items would not be adjusted for a change in income tax rates and the income tax amount allocated to continuing operations would include taxes related to income earned from continuing operations as well as taxes due to a change in tax rates. In those instances, the amount reported for accumulated OCI might be misleading, as might be the after-tax amount reported for continuing operations.

Boards' Preliminary View

DP6. For the reasons noted above, the Boards' preliminary view is that an entity should present income taxes in a separate section in each of the financial statements. Based on this preliminary view:

a. The income tax section of the statement of financial position would include all current and deferred income tax assets and liabilities recognized pursuant to Statement 109 and IAS 12, including taxes related to transactions with owners.

b. The income tax section of the statement of cash flows would include all cash payments and receipts for income taxes.

c. The income tax section of the statement of comprehensive income would include all current and deferred income tax expense (or benefits).

   i. Amounts presented in all other sections (the business section, financing section, and discontinued operations section) would be pretax amounts, eliminating the need for intraperiod tax allocation requirements. Therefore, income taxes would no longer be allocated to continuing operations, discontinued operations, OCI items.

   ii. Income taxes related to transactions with owners would be recognized in comprehensive income rather than as a direct charge or credit to equity. [Note: Paragraphs 3-7 of this agenda paper include additional information on this point.]

DP7. From a practical perspective, the Boards' preliminary view resolves the concerns associated with intraperiod tax allocation: it is arbitrary, complex, and does not provide much in the way of useful information. Members of both Boards generally agreed that the costs of allocating taxes exceed the benefits.

DP8. The Boards are of the view that the notes to financial statements should include information to assist users in analyzing income tax information (such as information about tax rates) in lieu of intra-period tax allocation. (The staff's recommended disclosures are addressed in Issue 2 of this agenda paper.)

Income Taxes Currently Recognized in Equity (Transactions with Owners)

3. One of the consequences of the Boards' preference to present income taxes in a separate section is that **all** income taxes currently charged or credited directly to equity would be included in the statement of comprehensive income. However, adjustments to the opening balance of retained earnings for certain changes in accounting principles or changes in error (paragraph 36a of Statement 109) would continue to be charged directly to equity as an adjustment to retained earnings. To help Board

members understand the potential change in practice, the following paragraphs summarize the current guidance related to income taxes on transactions with owners in their capacity as owners.

4. Paragraph 36 of Statement 109 states that the income tax effects of the following items are to be charged or credited directly to equity:

    a. Adjustments of the opening balance of retained earnings for certain changes in accounting principles or changes in error (as noted in paragraph 3 of this paper, this adjustment would continue)
    b. Gains and losses included in comprehensive income, but excluded from net income
    c. An increase or decrease in contributed capital
    d. An increase in tax basis of assets acquired in a taxable business combination accounted for as a pooling of interests and for which a tax benefit is recognized at the date of the business combination
    e. Expenses for employee stock options recognized differently for financial reporting and tax purposes
    f. Dividends that are paid on unallocated shares held by an ESOP and that are charged to retained earnings
    g. Deductible temporary differences and carry-forwards that existed at the date of a quasi reorganization.

5. Paragraph 58 of IAS 12 (as amended by IAS 1 *Presentation of Financial Statements*, revised 2007) states that current and deferred tax should be recognized as income or an expense and included in profit and loss for the period, except to the extent that the tax arises from:
    a. A transaction or event which is recognized, in the same or a different period, outside profit or loss either in other comprehensive income or directly in equity; or
    b. A business combination.

6. Paragraph 61A of IAS 12 clarifies that current tax and deferred tax related to items recognized in the same or a different period in other comprehensive income should be recognized in other comprehensive income. Similarly, current tax and deferred tax related to items recognized in the same or a different period directly in equity should be recognized directly in equity.

7. The staff reminds the Boards that presenting all income taxes in the statement of comprehensive income would result in a change in the **accounting** for income taxes

related to transactions with owners and thus is beyond the stated scope of the financial statement presentation project. In September 2006, Board members were comfortable with going beyond presentation on this one issue.

Issues Raised by Board Members and Constituents

8. In the past few months, the staff has heard two main reasons why the Boards should reconsider their non-allocation view: (a) preparers are able to allocate income taxes using existing guidance, therefore “nothing is broken” and (b) net income is an important metric to both users and preparers. While those are issues that normally would be raised during the comment period and discussed during the analysis of the comments received, the staff provides the following for the Boards’ consideration in revisiting their non-allocation view.

Already Allocating Income Taxes

9. While at times allocating income taxes using the existing guidance is complex, an entity is able to do that allocation. The staff asserts that even though allocation is “doable”, it does not necessarily result in useful information. The staff reminds the Boards that while discussing the complexities of income taxes at the April 2005 joint meeting on short-term convergence, members of both Boards generally agreed that any income tax allocation will be arbitrary and asked the staff to explore eliminating intraperiod tax allocation, favoring a separate income tax category in the financial statements.

10. Board members should keep in mind that any future discussion of income tax allocation (whether within the statement of comprehensive income or when allocating income taxes related to transactions with owners) will involve the complexities regarding tax allocation discussed in the past, compounded by the categories and sections introduced in this project. That is, not only might an entity have to allocate income taxes to discontinued operations and OCI items, but also to the operating, investing, and financing categories. In revising the allocation process to include the new categories/sections, the Boards would need to consider the complexities that arise:

    a. For entities with blended or graduated tax rates (for example, where the tax on ordinary income differs from the tax on capital gains)

b. When allocating the effect of subsequent changes in tax rates, tax law, tax status, and tax credit carryforwards and carrybacks in the current period.

The staff asserts that a revised allocation process would continue to be arbitrary and would most likely create similar anomalies to those found in Statement 109 and IAS 12.

11. However, a counterargument often made by some constituents is that even if allocation of income taxes is arbitrary, this information is better than the information an investor would have if they were to try to determine an after-tax amount. Moreover, less sophisticated users will not read past the primary financial statements and thus will not benefit from any new information provided in the notes (refer to Issue 2).

12. The input received from users has been mixed on this issue. However, as the Boards have yet to decide what additional information would be disclosed in the notes, the staff asserts that Board members should not put undue emphasis on the views expressed by users (or preparers) to date on this issue. That is, non-allocation of income taxes and the additional disclosure requirements should be considered as a package. In most recent conversations with users, even those who expressed a preference for allocating taxes to the various categories wanted the same additional information about income tax rates as those who supported non-allocation.

Need to Retain Net Income

13. Some Board members have shown an interest in retaining a *net income* subtotal in the statement of comprehensive income based on the input received by constituents; thus, some allocation of income taxes would be necessary.

14. The staff asserts that the inclusion of a *net income* subtotal is inconsistent with the Board's preliminary view (long-term goal) that **all** *current* period changes in assets and liabilities (including those that give rise to OCI items) be recognized in the period they occur and presented in one of the functional categories in a statement of comprehensive income. As expressed by the Boards, this would render the segregation of OCI items and the mechanism of recycling unnecessary—which means that there would no longer be a *net income* subtotal, even if income taxes were allocated. Thus, if Board members now prefer allocating income taxes, they should clarify whether that is because:

View 1. They now think that income taxes are part of the underlying transaction and should be part of operating income, investing income, and so forth; or

View 2. They want to retain the *net income* subtotal for a transition period (until the Boards address individual OCI items).

15. Under the first view, Board members would support allocation of taxes to the various new categories/sections and the need to develop an allocation methodology (but not prior to issuing the discussion document and not necessarily in this project). Under the second view, the Board members might support allocation of taxes to OCI items (either as a whole or individually) until the long-term goal is achieved. Allocation alternatives are explored in paragraph 17.

16. The Boards acknowledged that achieving the preferred presentation format for the statement of comprehensive income is a long-term goal because it is dependent on changes being made to the underlying standards that give rise to OCI items. The Boards have agreed on two presentation formats that could accommodate a gradual transition to their preferred view (the staff refers to these as *transitional formats*). A *net income* subtotal could be retained in only one of those two transitional formats. This is the transitional format that segregates "other comprehensive income items" at the bottom of the statement. As illustrated in Alternative 2 on page 1 of Appendix A, a subtotal "income before OCI and income taxes" (a subtotal similar to pre-tax *net income*) could be displayed, but a subtotal corresponding to current *net income* could not be displayed, as income taxes are not allocated to OCI under the current view. Consequently, if Board members were interested in retaining a *net income* subtotal for transition purposes, they might want to modify the transitional formats to accommodate allocation of income taxes.

17. Possible alternatives for the components to which an entity should allocate income taxes are as follows:

    a. **Alternative A**. Allocate all income tax effects to each category/section in the basic financial statements. As a result, every category/section would be calculated on an after-tax basis.

    b. **Alternative B.** Allocate income tax effects to selected categories, such as the *operating* category, and the *other comprehensive income* and *discontinued* *operations* sections. Allocation to those categories/sections would be similar to the allocation that is done under existing standards (allocation to the *operating* category would be instead of allocation to *continuing operations*).

c. **Alternative C.** Allocate income tax effects to OCI items (or to the OCI section as a whole) and present the remaining income tax amount in the income tax section. (This would be a transitional alternative, only for the purpose of preserving a *net income* subtotal.)

d. **Alternative D.** Present on a net-of-tax basis transactions for which the income tax effect can be objectively calculated (a discrete transaction). The remaining income tax expense/benefit for the period would be presented in the income tax section as a single, unallocated amount. Examples of discrete transactions that could be presented on a net-of-tax basis are a gain on the sale of real estate held for investment purposes or a gain on the sale of a business.

Consistency in Views on Allocation

18. One reason the staff began drafting the discussion document prior to completing deliberations was to determine if there were inconsistencies in the Boards' views. The staff asserts that the Boards' rationale for why income taxes should or should not be allocated ought to be consistent with their rationale to allocate the effects of basket transactions[2] but not allocate foreign currency translations adjustments (FCTAs) related to consolidated subsidiaries (and proportionately consolidated joint ventures). The staff would like Board members to keep consistency in mind when deciding whether taxes should be allocated and why. If the rationale related to taxes is inconsistent with the rationale for basket transactions and/or FCTAs, the Boards need to decide whether they should revisit those decisions. The allocation rationale for each item is summarized in the paragraphs that follow.

Income Taxes

19. The rationale for not allocating income taxes is that income taxes are a form of income appropriation and are managed by the entity as a whole, therefore the expense relates

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[2] For purposes of this project, a *basket transaction* is defined as "a single transaction that involves the purchase or disposal of multiple assets (or a combination of assets and liabilities) that would be classified in more than one category under the working format." The Boards last addressed basket transactions in October 2007.

to the entity as a whole and should be presented as one amount. The main rationale is **not** that allocation is complex and arbitrary (although Board members noted that those factors also influenced their view on this issue).

20. If one or both Boards decide that income taxes should be allocated, the Boards' reasoning should be that income tax expense relates to the underlying transactions or events—operating activities, financing activities, and so forth (rather than to the entity as a whole). Therefore, an entity should use a reasonable allocation method even if it may result in arbitrary numbers—presenting some amount of tax expense/benefit in operating income is better than no amount. [Sentence omitted from Observer Notes].

Basket Transactions

21. The rationale for allocating the effects of basket transactions (gain/loss or cash flows) is that those amounts relate to the underlying transaction that is included in more than one functional category(ies). Not allocating those amounts to the related categories would thus result in amounts (such as operating income) that are not representationally faithful. Therefore, it is best to allocate a gain/loss or cash flow related to a basket transaction in a reasonable manner than to not allocate at all.

FCTAs Related to Consolidated Subsidiaries/Proportionately Consolidated Joint Ventures

22. The Boards' reason for presenting FCTAs related to consolidated subsidiaries (and proportionately consolidated joint ventures) in a separate section was both conceptual and practical. The Boards noted that FCTAs can be viewed as effects on the net assets of the consolidated subsidiary (or the proportionately consolidated joint venture), rather than its individual assets and liabilities. In addition, the Boards also noted that it is unlikely that the benefits from allocating FCTAs to various categories would outweigh the costs.

Interperiod Tax Allocation

23. The Boards' rationale for eliminating *intra*period tax allocation (income taxes are not directly related to the underlying transaction) may cause some to question whether the Boards would similarly want to eliminate *inter*period tax allocation (deferred tax accounting). After all, the computation of deferred taxes under IAS 12 and Statement 109 relies on the identification of the income tax effects of individual assets and

liabilities at the end of each accounting period. The Boards acknowledged this inconsistency and indicated that they do not intend to change interperiod tax accounting. Thus, the temporary differences between the amounts recognized in the statement of financial position and the amounts considered taxable by the government would continue to be recognized.

Staff Recommendation

24. The staff recommends that the Boards not revisit the issue of income tax presentation until they have received comments on their preliminary view regarding the presentation of income taxes and related note disclosures through the normal due process procedures. The staff notes that no new information has developed since the Boards last discussed this issue and that constituent input on this issue has been provided without the full context of the Boards' views and related rationale. The following excerpt is from the October 2007 joint meeting agenda paper that summarized the content of the discussion document. Both Boards agreed with this approach at that time.

> The staff plans to include in the document a discussion of whether or not income taxes are integral to the transaction along with the Boards' preferred view that income taxes are not integral and therefore should be presented in a separate section rather than allocated. To allow respondents to understand the implications of that decision, at least one illustration of the statement of comprehensive income will show income taxes allocated to the various categories. This will allow constituents to more fully understand the possible change to the statement of comprehensive income relative to the display of income taxes. At a future meeting, the Boards will discuss what information should be included in the tax footnote if taxes are no longer to be allocated. Any alternatives considered and an illustration of the note disclosures would be included in the document. In addition, the document would include a question asking "if one is of the view that income taxes should be allocated to the categories and sections, how should that allocation be done?"

Questions for the Boards:

1a) *Do Board members want to retain their preliminary view that income taxes should be presented in a separate section and discuss this issue in the document as summarized above?*

1b) *If income taxes are to be allocated, to what sections, categories, or items should they be allocated (refer to the alternatives in paragraph 17)? (Even if your preference is no allocation, the document could clarify the Boards' view on this point to aid constituents in responding to the "how should that allocation be done?" question.)*

ISSUE 2: ADDITIONAL INCOME TAX DISCLOSURES

25. As noted in the prior issue, if income taxes are not to be allocated in the statement of comprehensive income, the Boards' view is that an entity should disclose information in the notes to financial statements that will assist users in analyzing income tax information.

26. The staff sent a request for information to users [sentence omitted from Observer Notes] who have provided input in the past on the financial statement presentation project. The request for input focused on the questions summarized below.

    a. Should income taxes be allocated and, if so, at what level (category, section, other) and why?
    b. How does the treatment of OCI Items (separate section vs. integrated) impact your answer?
    c. What disclosures would be most useful to you given the level of allocation you support?
    d. If income taxes were reported in a single section, what type of additional disclosures would be most useful?

27. The staff spoke with seven users [sentence omitted from Observer Notes] about their individual perspectives on income tax allocation and income tax disclosures under the new working format. (Some of the users the staff spoke to are familiar with IFRS or analyze IFRS prepared statements as well as US GAAP.) The following paragraphs summarize the input received and the staff's ideas on how to address user needs. Paragraph 33 includes the staff's recommendation for income tax disclosures to be incorporated with the current disclosure requirements in Statement 109 and IAS 12.

28. Users had mixed views on whether or not income taxes should be allocated on the statement of comprehensive income and how taxes might be allocated. Those in favor

of allocation typically cited the usefulness of net income as a starting point in analysis. Those that did not favor allocation generally felt that detailed disclosures related to the causes of tax anomalies would be more useful for analysis than arbitrary tax allocations that result in taxes attributable to operations as a “residual” amount.

29. Users are interested in understanding differences between the current portion of the provision of income tax expense[3], the provision for income tax expense, and the tax expense at the statutory tax rate. They also want to know whether the differences are expected to continue in the future. The staff proposes a reconciliation between the effective income tax rate and the statutory tax rate, and a reconciliation between the effective income tax rate and the “current provision” effective tax rate. The staff proposes a qualitative discussion about each significant reconciling item highlighting major differences arising from an entity’s business in significant jurisdictions (federal, state, and so forth) or from transactions or other events.

30. Users also expressed interest in knowing the extent to which income taxes relate to activities in an entity’s core business and the extent to which they relate to activities outside the core business. Based on that input, the staff suggests that an entity should provide a qualitative disclosure discussing any significant differences in statutory, effective, and current provision effective tax rates (or range of rates) by category/section. This would help a user separate taxes that relate to activities that are expected not to occur in the future (such as discontinued operations) from taxes that are expect to recur (business activities).

31. Users requested information regarding how reported income tax rates vary by operating segment because they want to understand how tax rates vary across a company’s businesses. However, most users were not sure disclosure of this information was possible without significant arbitrary allocations. The staff proposes a qualitative disclosure discussing any significant differences in effective tax rates or income tax expense by reportable segment only if that analysis is performed for internal purposes.

[3] The current provision of tax expense is the tax expense excluding deferred taxes. This amount differs from “taxes paid in cash” as the latter excludes changes in “income taxes payable/refundable.”

32. Some users also said that a quantitative disclosure of tax rates relating to OCI items presented on the statement of comprehensive income would be useful as it would help users analyze a subtotal close to net income/profit or loss. The staff notes that this request is similar to allocation alternative C in Issue 1 (paragraph 17). The staff's recommended disclosures would not preclude an entity from providing that information in the notes.

Staff Recommendation and Analysis

33. The staff recommends the following disclosures that would be in addition to (or replace) the existing disclosures required by Statement 109 and IAS 12 [Sentence omitted from Observer Notes]:

    a. An explanation of the relationship between income tax expense and comprehensive income in either or both of the following forms:

        i. A numerical reconciliation between income tax expense and the product of comprehensive income multiplied by the statutory tax rate(s), and a numerical reconciliation between income tax expense and the current portion of income tax expense

        ii. A numerical reconciliation between the effective income tax rate (income tax expense divided by pre-tax comprehensive income) and the statutory tax rate, and a numerical reconciliation between the effective income tax rate and the "current provision" effective tax rate (current portion of income tax expense divided by pre-tax comprehensive income).

    In deciding what reconciling items to display in the reconciliation, line item descriptions should be consistent with other financial statements and an entity should not aggregate reconciling items if disaggregation would result in useful information for purposes of predicting future cash flows.

    Statement 109 and IAS 12 currently provide an entity the choice of presenting the reconciliation using tax amounts or tax rates, which is why the recommendation above provides a choice.[4] If the Boards prefer there not be a choice, the staff recommends the reconciliation be prepared using rates (as in (ii) above).

    b. A qualitative discussion about each significant reconciling item in the reconciliation in (a) above. The focus of the disclosure should be on the effect of tax rates in different jurisdictions, and on the transactions or events that influenced effective tax rates and how those factors may affect effective rates in the future. If a reconciling item relates to other comprehensive income, that relationship should be evident.

c. A qualitative discussion that explains the impact of income taxes on the operating, investing, financing, discontinued operations, and other comprehensive income categories/sections in the statement of comprehensive income, to the extent such information is not covered in (b) above. The focus of the disclosures should be on whether income taxes in each category differ from what a user would expect based on the entity's statutory tax rate. If major differences exist, the disclosure should provide information that allows a user to gauge whether each difference is likely to be maintained or reversed in future periods. If an entity disaggregates taxes by reportable segment for internal decision making, it would be encouraged to disclose each reportable segment's income tax expense or effective tax rate.

34. In addition to providing information to compensate for the elimination of intraperiod tax allocation, the recommended disclosures enhance the existing disclosure requirements. Entities that apply U.S. GAAP and IFRS are currently required to provide a quantitative schedule reconciling the [statutory/applicable] tax rates and the effective tax rates (or amounts) related to [income from continuing operations/accounting profit]. This reconciliation remains, except the reconciliation will be based on *pre-tax comprehensive income*.

35. The second part of the recommended quantitative schedule (paragraph 33a) that reconciles the effective rate to the "current provision" rate is a new format for information currently provided elsewhere in the notes[5]. Reconciling items in this portion of the schedule explain how changes in deferred tax assets and liabilities cause income tax expense to differ from the amount owed to (or refundable from) taxing authorities for the current period. U.S. GAAP and IFRS currently require entities to disclose the *balances* in deferred tax assets and liabilities by each major class of transaction. However, some of the changes in these balances will not affect income tax expense for the year (for example, income tax assets or liabilities are recorded as

[4] See paragraph 47 of Statement 109 and paragraph 81(c) of IAS 12.

part of a business combination), and thus the recommended reconciliation format should enhance the ability of users to analyse how deferred taxes affect effective tax rates. Distinguishing between the effective rates associated with deferred taxes and the current provision can be important for several reasons, not the least of which is that some temporary differences may take years to reverse, but the associated deferred taxes are not discounted for the time value of money.

36. The main change in the qualitative disclosure requirements is that the recommended disclosures should enhance the cohesion between the financial statements and notes. To this end, the qualitative discussion should help users understand if any significant tax savings or costs are coming from operating activities, investing activities, financing activities, discontinued operations, or items of other comprehensive income. Further, the focus is also on separately identifying tax effects that are likely to be transitory, with the goal of helping users to predict future effective tax rates.

Question for the Boards:

2a.) *Do Board members agree with the recommended disclosures for purposes of the Discussion Paper/Preliminary Views document?*

2b.) *If not, what should be modified?*

[5] See paragraph 43 of Statement 109 and paragraphs 81(g)(i) and (g)(ii)of IAS 12.

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 A

Statement of Comprehensive Income ALTERNATIVE 1

	2010	2009
BUSINESS	-	-
Operating	-	-
Sales	3,487,600	3,239,250
Cost of goods sold		
COGS - Change in inventory	(27,650)	(272,353)
COGS - Overhead - Depreciation	(303,580)	(300,000)
COGS - Labor	(450,905)	(450,000)
COGS - Materials	(1,314,520)	(925,000)
-		
Total	(2,096,654)	(1,947,353)
Gross Profit on Sales	1,390,946	1,291,897
Selling Expenses		
Compensation expense	(310,675)	(297,500)
Bad debt expense	(24,893)	(14,160)
Total	(335,568)	(311,660)
General and administrative expenses		
Pension expense	(451,928)	(417,000)
-		
Rent Expense	(81,000)	(75,000)
Stock compensation expense	(26,172)	(17,000)
Depreciation expense	(156,240)	(153,000)
Accretion expense on ARO	(810)	(750)
Compensation expense	(56,700)	(52,500)
Interest expense on lease liability	(31,075)	(31,500)
Research and development	(8,478)	(7,850)
-		
Total	(812,402)	(754,600)
Operating income before other operating items	242,976	225,637
Other operating		
-		
Loss on sale of recievables	(4,960)	(2,000)
-		
litigation expense	(1,998)	(1,850)
Loss on Obsolete inventory	(19,000)	(9,500)
-	-	-
Gain on disposal of PPE	-	38,950
Realized gain on future contract	3,996	3,700
Impairment loss on goodwill		(52,000)
Equity in earnings of affiliate	23,760	22,000
FCTA on equity method investee	(2,160)	(2,000)
Total	(362)	(2,700)
Total operating income	242,614	222,937
Other comprehensive income		
Gain on revaluation of building	12,000	-
Unrealized gain on futures contract	2,808	2,600
-	-	
Total other comprehensive operating income	14,808	2,600
Comprehensive operating income	257,422	225,537
Investing		
FV change in investment in affiliate	7,500	3,250
-		
-		
Realized gain on AFS securities	8,100	2,500
Dividend income	54,000	50,000
Total investing income	69,600	55,750
Other comprehensive income		
Unrealized gain on AFS securities	26,580	23,500
Total Other comprehensive investing income	26,580	23,500
Comprehensive investing income	96,180	79,250
Comprehensive business income	353,602	304,787
FINANCING		
Gain (Loss) on extinguishment of ST debt	-	3,000
-		
Interest expense	(177,075)	(177,075)
-		
-		
Total financing expense	(177,075)	(174,075)
FOREIGN CURRENCIES		
FCTA on consolidated subsisdiary	3,222	(2,296)
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(32,400)	(80,000)
Comprehensive income before tax	147,349	48,417
INCOME TAXES		
Current tax expense	(28,685)	(6,410)
Deferred tax expense	(11,178)	(11,296)
Deferred tax benefit	7,991	10,584
Total income tax expense	(31,872)	(7,123)
-	-	-
-	-	-
Total comprehensive income	115,477	41,294

Statement of Comprehensive Income ALTERNATIVE 2

	2010	2009
BUSINESS	-	-
Operating	-	-
Sales	3,487,600	3,239,250
Cost of goods sold		
COGS - Change in inventory	(27,650)	(272,353)
COGS - Overhead - Depreciation	(303,580)	(300,000)
COGS - Labor	(450,905)	(450,000)
COGS - Materials	(1,314,520)	(925,000)
Total	(2,096,654)	(1,947,353)
Gross Profit on Sales	1,390,946	1,291,897
Selling Expenses		
Compensation expense	(310,675)	(297,500)
Bad debt expense	(24,893)	(14,160)
Total	(335,568)	(311,660)
General and administrative expenses		
Pension expense	(451,928)	(417,000)
Rent Expense	(81,000)	(75,000)
Stock compensation expense	(26,172)	(17,000)
Depreciation expense	(156,240)	(153,000)
Accretion expense on ARO	(810)	(750)
Compensation expense	(56,700)	(52,500)
Interest expense on lease liability	(31,075)	(31,500)
Research and development	(8,478)	(7,850)
Total	(812,402)	(754,600)
Operating income before other operating items	242,976	225,637
Other operating		
Loss on sale of recievables	(4,960)	(2,000)
litigation expense	(1,998)	(1,850)
Loss on Obsolete inventory	(19,000)	(9,500)
Gain on disposal of PPE	-	38,950
Realized gain on future contract	3,996	3,700
Impairment loss on goodwill	-	(52,000)
Equity in earnings of affiliate	23,760	22,000
FCTA on equity method investee	(2,160)	(2,000)
Total	(362)	(2,700)
Total operating income	242,614	222,937
Investing		
FV change in investment in affiliate	7,500	3,250
Realized gain on AFS securities	8,100	2,500
Dividend income	54,000	50,000
Total investing income	69,600	55,750
Total business income	312,214	278,687
FINANCING		
Gain (Loss) on extinguishment of ST debt	-	3,000
Interest expense	(177,075)	(177,075)
Total financing expense	(177,075)	(174,075)
FOREIGN CURRENCIES		
FCTA on consolidated subsisdiary	3,222	(2,296)
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(32,400)	(80,000)
Income before OCI and income taxes	105,961	22,317
OTHER COMPREHENSIVE INCOME		
Gain on revaluation of building	12,000	-
Unrealized gain on futures contract	2,808	2,600
Unrealized gain on AFS securities	26,580	23,500
Total other comprehensive income	41,388	26,100
INCOME TAXES		
Current tax expense	(28,685)	(6,410)
Deferred tax expense	(11,178)	(11,296)
Deferred tax benefit	7,991	10,584
Total income tax expense	(31,872)	(7,123)
Total comprehensive income	115,477	41,294

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 A

Statement of Comprehensive Income ALTERNATIVE 3

	2010	2009
BUSINESS	-	-
Operating	-	-
Sales	3,487,600	3,239,250
Cost of goods sold		
COGS - Change in inventory	(27,650)	(272,353)
COGS - Overhead - Depreciation	(303,580)	(300,000)
COGS - Labor	(450,905)	(450,000)
COGS - Materials	(1,314,520)	(925,000)
-		
Total	(2,096,654)	(1,947,353)
Gross Profit on Sales	1,390,946	1,291,897
Selling Expenses		
Compensation expense	(310,675)	(297,500)
Bad debt expense	(24,893)	(14,160)
Total	(335,568)	(311,660)
General and administrative expenses		
Pension expense	(451,928)	(417,000)
-		
Rent Expense	(81,000)	(75,000)
Stock compensation expense	(26,172)	(17,000)
Depreciation expense	(156,240)	(153,000)
Accretion expense on ARO	(810)	(750)
Compensation expense	(56,700)	(52,500)
Interest expense on lease liability	(31,075)	(31,500)
Research and development	(8,478)	(7,850)
-		
Total	(812,402)	(754,600)
Operating income before other operating items	242,976	225,637
Other operating		
-		
Loss on sale of recievables	(4,960)	(2,000)
Unrealized gain on futures contract	2,808	2,600
litigation expense	(1,998)	(1,850)
Loss on Obsolete inventory	(19,000)	(9,500)
Gain on revaluation of building	12,000	-
Gain on disposal of PPE	-	38,950
Realized gain on future contract	3,996	3,700
Impairment loss on goodwill	-	(52,000)
Equity in earnings of affiliate	23,760	22,000
FCTA on equity method investee	(2,160)	(2,000)
Total	14,446	(100)
Total operating income	257,422	225,537
Investing		
FV change in investment in affiliate	7,500	3,250
Gain on AFS securities	34,680	26,000
Dividend income	54,000	50,000
Total investing income	96,180	79,250
Total business income	353,602	304,787
FINANCING		
Gain (Loss) on extinguishment of ST debt	-	3,000
Interest expense	(177,075)	(177,075)
Total financing expense	(177,075)	(174,075)
FOREIGN CURRENCIES		
FCTA on consolidated subisdiary	3,222	(2,296)
DISCONTINUED OPERATIONS (before tax)		
Loss on discontinued operations	(32,400)	(80,000)
Comprehensive income before tax	147,349	48,417
INCOME TAXES		
Current tax expense	(28,685)	(6,410)
Deferred tax expense	(11,178)	(11,296)
Deferred tax benefit	7,991	10,584
Total income tax expense	(31,872)	(7,123)
-	-	-
Total comprehensive income	115,477	41,294

Statement of Comprehensive Income ALTERNATIVE 4

	2010		2009	
		Other market related changes		Other market related changes
BUSINESS	-		-	
Operating	-		-	
Sales	3,487,600		3,239,250	
Cost of goods sold				
COGS - Change in inventory	(27,650)		(272,353)	
COGS - Overhead - Depreciation	(303,580)		(300,000)	
COGS - Labor	(450,905)		(450,000)	
COGS - Materials	(1,314,520)		(925,000)	
-				
Total	(2,096,654)		(1,947,353)	
Gross Profit on Sales	1,390,946		1,291,897	
Selling Expenses				
Compensation expense	(310,675)		(297,500)	
Bad debt expense	(24,893)		(14,160)	
Total	(335,568)		(311,660)	
General and administrative expenses				
Pension expense	(451,928)		(417,000)	
-				
Rent Expense	(81,000)		(75,000)	
Stock compensation expense	(26,172)		(17,000)	
Depreciation expense	(156,240)		(153,000)	
Accretion expense on ARO	(810)		(750)	
Compensation expense	(56,700)		(52,500)	
Interest expense on lease liability	(31,075)		(31,500)	
Research and development	(8,478)		(7,850)	
-				
Total	(812,402)		(754,600)	
Operating income before other operating items	242,976		225,637	
Other operating				
-				
Loss on sale of recievables	(4,960)		(2,000)	
Unrealized gain on futures contract	2,808		2,600	
litigation expense	(1,998)		(1,850)	
Loss on Obsolete inventory	(19,000)		(9,500)	
Equity in earnings of affiliate	23,760		22,000	
FCTA on equity method investee	(2,160)		(2,000)	
Gain on revaluation of building		12,000		-
Gain on disposal of PPE		-		38,950
Realized gain on future contract		3,996		3,700
Impairment loss on goodwill		-		(52,000)
Total	(1,550)	15,996	9,250	(9,350)
Total operating income	241,426	15,996	234,887	(9,350)
Investing				
Dividend income	54,000		50,000	
FV change in investment in affiliate		7,500		3,250
Gain on AFS securities		34,680		26,000
Total investing income	54,000	42,180	50,000	29,250
Total business income	295,426	58,176	284,887	19,900
FINANCING				
Gain (Loss) on extinguishment of ST debt	-		3,000	
Interest expense	(177,075)		(177,075)	
Total financing expense	(177,075)		(174,075)	
FOREIGN CURRENCIES				
FCTA on consolidated subisdiary		3,222		(2,296)
DISCONTINUED OPERATIONS (before tax)				
Loss on discontinued operations	(32,400)		(80,000)	
Comprehensive income before tax	85,951	61,398	30,812	17,604
INCOME TAXES				
Current tax expense	(28,685)		(6,410)	
Deferred tax expense	(11,178)		(11,296)	
Deferred tax benefit	7,991		10,584	
Total income tax expense	(31,872)		(7,123)	
-	-		-	
Income before other merket related changes	54,079		23,690	
Income from other market related changes	61,398		17,604	
Net comprehensive income	115,477		41,294	