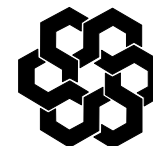


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**International
Accounting Standards
Board**

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

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

INFORMATION FOR OBSERVERS

ARG Meeting: February 2009, London

**Project: Financial Statement Presentation – Statement Of Cash
Flows And Reconciliation Schedule**

(Agenda paper 5)

INTRODUCTION

1. Financial statement presentation is a joint project of the IASB and the FASB. In October 2008 the boards published for public comment a discussion paper *Preliminary Views on Financial Statement Presentation* with a comment period ending on 14 April 2009.
2. At the February 2009 ARG Meeting, the staff would like to discuss some aspects of the discussion paper's proposals regarding the reconciliation schedule and the use of the direct method for presenting operating cash flows in the statement of cash flows.

The objective is to understand **how** analysts use this information and whether they find it **useful**.

RECONCILIATION SCHEDULE

3. The proposed presentation model includes a new schedule (to be included in the notes to financial statements) that reconciles cash flows to comprehensive income. This schedule would start with the amounts and line items in the statement of cash flows, based on the **direct method**, provide details about the items needed to reconcile to the statement of comprehensive income and end with the amounts and line items presented in the statement of comprehensive income. This format would link the two change statements and provide information about the changes in assets and liabilities.
4. This reconciliation schedule disaggregates income into its cash, accrual other than remeasurements, and remeasurement¹ components (for example, fair value changes). Users analyse those components separately because the components often differ in their ability to help users predict future cash flows and assess earnings quality.
5. Disaggregation on the reconciliation schedule is based on the characteristics of *persistence* and measurement *subjectivity* because those appear to be the primary factors that users take into account when predicting future cash flows. An item of comprehensive income is **persistent** if it is indicative of future amounts of that income item. An item of comprehensive income is **subjective** if judgement is required in measuring the amount of the asset or liability that gives rise to the income item.
6. An entity would begin to disaggregate comprehensive income by separating the changes in net assets into **cash** and **accrual** components. Cash components of income tend to have higher earnings persistence for earnings and cash flows than the accrual components, as the latter often involve estimation and use of subjective criteria by management.

¹ A *remeasurement* is defined as a change in the carrying amount of an asset or a liability attributable to a change in a price or an estimate.

- a. The **cash component** is defined as the net change in cash of the line items shown (other than transactions with owners), and it represents the income that an entity would present if it followed pure cash basis accounting.
 - b. The **accrual component** is defined as the difference between comprehensive income and the cash component. This includes changes in operating assets and liabilities from transactions with third parties as well as changes in liabilities and non-cash assets from events and circumstances such as fair value remeasurements.
7. Because an accrual component of income is likely to have different levels of persistence, users have asked that information about accruals with customers or suppliers should be segregated from accrued gains or losses attributable to remeasurements. Thus, an entity would separate the **accrual component** of comprehensive income into **remeasurements** and other **accruals that are not attributable to remeasurements**.
- (a) Examples of **remeasurements** include unrealised gains or losses on available-for-sale securities; actuarial gains or losses; impairment losses; and revaluation gains on property, plant and equipment based on the revaluation model permitted in IAS 16 *Property, Plant and Equipment*.
 - (b) Examples of **accruals that are not attributable to remeasurements** include revenue from credit sales, depreciation expense and capital expenditures.
8. An entity would then further separate **accruals attributable to recurring remeasurements that result from fair value changes**² (US GAAP) or that are **valuation adjustments**³ (IFRSs) from other remeasurements. Recurring remeasurements are required every period, whereas other remeasurements are made

² A *fair value change* (FASB) is a change attributable to a remeasurement of an asset or liability to fair value. A *recurring fair value change* arises when US GAAP requires an asset or liability to be measured at fair value 'on a recurring basis' as that notion is used in paragraph 32 of SFAS 157 *Fair Value Measurements*.

³ A *valuation adjustment* (IASB) is a change attributable to remeasurement of an asset or liability to a current value. A current value includes fair value, fair value less costs to sell, value in use and net realisable value. A *recurring valuation adjustment* arises when IFRSs require an asset or liability to be measured at current value every period (on a recurring basis).

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only after a triggering event happens, such as an impairment (referred to as non-recurring remeasurements). If the financial statements separate recurring fair value changes/valuation adjustments from other remeasurements, users can reflect in their analyses the timing and subjectivity of the gains or losses.

9. The reconciliation schedule would therefore have the following seven columns:

Changes in Assets and Liabilities, Excluding Transactions with Owners						
Not from Remeasurements			From Remeasurements			
Cash Component		Accrual Components				
A	B	C	D	E	F	G
Caption in Statement of Cash Flows	Cash Flows	Accruals, Allocations, and Other	Recurring Fair Value Changes/ Valuation Adjustments	All Other Changes	Statement of Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income

10. An example of the reconciliation schedule is included in Appendix A, together with two other alternatives considered by the boards: statement of financial position reconciliation and statement of comprehensive income matrix.

THE STATEMENT OF CASH FLOWS

11. Consistent with the objectives developed for financial statement presentation, the boards proposed the use of a direct method for presenting operating cash flows. Thus, an entity would present separately the main categories of its cash receipts and payments for operating activities, such as cash collected from customers and cash paid to suppliers, rather than reconciling profit or loss to net operating cash flows (an indirect method) as most entities do today.
12. In the boards’ view, presenting cash receipt and cash payment line items in the operating category provides a more useful disaggregation of cash flow information. A direct method presentation helps users relate information about operating assets and liabilities and operating income and expenses to operating cash receipts and payments and provides a more complete picture of non-cash items compared with the “indirect method” that reconciles profit or loss to net cash flows from operating activities.

13. Likewise, the proposed reconciliation schedule will be less useful if the statement of cash flows was prepared using the indirect method. This is because the reconciliation schedule reconciles gross cash flows with individual items of income and expense, enabling users to assess the persistence and subjectivity of those individual items. Using indirect method, only net operating cash flow could be reconciled (with total operating income), which may hide significant individual variances.
14. However, some users still prefer an indirect method to a direct method, as the former provides a helpful link between income from continuing operations, changes in some line items in the statement of financial position and net operating cash flows. They also note that an indirect method clearly presents non-cash operating expenses, such as depreciation.
15. Preparers have also expressed concerns about the cost of preparing a direct method statement of cash flows. These refer to the costs of accumulating voluminous cash flow information necessary to implement the “direct-direct” method—where cash receipts and payments are determined by aggregating the cash flows amount from the cash ledger. Preparers believe that preparing a direct method statement of cash flows based on an “indirect-direct” method would be much more tolerable—where cash receipts and payments are determined by adjusting items in the statement of comprehensive income for the change in the related accrual (items in the statement of financial position) over the period.
16. In their proposal, the boards did not express any preference for either methodology (“direct-direct” or “indirect-direct”) in the determination of (direct) operating cash flows.

DISCUSSION QUESTIONS

Reconciliation schedule

- 1) How would you use the proposed reconciliation schedule for assessment of future cash flows? Would it increase your understanding of the amount, timing and uncertainty of an entity's future cash flows?
- 2) Should changes in assets and liabilities be disaggregated into the proposed components described in paragraph 9 (columns B-E)? Is there any component you would either add or omit?
- 3) Is the reconciliation at line item level more useful than if the reconciliation schedule were to include summarised line items from the statement of cash flows and comprehensive income? Which line items, if any, could be combined in the reconciliation schedule? Should the boards consider reconciling selected line items only?
- 4) Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix? For example, should entities that primarily manage assets and liabilities rather than cash flows (eg entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income?

Direct method for presenting cash flows

- 5) How would you use the information provided under a “direct method”? Do you believe this information is relevant in assessing future cash flows? Would you support narrowing the number of line items to be displayed in the statement of cash flows using a direct method? If so, which line items and why?
- 6) Do you believe an indirect reconciliation of operating cash flows (“indirect method”) should continue to be presented (as supplemental information), when both the statement of cash flows (presented under the direct method) and the reconciliation schedule are required?

Appendix A to Agenda Paper 5

EXAMPLE RECONCILIATION SCHEDULES

- Reconciliation schedule for a manufacturing company,
- Reconciliation schedule for a bank,
- Alternative considered: Statement of Financial Position Reconciliation,
- Alternative considered: Statement of Comprehensive Income Matrix.

ToolCo Reconciliation of cash flows to comprehensive income for the year ended 31 December 2010 (proposed format)

A	B	C	D	E	F	G
Caption in statement of cash flows	Changes in assets and liabilities, excluding transactions with owners				Statement of comprehensive income	
	not from remeasurements		from remeasurements		Comprehensive income (B + C + D + E)	Caption in statement of comprehensive income
	Cash flows	Accruals, allocations and other	Recurring valuation adjustments	All other		
BUSINESS						BUSINESS
Operating						Operating
Cash received from wholesale customers	2,108,754	681,326			2,790,080	Sales—wholesale
Cash received from retail customers	703,988	(6,467)			697,520	Sales—retail
<i>Total cash collected from customers</i>	<i>2,812,742</i>	<i>674,859</i>			<i>3,487,600</i>	<i>Total revenue</i>
Cash paid for goods						Cost of goods sold
Materials purchases	(935,544)	(107,556)			(1,043,100)	Materials
Labour	(418,966)	13,966			(405,000)	Labour
Pension	(170,100)	109,125	9,000		(51,975)	Pension
		(219,300)			(219,300)	Overhead—depreciation
Overhead—transport	(128,640)				(128,640)	Overhead—transport
Overhead—other	(32,160)				(32,160)	Overhead—other
		(60,250)			(60,250)	Change in inventory
				(29,000)	(29,000)	Loss on obsolete and damaged inventory
<i>Total cash paid for goods</i>	<i>(1,685,409)</i>	<i>(264,016)</i>	<i>9,000</i>	<i>(29,000)</i>	<i>(1,969,425)</i>	<i>Total cost of goods sold</i>
	1,127,333	410,843	9,000	(29,000)	1,518,175	<i>Gross profit</i>
Cash paid for selling activities						Selling expenses
Advertising	(65,000)	5,000			(60,000)	Advertising
Wages, salaries and benefits	(58,655)	1,955			(56,700)	Wages, salaries and benefits
		(23,068)			(23,068)	Bad debt
Other	(13,500)				(13,500)	Other
<i>Total cash paid for selling activities</i>	<i>(137,155)</i>	<i>(16,112)</i>			<i>(153,268)</i>	<i>Total selling expenses</i>
Cash paid for general and administrative activities						General and administrative expenses
Wages, salaries and benefits	(332,379)	11,079			(321,300)	Wages, salaries and benefits
Contributions to pension plan	(170,100)	109,125	9,000		(51,975)	Pension
Capital expenditures	(54,000)	54,000			(59,820)	Depreciation
		(59,820)			(22,023)	Share-based remuneration
Settlement of share-based remuneration	(3,602)	(12,171)	(6,250)		(14,825)	Interest on lease liability
Lease payments	(50,000)	35,175			(8,478)	Research and development
Research and development	(8,478)				(15,768)	Other
Other	(12,960)	(2,808)			(494,189)	<i>Total general and administrative expenses</i>
<i>Total cash paid for general and administrative activities</i>	<i>(631,519)</i>	<i>134,580</i>	<i>2,750</i>		<i>(494,189)</i>	<i>Income before other operating items</i>
<i>Cash flow before other operating activities</i>	<i>358,657</i>	<i>529,311</i>	<i>11,750</i>	<i>(29,000)</i>	<i>870,718</i>	Other operating income (expense)
Cash from other operating activities						Gain on disposal of property, plant and equipment
Disposal of property, plant and equipment	37,650	(15,000)			22,650	Share of profit of associate A
Investment in associate A				23,760	23,760	

A	B	C	D	E	F	G
Settlement of cash flow hedge	3,402	(594)	1,188		3,996	Realised gain on cash flow hedge
Sale of receivable	8,000	(8,000)		(4,987)	(4,987)	Loss on sale of receivable
<i>Total cash received from other operating activities</i>	<i>49,052</i>	<i>(23,594)</i>	<i>1,188</i>	<i>18,773</i>	<i>45,419</i>	<i>Total other operating income</i>
Net cash from operating activities	407,709	505,717	12,938	(10,227)	916,137	Total operating income
Investing						Investing
Dividends received	54,000				54,000	Dividend income
Sale of available-for-sale financial assets	56,100	(37,850)			18,250	Realised gain on available-for-sale financial assets
				7,500	7,500	Share of profit of associate B
Net cash from investing activities	110,100	(37,850)		7,500	79,750	Total investing income
NET CASH FROM BUSINESS ACTIVITIES	517,809	467,867	12,938	(2,727)	995,887	TOTAL BUSINESS INCOME
FINANCING						FINANCING
Interest received on cash	8,619				8,619	Interest income on cash
Total cash from financing assets	8,619				8,619	Total financing asset income
Dividends paid	(86,400)	86,400				
Interest paid	(83,514)	(27,838)			(111,352)	Interest expense
Proceeds from issue of short-term debt	162,000	(162,000)				
Total cash from financing liabilities	(7,914)	(103,438)			(111,352)	Total financing liability expense
NET CASH FROM FINANCING ACTIVITIES	705	(103,438)			(102,733)	TOTAL NET FINANCING EXPENSE
<i>Change in cash from continuing operations before taxes and equity</i>	<i>518,514</i>	<i>364,429</i>	<i>12,938</i>	<i>(2,727)</i>	<i>893,154</i>	<i>Profit from continuing operations before taxes and other comprehensive income</i>
INCOME TAXES						INCOME TAXES
Cash taxes paid	(281,221)	(52,404)			(333,625)	Income tax expense
<i>Change in cash before discontinued operations and equity</i>	<i>237,293</i>	<i>312,025</i>	<i>12,938</i>	<i>(2,727)</i>	<i>559,529</i>	<i>Net profit from continuing operations</i>
DISCONTINUED OPERATIONS						DISCONTINUED OPERATIONS
Cash paid from discontinued operations	(12,582)			(19,818)	(32,400)	Loss on discontinued operations
		11,340			11,340	Tax benefit
NET CASH FROM DISCONTINUED OPERATIONS	(12,582)	11,340		(19,818)	(21,060)	NET LOSS FROM DISCONTINUED OPERATIONS
<i>Change in cash before equity</i>	<i>224,711</i>	<i>323,365</i>	<i>12,938</i>	<i>(22,545)</i>	<i>538,469</i>	NET PROFIT
						OTHER COMPREHENSIVE INCOME (after tax)
			17,193		17,193	Unrealised gain on available-for-sale securities
			1,825		1,825	Unrealised gain on cash flow hedge
				2,094	2,094	Foreign currency translation adjustment—consolidated subsidiary
				(1,404)	(1,404)	Foreign currency translation adjustment—associate A
			3,653		3,653	Revaluation surplus
	-	-	22,671	690	23,361	TOTAL OTHER COMPREHENSIVE INCOME
<i>Change in cash before equity</i>	<i>224,711</i>	<i>323,365</i>	<i>35,609</i>	<i>(21,855)</i>	<i>561,830</i>	TOTAL COMPREHENSIVE INCOME

ToolCo Reconciliation of cash flows to comprehensive income for the year ended 31 December 2009 (proposed format)

A	B	C	D	E	F	G
Caption in statement of cash flows	Changes in assets and liabilities, excluding transactions with owners				Statement of comprehensive income	
	not from remeasurements		from remeasurements		Comprehensive income (B + C + D + E)	Caption in statement of comprehensive income
	Cash flows	Accruals, allocations and other	Recurring valuation adjustments	All other		
BUSINESS						BUSINESS
Operating						Operating
Cash received from wholesale customers	1,928,798	662,602			2,591,400	Sales—wholesale
Cash received from retail customers	643,275	4,575			647,850	Sales—retail
<i>Total cash collected from customers</i>	<i>2,572,073</i>	<i>667,177</i>			<i>3,239,250</i>	<i>Total revenue</i>
Cash paid for goods						Cost of goods sold
Materials purchases	(785,000)	(140,000)			(925,000)	Materials
Labour	(475,313)	25,313			(450,000)	Labour
Pension	(157,500)	104,250	6,000		(47,250)	Pension
		(215,000)			(215,000)	Overhead—depreciation
Overhead—transport	(108,000)				(108,000)	Overhead—transport
Overhead—other	(27,000)				(27,000)	Overhead—other
		(46,853)			(46,853)	Change in inventory
				(9,500)	(9,500)	Loss on obsolete and damaged inventory
<i>Total cash paid for goods</i>	<i>(1,552,813)</i>	<i>(272,290)</i>	<i>6,000</i>	<i>(9,500)</i>	<i>(1,828,603)</i>	<i>Total cost of goods sold</i>
	<i>1,019,260</i>	<i>394,887</i>	<i>6,000</i>	<i>(9,500)</i>	<i>1,410,647</i>	<i>Gross profit</i>
Cash paid for selling activities						Selling expenses
Advertising	(75,000)	25,000			(50,000)	Advertising
Wages, salaries and benefits	(55,453)	2,953			(52,500)	Wages, salaries and benefits
		(15,034)			(15,034)	Bad debt
Other	(12,500)				(12,500)	Other
<i>Total cash paid for selling activities</i>	<i>(142,953)</i>	<i>12,919</i>			<i>(130,034)</i>	<i>Total selling expenses</i>
Cash paid for general and administrative activities						General and administrative expenses
Wages, salaries and benefits	(314,234)	16,734			(297,500)	Wages, salaries and benefits
Contributions to pension plan	(157,500)	104,250	6,000		(47,250)	Pension
Capital expenditures	(50,000)					
		(58,500)			(58,500)	Depreciation
Settlement of share-based remuneration	(3,335)	(8,665)	(5,000)		(17,000)	Share-based remuneration
Lease payments		(16,500)			(16,500)	Interest on lease liability
Research and development	(7,850)				(7,850)	Research and development
Other	(12,000)	(2,600)			(14,600)	Other
<i>Total cash paid for general and administrative activities</i>	<i>(544,919)</i>	<i>84,719</i>	<i>1,000</i>		<i>(459,200)</i>	<i>Total general and administrative expenses</i>
<i>Cash flow before other operating activities</i>	<i>331,388</i>	<i>492,525</i>	<i>7,000</i>	<i>(9,500)</i>	<i>821,413</i>	<i>Income before other operating items</i>

A	B	C	D	E	F	G
Cash from other operating activities						Other operating income (expense)
Investment in associate A	(120,000)	120,000		22,000	22,000	Share of profit of associate A
Sale of receivable	10,000	(10,000)		(2,025)	(2,025)	Loss on sale of receivable
Settlement of cash flow hedge	3,150	(550)	1,100		3,700	Realised gain on cash flow hedge
				(35,033)	(35,033)	Impairment loss on goodwill
<i>Total cash paid for other operating activities</i>	<i>(106,850)</i>	<i>109,450</i>	<i>1,100</i>	<i>(15,058)</i>	<i>(11,358)</i>	<i>Total other operating income</i>
Net cash from operating activities	224,538	601,975	8,100	(24,558)	810,055	Total operating income
Investing						Investing
Purchase of available-for-sale financial assets	(130,000)	130,000				Realised gain on available-for-sale financial assets
Sale of available-for-sale financial assets	51,000	(43,500)			7,500	Dividend income
Dividends received	50,000			3,250	3,250	Share of profit of associate B
Net cash from investing activities	(29,000)	86,500		3,250	60,750	Total investing income
NET CASH FROM BUSINESS ACTIVITIES	195,538	688,475	8,100	(21,308)	870,805	TOTAL BUSINESS INCOME
FINANCING						FINANCING
Interest received on cash	5,500				5,500	Interest income on cash
Total cash from financing assets	5,500				5,500	Total financing asset income
Proceeds from issue of short-term debt	150,000	(150,000)				
Proceeds from issue of long-term debt	250,000	(250,000)				
Interest paid	(82,688)	(27,563)			(110,250)	Interest expense
Dividends paid	(80,000)	80,000				
Total cash from financing liabilities	237,312	(347,563)			(110,250)	Total financing liability expense
NET CASH FROM FINANCING ACTIVITIES	242,812	(347,563)			(104,750)	TOTAL NET FINANCING EXPENSE
<i>Change in cash from continuing operations before taxes and equity</i>	<i>438,350</i>	<i>340,912</i>	<i>8,100</i>	<i>(21,308)</i>	<i>766,055</i>	<i>Profit from continuing operations before taxes and other comprehensive income</i>
INCOME TAXES						INCOME TAXES
Cash taxes paid	(193,786)	(101,480)			(295,266)	Income tax expense
<i>Change in cash before discontinued operations and equity</i>	<i>244,564</i>	<i>239,432</i>	<i>8,100</i>	<i>(21,308)</i>	<i>470,789</i>	<i>Net profit from continuing operations</i>
DISCONTINUED OPERATIONS						DISCONTINUED OPERATIONS
Cash paid from discontinued operations	(11,650)	12,250		(23,350)	(35,000)	Loss on discontinued operations
					12,250	Tax benefit
NET CASH FROM DISCONTINUED OPERATIONS	(11,650)	12,250		(23,350)	(22,750)	NET LOSS FROM DISCONTINUED OPERATIONS
<i>Change in cash before equity</i>	<i>232,914</i>	<i>251,682</i>	<i>8,100</i>	<i>(44,658)</i>	<i>448,039</i>	NET PROFIT
			15,275		15,275	OTHER COMPREHENSIVE INCOME (after tax)
			1,690		1,690	Unrealised gain on available-for-sale securities
				(1,492)	(1,492)	Unrealised gain on cash flow hedge
				(1,300)	(1,300)	Foreign currency translation adjustment—consolidated subsidiary
						Foreign currency translation adjustment—associate A
<i>Change in cash before equity</i>	232,914	251,682	25,065	(47,450)	462,212	TOTAL OTHER COMPREHENSIVE INCOME
						TOTAL COMPREHENSIVE INCOME

Bank Corp Reconciliation of Cash Flows to Comprehensive income for the Year Ended December 31, 2010 (proposed format)

A	B	C	D	E	F	G	Unusual / Infrequent
Caption in Statement of Cash Flows	Changes in Assets and Liabilities, Excluding Transactions with Owners			Statement of Comprehensive Income			
	Not from Remeasurements		From Remeasurements	Comprehensive Income (B+C+D+E)	Caption in Statement of Comprehensive Income		
	Cash Flows	Accruals, Allocations, and Other	Recurring Fair Value Changes				All Other
BUSINESS						BUSINESS	
Operating						Operating	
Cash received from deposits, net							
Savings deposits	38,000	(38,000)					
Time deposits	36,000	(36,000)					
Noninterest-bearing deposits	24,500	(24,500)					
Interest checking deposits	6,126	(6,126)					
Cash received from loans						Interest income	
Interest	118,750	101,570			220,320	Loans, including fees	
Principal	86,400	(86,400)					
Cash interest received from available-for-sale securities	11,875	11,664			23,539	Available-for-sale securities	
Cash received from trading securities	2,375	(976)			1,399	Trading securities	
		(46,296)			(46,296)	Interest expense	
		(21,644)			(21,644)	Time deposits	
		(564)			(564)	Savings deposits	
						Interest checking deposits	
Cash paid for loan originations	(103,680)	103,680					
Cash paid for advances and loans to banks, net	(4,924)	4,924					
<i>Total cash from lending and deposits</i>	<i>215,422</i>	<i>(38,668)</i>			<i>176,754</i>	<i>Net interest income</i>	
		<i>(12,853)</i>			<i>(12,853)</i>	Provision for credit losses	
	<i>215,422</i>	<i>(51,521)</i>			<i>163,901</i>	<i>Net interest income after provision for credit losses</i>	
Cash received from (paid for) noninterest operating activities						Noninterest operating income	
Sale of available-for-sale securities	55,080	(54,000)	1,080		2,160	Realized gain on available-for-sale securities, net	
Service charges on deposits	32,079				32,079	Service charges on deposits	
Sale of loans	8,000	(8,000)		(4,960)	(4,960)	Loss on sale of loans	
Mortgage banking revenue	7,907				7,907	Mortgage banking revenue	
Other nondeposit fees and commissions	3,000				3,000	Other nondeposit fees and commissions	
Other noninterest income	1,500				1,500	Other noninterest income	
Settlement of derivatives	340	(59)	119		400	Realized gain on derivatives	
Wages, salaries, and benefits	(35,000)	(3,000)			(38,000)	Wages, salaries, and benefits	

A	B	C	D	E	F	G	
Purchase of equipment	(25,000)	25,000					
Transaction processing expense	(24,000)				(24,000)	Transaction processing expense	
Occupancy expense	(6,860)				(6,860)	Occupancy expense	
Other noninterest expense	(1,800)				(1,800)	Other noninterest expense	
Investment in affiliate A				3,780	3,780	Earnings in affiliate A	
			2,313		2,313	Realized gain on trading securities, net	
		(29,922)	(6,250)		(36,172)	Share-based compensation expense	(10,000)
		(2,658)			(2,658)	Amortization of core deposit intangible	
		(6,400)			(6,400)	Depreciation expense	
		(1,998)			(1,998)	Litigation expense	
<i>Total cash from noninterest operating activities</i>	15,246	(81,037)	(2,738)	(1,180)	(69,709)	<i>Total noninterest operating income</i>	
Net cash from operating activities	230,668	(132,558)	(2,738)	(1,180)	94,192	Total operating income	
Investing			(7,500)		(7,500)	Investing	
Cash dividends received from investment in B	2,700				2,700	Fair value change in investment in company B	
						Dividend income from investment in company B	
Net cash from investing activities	2,700		(7,500)		(4,800)	Total investing income	
NET CASH FROM BUSINESS ACTIVITIES	233,368	(132,558)	(10,238)	(1,180)	89,392	TOTAL BUSINESS INCOME	
FINANCING						FINANCING	
Cash provided for federal funds sold	(7,128)	10,800			3,672	Interest income on federal funds sold	
Total cash from financing assets	(7,128)	10,800			3,672	Total financing asset income	
Cash received from federal funds purchased, net	9,180	(28,404)			(19,224)	Interest expense on federal funds purchased	
Cash paid for borrowings	(150,000)	102,873			(47,127)	Interest expense on long-term debt	
Cash dividends paid	(86,400)	86,400					
Total cash from financing liabilities	(227,220)	160,869			(66,351)	Total financing liability expense	
NET CASH FROM FINANCING ACTIVITIES	(234,348)	171,669			(62,679)	TOTAL NET FINANCING EXPENSE	
<i>Cash flows before taxes and equity</i>	(980)	39,111	(10,238)	(1,180)	26,713	<i>Income before taxes and other comprehensive income</i>	
INCOME TAXES						INCOME TAXES	
Cash taxes paid	(10,566)	1,292			(9,274)	Income tax expense	
<i>Change in cash before equity</i>	(11,546)	40,403	(10,238)	(1,180)	17,439	NET INCOME	
						OTHER COMPREHENSIVE INCOME (after tax)	
				(540)	(540)	Foreign currency translation adjustment—affiliate A	
			(49,920)		(49,920)	Unrealized loss on available-for-sale securities, net	
			281		281	Unrealized gain on derivatives	
			(49,639)	(540)	(50,179)	TOTAL OTHER COMPREHENSIVE INCOME	
<i>Change in cash before equity</i>	(11,546)	40,403	(59,877)	(1,720)	(32,740)	TOTAL COMPREHENSIVE INCOME	

Bank Corp Reconciliation of Cash Flows to Comprehensive Income for the Year Ended December 31, 2009 (proposed format)

A	B	C	D	E	F	G	Unusual / Infrequent
Caption in Statement of Cash Flows	Changes in Assets and Liabilities, Excluding Transactions with Owners				Statement of Comprehensive Income		
	Not from Remeasurements		From Remeasurements		Comprehensive Income (B + C + D + E)	Caption in Statement of Comprehensive Income	
	Cash Flows	Accruals, Allocations, and Other	Recurring Fair Value Changes	All Other			
BUSINESS						BUSINESS	
Operating						Operating	
Cash received from deposits, net							
Savings deposits	40,000	(40,000)					
Time deposits	30,000	(30,000)					
Noninterest-bearing deposits	25,000	(25,000)					
Interest checking deposits	5,620	(5,620)					
Cash received from loans						Interest income	
Interest	125,000	79,000			204,000	Loans, including fees	
Principal	80,000	(80,000)					
Cash interest received from available-for-sale securities	12,500	9,295			21,795	Available-for-sale securities	
Cash received from trading securities	2,500	(1,205)			1,295	Trading securities	
		(41,170)			(41,170)	Interest expense	
		(20,290)			(20,290)	Time deposits	
		(414)			(414)	Savings deposits	
						Interest checking deposits	
Cash paid for loan originations	(96,000)	96,000					
Cash paid for advances and loans to banks, net	(406)	406					
<i>Total cash from lending and deposits</i>	<i>224,214</i>	<i>(58,997)</i>			<i>165,217</i>	<i>Net interest income</i>	
		<i>(11,922)</i>			<i>(11,922)</i>	<i>Provision for credit losses</i>	
	<i>224,214</i>	<i>(70,919)</i>			<i>153,295</i>	<i>Net interest income after provision for credit losses</i>	
Cash received from (paid for) noninterest operating activities						Noninterest operating income (expense)	
Purchase of available-for-sale securities	(79,000)	80,000	1,000		2,000	Realized gain on available-for-sale securities, net	
Service charges on deposits	31,033				31,033	Service charges on deposits	
Sale of loans	10,000	(10,000)		(2,000)	(2,000)	Loss on sale of loans	
Mortgage banking revenue	8,931				8,931	Mortgage banking revenue	
Other nondeposit fees and commissions	2,000				2,000	Other nondeposit fees and commissions	
Other noninterest income	1,000				1,000	Other noninterest income	
Settlement of derivatives	315	(55)	110		370	Realized gain on derivatives	
Wages, salaries, and benefits	(30,000)	(5,000)			(35,000)	Wages, salaries, and benefits	
Purchase of equipment	(25,000)	25,000					
Transaction processing expense	(25,000)				(25,000)	Transaction processing expense	
Investment in affiliate A	(12,000)	12,000		3,500	3,500	Earnings in affiliate A	

A	B	C	D	E	F	G	
Occupancy expense	(7,000)				(7,000)	Occupancy expense	
Other noninterest expense	(1,200)		3,890		(1,200)	Other noninterest expense	
		(5,850)			3,890	Realized gain on trading securities, net	
		(12,000)	(5,000)		(5,850)	Depreciation expense	
		(3,544)			(17,000)	Share-based compensation expense	
		(1,850)			(3,544)	Amortization of core deposit intangible	
				(9,000)	(1,850)	Litigation expense	
					(9,000)	Impairment loss on goodwill	(9,000)
<i>Total cash from noninterest operating activities</i>	<i>(125,921)</i>	<i>78,701</i>	<i>–</i>	<i>(7,500)</i>	<i>(54,720)</i>	<i>Total noninterest operating expense</i>	
Net cash from operating activities	98,293	7,782	–	(7,500)	98,575	Total operating income	
Investing						Investing	
Cash dividends received from investment in company B	2,500		3,250		3,250	Fair value change in investment in company B	
					2,500	Dividend income from investment in company B	
Net cash from investing activities	2,500		3,250		5,750	Total investing income	
NET CASH FROM BUSINESS ACTIVITIES	100,793	7,782	3,250	(7,500)	104,325	TOTAL BUSINESS INCOME	
FINANCING						FINANCING	
Cash provided for federal funds sold	(6,600)	10,000			3,400	Interest income on federal funds sold	
Total cash from financing assets	(6,600)	10,000			3,400	Total financing asset income	
Proceeds from issuance of long-term debt	135,780	(135,780)					
Cash received from federal funds purchased, net	8,500	(26,300)			(17,800)	Interest expense on federal funds purchased	
Cash paid for borrowings	(150,000)	105,543			(44,457)	Interest expense on long-term debt	
Cash dividends paid	(80,000)	80,000					
Total cash from financing liabilities	(85,720)	23,463			(62,257)	Total financing liabilities expense	
NET CASH FROM FINANCING ACTIVITIES	(92,320)	33,463			(58,857)	TOTAL NET FINANCING EXPENSE	
<i>Change in cash before taxes and equity</i>	<i>8,473</i>	<i>41,245</i>	<i>3,250</i>	<i>(7,500)</i>	<i>45,468</i>	<i>Income before taxes and other comprehensive income</i>	
INCOME TAXES						INCOME TAXES	
Cash taxes paid	(15,667)	(3,469)			(19,137)	Income tax expense	
<i>Change in cash before equity</i>	(7,194)	37,776	3,250	(7,500)	26,331	NET INCOME	
						OTHER COMPREHENSIVE INCOME (after tax)	
				(500)	(500)	Foreign currency translation adjustment—affiliate A	
			43,000		43,000	Unrealized gain on available-for-sale securities, net	
			260		260	Unrealized gain on derivatives	
			43,260	(500)	42,760	TOTAL OTHER COMPREHENSIVE INCOME	
<i>Change in cash before equity</i>	(7,194)	37,776	46,510	(8,000)	69,091	TOTAL COMPREHENSIVE INCOME	

Bank Corp Reconciliation of Statement of Financial Position December 31, 2008—December 31, 2009

A	B	C	D	E		F	G	H	I	J	K
				Changes in Assets and Liabilities		Statement of Comprehensive Income		Comprehensive Income (C + E + F + G)	Caption in Statement of Comprehensive Income	Non cash / Non income	Dec. 31, 2009 Balance (B + E + F + G + J)
				Not from Remeasurements	From Remeasurements	Recurring Fair Value Changes	All Other				
BUSINESS Operating Assets	Dec. 31, 2008 Balance	Cash Flows	Caption in Statement of Cash Flows	Accruals, Allocations, and Other	Recurring Fair Value Changes	All Other					
Cash	25,387	605	<i>Changes in cash</i>								25,993
Advances and loans to banks	9,873	(406)	Cash paid for advances and loans to banks, net	406							10,279
Trading securities at fair value	30,000	2,500	Cash received from trading securities	(1,205)			1,295	1,295	Interest income on trading securities	}	32,685
Available-for-sale (AFS) securities at fair value	611,517	(79,000)	Cash paid for purchase of AFS securities	80,000		3,890	3,890	3,890	Realized gain on trading securities, net		}
		12,500	Cash interest received on AFS securities	9,295			21,795	21,795	Realized gain on AFS securities, net	}	
Derivatives at fair value, net		315	Cash received from settlement of derivatives	(55)		43,000	43,000	43,000	Interest income on AFS securities		}
Loans, net of unearned income	3,891,029	80,000	Cash collected from loan principals	(80,000)					Unrealized gain on AFS securities	}	
		10,000	Cash received from sale of loans	(10,000)		(2,000)	(2,000)	(2,000)	Realized gain on derivatives		}
		(96,000)	Cash paid for loan originations	96,000					Unrealized gain on derivatives	}	
Less allowance for loan losses	(38,132)			(11,922)			(11,922)	(11,922)	Loss on sale of loans		}
Loans, net	3,852,897								Provision for credit losses	}	
Interest receivable on loans		125,000	Cash collected from loan interest	79,000			204,000	204,000	Interest income—loans including fees		}
Premises and equipment	175,000	(25,000)	Cash paid for equipment	25,000					Depreciation expense	}	
Less accumulated depreciation	(17,500)			(5,850)			(5,850)	(5,850)			}
Premises and equipment, net	157,500									}	
Investment in affiliate A	35,000	(12,000)	Cash paid for investment in affiliate A	12,000		3,500	3,500	3,500	Earnings in affiliate A		}
Goodwill	90,330					(500)	(500)	(500)	Foreign currency translation adjustment—affiliate A	}	
Core deposit intangible, net	9,037			(3,544)		(9,000)	(9,000)	(9,000)	Impairment loss on goodwill		}
<i>Total operating assets</i>	<i>4,821,541</i>								Amortisation of core deposit intangible		

A	B	C	D	E	F	G	H	I	J	K
Liabilities			Cash received from deposits, net							
Noninterest-bearing deposits	(621,217)	25,000	Noninterest-bearing deposits	(25,000)						(646,217)
Interest checking deposits	(66,123)	5,620	Interest checking deposits	(5,620)						(71,743)
Savings deposits	(1,232,439)	40,000	Savings deposits	(40,000)						(1,272,439)
Time deposits	(1,082,869)	30,000	Time deposits	(30,000)						(1,112,869)
<i>Total deposit liabilities</i>	<i>(3,002,648)</i>									<i>(3,103,268)</i>
Accrued interest payable	—			(41,170)			(41,170)	Interest expense—time deposits	}	
				(20,290)			(20,290)	Interest expense—savings deposits		(61,873)
				(414)			(414)	Interest expense—interest checking deposits		
Wages payable	(2,500)	(30,000)	Wages, salaries, and benefits paid	(5,000)			(35,000)	Wages, salaries, and benefits expense		(7,500)
Share-based compensation liability	(42,500)			(12,000)	(5,000)		(17,000)	Share-based compensation expense		(59,500)
Litigation provision	—			(1,850)			(1,850)	Litigation expense		(1,850)
<i>Total operating liabilities</i>	<i>(3,047,648)</i>		Cash received from (paid for):							<i>(3,233,991)</i>
		31,033	Service charges on deposits				31,033	Service charges on deposits		
		8,931	Mortgage banking revenue				8,931	Mortgage banking revenue		
		2,000	Other nondeposit fees and commissions				2,000	Other nondeposit fees and commissions		
		1,000	Other noninterest revenue				1,000	Other noninterest revenue		
		(25,000)	Transaction processing expense				(25,000)	Transaction processing expense		
		(7,000)	Occupancy expense				(7,000)	Occupancy expense		
		(1,200)	Other noninterest expense				(1,200)	Other noninterest expense		
Net operating assets	1,773,894	98,293	Net cash from operating activities	7,782	43,260	(8,000)	141,335	Operating income plus other comprehensive income	—	1,817,542
Investing			Investing					Investing	}	
Investment in company B at fair value	36,000		Cash dividends from investment in company B		3,250		3,250	Fair value change in investment in company B		39,250
		2,500					2,500	Dividend income from company B		
Total investing assets	36,000	2,500	Net cash from investing activities		3,250		5,750	Investing income		39,250
NET BUSINESS ASSETS	1,809,894	100,793	NET CASH FROM BUSINESS ACTIVITIES	7,782	46,510	(8,000)	147,085	TOTAL BUSINESS INCOME plus other comprehensive income	—	1,856,792

Bank Corp Reconciliation of Statement of Financial Position December 31, 2008—December 31, 2009 *continued*

A	B	C	D	E	F	G	H	I	J	K
Caption in Statement of Financial Position	Dec. 31, 2008 Balance	Cash Flows	Caption in Statement of Cash Flows	Changes in Assets and Liabilities			Comprehensive Income (C + E + F + G)	Caption in Statement of Comprehensive Income	Non cash / Non income	Dec. 31, 2009 Balance (B + E + F + G + J)
				Not from Remeasurements	From Remeasurements					
				Accruals, Allocations, and Other	Recurring Fair Value Changes	All Other				
FINANCING Assets			FINANCING					FINANCING		
Federal funds sold	25,000	(6,600)	Cash provided for federal funds sold	10,000			3,400	Interest income on federal funds sold		35,000
Total financing assets	25,000	(6,600)	Net cash from financing assets	10,000			3,400	Financing asset income		35,000
FINANCING Liabilities										
Federal funds purchased	(350,000)	8,500	Cash received from federal funds purchased, net	(26,300)			(17,800)	Interest expense on federal funds purchased		(376,300)
Dividends payable	(20,000)	(80,000)	Dividends paid	80,000					(80,000)	(20,000)
Long-term debt	(893,310)	135,780	Proceeds from issuance of long-term debt	(135,780)				Interest expense on long-term debt		(923,547)
		(150,000)	Cash paid for borrowings	105,543			(44,457)			
Total financing liabilities	(1,263,310)	(85,720)	Net cash from financing liabilities	23,463			(62,257)	Financing liability expense	(80,000)	(1,319,847)
NET FINANCING LIABILITIES	(1,238,310)	(92,320)	NET CASH FROM FINANCING ACTIVITIES	33,463			58,857	TOTAL FINANCING EXPENSE	(80,000)	(1,284,847)
INCOME TAXES			INCOME TAXES					INCOME TAXES		
Deferred tax asset, net	35,000			(1,914)			(1,914)			33,086
Income taxes payable	(2,750)	(15,667)	Cash taxes paid	(1,556)			(17,223)			(4,306)
Net income tax asset	32,250	(15,667)	NET CASH FROM INCOME TAX ACTIVITIES	(3,469)			(19,137)	Income tax expense		28,781
NET ASSETS	603,834	(7,194)	<i>Change in cash before equity</i>	37,776	46,510	(8,000)	69,091	TOTAL COMPREHENSIVE INCOME	(80,000)	600,726
EQUITY										
Common stock	(25,000)									(25,000)
Additional paid-in capital	(96,750)	4,275	Proceeds from reissue of treasury stock	(4,275)						(101,025)
Treasury stock	63,250	3,525	Proceeds from reissue of treasury stock	(3,525)						59,725
Retained earnings	(469,634)			(30,581)	(3,250)	7,500	(26,331)		80,000	(415,966)
Accumulated other comprehensive income	(75,700)				(43,260)	500	(42,760)			(118,460)
TOTAL EQUITY	(603,834)	7,800	NET CASH FROM EQUITY	(38,381)	(46,510)	8,000	(69,091)		80,000	(600,726)

ToolCo Statement of comprehensive income matrix for the year ended 31 December 2009

A	B	C	D	E	F
Statement of comprehensive income	Comprehensive income (C + D + E + F)	Changes in assets and liabilities, excluding transactions with owners			
		Cash flows	Accruals, allocations and other	Recurring valuation adjustments	All other
BUSINESS					
Operating					
Sales—wholesale	2,591,400	1,928,798	662,602		
Sales—retail	647,850	643,275	4,575		
<i>Total revenue</i>	<i>3,239,250</i>	<i>2,572,073</i>	<i>667,177</i>		
Cost of goods sold					
Materials	(925,000)	(785,000)	(140,000)		
Labour	(450,000)	(475,313)	25,313		
Overhead—depreciation	(215,000)		(215,000)		
Overhead—transport	(108,000)	(108,000)			
Pension	(47,250)	(157,500)	104,250	6,000	
Change in inventory	(46,853)		(46,853)		
Overhead—other	(27,000)	(27,000)			
Loss on obsolete and damaged inventory	(9,500)				(9,500)
<i>Total cost of goods sold</i>	<i>(1,828,603)</i>	<i>(1,552,813)</i>	<i>(272,290)</i>	<i>6,000</i>	<i>(9,500)</i>
<i>Gross profit</i>	<i>1,410,647</i>	<i>1,019,260</i>	<i>394,887</i>	<i>6,000</i>	<i>(9,500)</i>
Selling expenses					
Wages, salaries and benefits	(52,500)	(55,453)	2,953		
Advertising	(50,000)	(75,000)	25,000		
Bad debt	(15,034)		(15,034)		
Other	(12,500)	(12,500)			
<i>Total selling expenses</i>	<i>(130,034)</i>	<i>(142,953)</i>	<i>12,919</i>		
General and administrative expenses					
Wages, salaries and benefits	(297,500)	(314,234)	16,734		
Pension	(47,250)	(157,500)	104,250	6,000	
Depreciation	(58,500)		(58,500)		
Share-based remuneration	(17,000)	(3,335)	(8,665)	(5,000)	
Interest on lease liability	(16,500)		(16,500)		
Research and development	(7,850)	(7,850)			
Other	(14,600)	(12,000)	(2,600)		
<i>Total general and administrative expenses</i>	<i>(459,200)</i>	<i>(494,919)</i>	<i>34,719</i>	<i>1,000</i>	
<i>Income before other operating items</i>	<i>821,413</i>	<i>381,388</i>	<i>442,525</i>	<i>7,000</i>	<i>(9,500)</i>
Other operating income (expense)					
Share of profit of associate A	22,000				22,000
Realised gain on cash flow hedge	3,700	3,150	(550)	1,100	
Impairment loss on goodwill	(35,033)				(35,033)
Loss on sale of receivable	(2,025)	10,000	(10,000)		(2,025)
<i>Total other operating income</i>	<i>(11,358)</i>	<i>13,150</i>	<i>(10,550)</i>	<i>1,100</i>	<i>(15,058)</i>
Total operating income	810,055	394,538	431,975	8,100	(24,558)

A	B	C	D	E	F
Investing					
Dividend income	50,000	50,000			
Realised gain on available-for-sale financial assets	7,500	51,000	(43,500)		
Share of profit of associate B	3,250				3,250
Total investing income	60,750	101,000	(43,500)		3,250
TOTAL BUSINESS INCOME	870,805	495,538	388,475	8,100	(21,308)
FINANCING					
Interest income on cash	5,500	5,500			
Total financing asset income	5,500	5,500			
Interest expense	(110,250)	(82,688)	(27,563)		
Total financing liability expense	(110,250)	(82,688)	(27,563)		
TOTAL NET FINANCING EXPENSE	(104,750)	(77,188)	(27,563)		
<i>Profit from continuing operations before taxes and other comprehensive income</i>	766,055	418,350	360,912	8,100	(21,308)
INCOME TAXES					
Income tax expense	(295,266)	(193,786)	(101,480)		
<i>Net profit from continuing operations</i>	470,789	224,564	259,432	8,100	(21,308)
DISCONTINUED OPERATIONS					
Loss on discontinued operations	(35,000)	(11,650)			(23,350)
Tax benefit	12,250		12,250		
NET LOSS FROM DISCONTINUED OPERATIONS	(22,750)	(11,650)	12,250		(23,350)
NET PROFIT	448,039	212,914	271,682	8,100	(44,658)
OTHER COMPREHENSIVE INCOME (after tax)					
Unrealised gain on available-for-sale financial assets, net	15,275			15,275	
Unrealised gain on cash flow hedge	1,690			1,690	
Foreign currency translation adjustment—consolidated subsidiary	(1,492)				(1,492)
Foreign currency translation adjustment—associate A	(1,300)				(1,300)
TOTAL OTHER COMPREHENSIVE INCOME	14,173			16,965	(2,792)
TOTAL COMPREHENSIVE INCOME	462,212	212,914	271,682	25,065	(47,450)