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FINANCIAL STATEMENT OVERHAUL: AN ANALYSIS OF THE IMPLEMENTATION OF THE JOINT FASB/IASB PROPOSAL ON FINANCIAL STATEMENT PRESENTATION

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ABSTRACT

As part of the convergence toward a single set of financial statements, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are working on a project to develop a new standard for financial statement presentation. The proposed standard is intended to make financial statement presentation uniform for all companies. It is intended to enhance the comparability, understandability, and usefulness of financial statements to investors, creditors, and other external users.

Significant changes in presentation include the classification of line items on the statement of financial position as part of the business activities or financing activities of the firm. These classifications are to be carried through to the statement of comprehensive income and the statement of cash flows enhancing the cohesiveness of the financial statements. Companies will be required to present a single statement of comprehensive income and will disaggregate revenue and expense items by function and nature. Instead of having a choice between the indirect and direct methods for preparing cash flow statements, the new proposal will require entities to use the direct method for presenting operating cash flows.

Through analysis of the project materials made available by the FASB, consideration of research related to specific aspects of the proposal, and interviews with members of the business community affected by the proposal, this thesis draws a conclusion on the effectiveness of the proposed changes to financial statement presentation.

The proposed changes will create advantages as well as disadvantages for users and preparers of financial statements. With increased transparency and disaggregation come lack of understandability and considerable expenditure of time and money. Though it is widely agreed that the proposed financial statement presentation model has the potential to provide external users of financial statements with more useful information, it is unclear why such a drastic change is needed, if a change is needed at all. The same decisions will most likely result from the use of the newly formatted financial statements; financial statements already provide enough information for users to make informed decisions. Adding more rules and changing the current format will make it hard for companies to communicate with the average investor. The benefits of implementing the new model will not outweigh the costs.

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Chapter 1

Financial Statement Presentation: Current Structure and Proposed Changes

Introduction

This thesis draws a conclusion on the effectiveness of the changes to financial statement presentation currently proposed by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

The financial statements are a primary means of communication between companies and their investors and creditors. Even in this era of readily accessible and timely information, the public makes most of its assessments and decisions regarding the current and future performance of companies based on a single set of four comparative financial statements and the notes that accompany those financial statements.

The organization and structure of each of the primary financial statements is among the first topics introduced in an introductory accounting course. This forms the base upon which all other accounting knowledge is built. All good introductory accounting students know that a firm’s total assets are equal to the sum of its liabilities and shareholders’ equity. They know that revenues less expenses equal net income. They understand that beginning retained earnings, plus net income, minus dividends, equals ending retained earnings. They have memorized that net cash flows from operating activities, plus net cash flows from investing activities, plus net cash flows from financing activities, equals net change in cash for the current period. From these fundamental accounting equations, students are able to see the connections between the financial statements and the accounting information presented in them.

Financial analysts build upon this basic accounting knowledge and develop the ability to analyze and interpret each of the financial statement line items and related financial ratios. They provide a forecast of future financial performance as a result of their analysis. Financial analysts build such forecasts using knowledge of a company's industry and operating environment and information found in the company's annual report. These forecasts provide the basis for decisions, such as buy-sell-hold recommendations and credit ratings.

The work of financial analysts affects the performance of a company's stock and the ability of the company to gain access to capital to finance its business, which in turn affects the company's operating decisions and, to a greater extent, the ability of the company to operate as a going concern. The operating decisions of a company, especially a global conglomerate, have a great impact on the general public, which is often lacking in financial sophistication.

Not only are the financial statements a primary means of communication for companies, the decisions based on them have widespread impacts. Therefore, the organization and structure of the financial statements should be given the appropriate time and attention.

Guidance on financial statement presentation is currently dispersed among several accounting standards. The limited guidance provided allows for presentation alternatives, which lead to inconsistencies and decreased comparability between the financial statements of different entities. Because of the lack of consistency in such an important aspect of financial reporting, the FASB decided in 2001 to add a project on financial statement presentation to its agenda.

Shortly thereafter, the business world was shaken up by several accounting scandals involving major corporations such as Enron, Tyco, and WorldCom. Problems with misleading financial reporting at these and other corporations and the related public distrust increased the need for greater transparency in financial reporting and greater understandability on the part of financial statement users.

Around the same time, rapidly increasing globalization led standard-setters to recognize the need for a common set of financial reporting principles. When steps were undertaken to begin the convergence process, many realized that the converged standards would become useless and comparisons would remain difficult if U.S. and international reporting took different formats.

In late 2002, the FASB formally acknowledged its commitment to converge U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Part of the FASB's commitment involves conducting joint projects with the IASB. In 2004, the Boards decided to work together on their respective projects on financial statement presentation. The Boards decided to approach the project in three phases. The IASB issued a revised version of IAS 1, *Presentation of Financial Statements*, in 2007 after considering responses to its work in Phase A of the project. Phase A of the joint project addressed what statements should be included in a complete set of financial statements, as well as what comparative information should be presented. The FASB decided to consider Phases A and B together.

On October 16, 2008, the Boards published for comment a Discussion Paper, *Preliminary Views on Financial Statement Presentation*. The Discussion Paper addresses Phase B of the project, which involves fundamental issues relating to presentation and display of information in the financial statements. Phase C of the project will address the presentation of information in interim financial statements.

After consideration of comments received and analysis of results of field tests and studies, the FASB and the IASB are each preparing to publish Exposure Drafts in May 2010. Roundtable discussions will be held in the third quarter of 2010, and the final standards are expected to be published in 2011. It will be the largest makeover of the face of the financial statements ever conducted in single step.

The new standards on financial statement presentation will completely overhaul the current financial statements based on the core principles of cohesion and disaggregation with the goal of making the financial statements more decision-useful for external users. No longer will one be able to look at the balance sheet and directly see that total assets are equal to total liabilities and shareholders' equity; it will no longer be fitting to call it a balance sheet. The income statement will no longer group revenues and expenses and arrive at the simple total of net income; it too will receive a new name. The operating, investing, and financing sections of the statement of cash flows will no longer be defined as they are today.

The proposed changes have elicited mixed reviews from the members of the business community. While it is widely acknowledged that current financial statement presentation can be bettered, many are unsure that the costs associated with such a drastic change really outweigh the benefits.

This thesis examines the effects of the implementation of the proposed presentation model through analysis of the information made available by the FASB, consideration of research related to specific aspects of the proposal, and interviews with members of the business community affected by the proposal. The results of this thesis show that the benefits will not outweigh the costs.

First, the differences between the current and proposed presentation formats are described.

Current Financial Statement Presentation

Guidance on financial statement presentation for U.S. firms is currently dispersed among several accounting standards, such as Statement on Financial Accounting Standards (SFAS) No. 95, *Statement of Cash Flows*, and SFAS No. 130, *Reporting Comprehensive Income*. The way firms present their financial information is mainly dictated by decades-old business practices and customs. Companies today provide a set of four financial statements: a balance sheet, an income statement, a statement of changes in equity, and a statement of cash flows. Sometimes companies provide a separate statement of comprehensive income.

The balance sheet shows a company’s total assets, total liabilities, and the owners’ residual interest in the net assets of the company as of the end of the fiscal year. Assets and liabilities are usually separated into current and noncurrent subcategories and are listed in order of liquidity.

The income statement presents a company's revenues and expenses for the current fiscal year and presents a total for net income. Often subtotals for operating income or income from continuing operations are presented. The extent of the disaggregation of revenues and expenses varies from company to company with most companies presenting highly aggregated line items. The FASB does give reporting requirements for discontinued operations and extraordinary items.

Companies currently have different options for presenting comprehensive income and its components. U.S. GAAP permits the presentation of other comprehensive income items with net income items in one statement of comprehensive income, on a separate statement of comprehensive income, or on the statement of changes in equity.

The statement of cash flows presents the net cash flows from a company's operating activities, its investing activities, and its financing activities. The operating activities of a company relate to the day-to-day business activities of the firm and usually correspond to the line items found on the income statement. The investing section shows the cash flows related to a firm's acquisition and disposal of long-term assets, while the financing section shows the cash flows related to obtaining debt and equity. U.S. GAAP allows for companies to choose between presenting the operating section of the cash flow statement using the indirect method (reconciling net income on an accrual basis to net income on a cash basis) or the direct method (directly calculating operating cash inflows and outflows). Most companies use the indirect method for presenting operating cash flows.

See Appendix A for the fiscal 2009 consolidated financial statements of Green Mountain Coffee Roasters prepared using the traditional format.

Proposed Financial Statement Presentation

The FASB and the IASB's purpose in undertaking the joint financial statement presentation project is to establish a standard that will guide the presentation of information in financial statements with the goal of improving the statements' usefulness to decision makers. The following section discusses the proposed model outlined in the October 2008 Discussion Paper as well as tentative decisions reached by the Boards as of March 2010.

As determined in Phase A of the project, a complete set of financial statements will include a statement of financial position, a statement of comprehensive income, a statement of cash flows, and a statement of changes in equity. Notes and comparative information will be required to accompany these four statements.

The presentation model outlined in the discussion paper will not apply to not-for-profit entities and benefit plans. The FASB recently decided that the proposed standard will apply to nonpublic entities, but nonpublic entities will not have to provide certain note disclosures. Entities will be required to adopt the final standard on a full retrospective basis.

As of March 2010, the FASB and the IASB decided on two core presentation principles. This is a change from the three objectives originally proposed in the Discussion Paper. The Boards propose that information should be presented in a way that: (1) portrays a cohesive financial picture of an entity's activities and (2) disaggregates information so that it is useful in predicting an entity's future cash flows and assessing an entity's liquidity and financial flexibility. The rest of the presentation principles are based on these two core principles. The proposed presentation principles lead to a much different way of presenting financial information.

The first major change in presentation is consistent with the cohesiveness principle. The Boards believe that financial statement items, their accompanying descriptions, and the order in which the items are presented should be fairly consistent across the statements of financial position, comprehensive income, and cash flows. Though alignment of every line item will not be required, a user should be able to identify related information on different statements.

The second major change relates to the disaggregation of information. Consistent with their belief that information with different predictive characteristics should be presented separately, the Boards believe that an entity should present its business activities separately from its financing activities. See Figure 1-1 below for an illustration of the proposed disaggregation and classification of financial statement information. The proposed model will require an entity to further separate its business activities into operating, investing, and financing arising from operating activities subcategories. Within the financing section, an entity will be required to separate owner from non-owner sources of financing. Equity will be presented as part of the financing section as opposed to being presented in its own section as originally proposed in the Discussion Paper. An entity will present information about its discontinued operations separately from its continuing operations, and an entity will present information about its income taxes in its own section. The Boards will require headings and subtotals for each section, category, and subcategory.

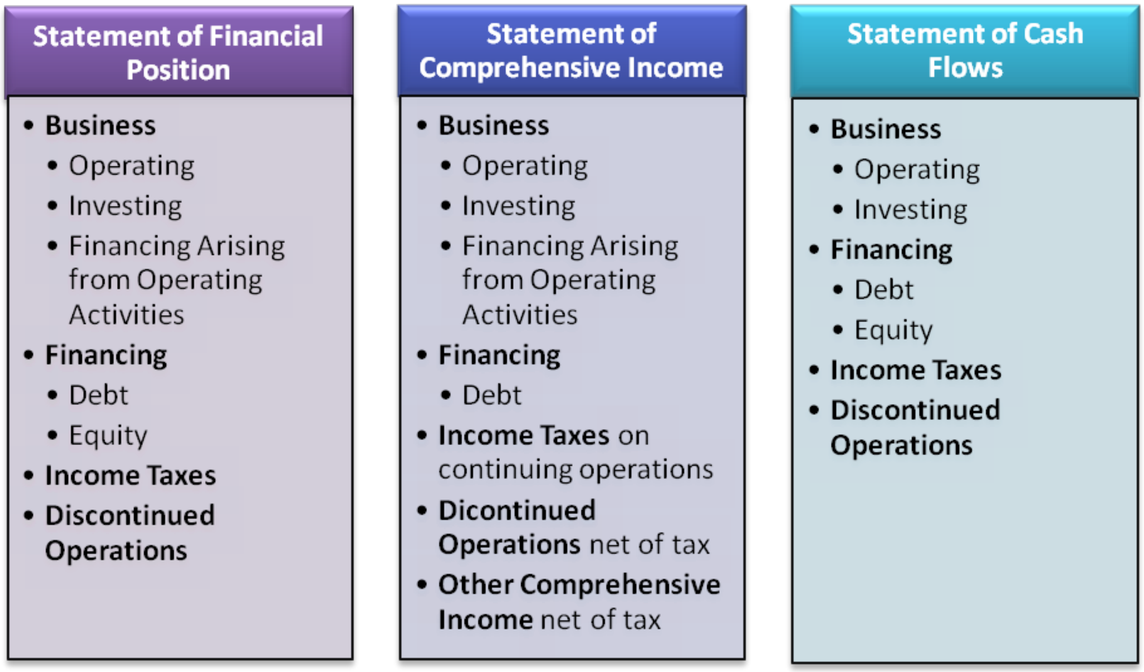

Figure 1-1: The proposed disaggregation and classification of financial statement information.

According to the Boards' preliminary views, the business section will include assets and liabilities that management views as part of its continuing business activities. The operating category within this section will reflect the entity's day-to-day business activities that generate revenue. The investing category will reflect business activities that generate non-revenue income. The financing arising from operating activities category will include all liabilities that do not meet the definition of financing.

The financing section will include items that are part of an entity's activities to obtain and repay capital. It will contain two sub-categories: debt and equity.

The discontinued operations and the income tax sections will include all assets and liabilities related to the terms as they are currently defined or recognized in IFRSs and U.S. GAAP. The results of discontinued operations have different implications for future cash flows than do the results of continuing operations and should be reported separately, which is consistent with existing presentation requirements. The Boards concluded that disaggregating and presenting income tax assets, liabilities, and cash flows would require complex and arbitrary allocations, so an entity will present income tax items in their own section on the statement of financial position and statement of cash flows. However, an entity will retain allocation of income taxes in the statement of comprehensive income, which is consistent with the disaggregation principle.

The Boards based these disaggregation principles on the common practice of financial statement users to separately analyze an entity's operations from how it finances its operations. The result of the application of the core disaggregation principle is not a "balance sheet" but a statement of financial position that distinguishes business assets and liabilities from financing assets and liabilities. A comprehensive income statement that indentifies income from business activities and income from financing activities naturally follows.

The Boards originally proposed that financial statement presentation take the management approach to classification; management would classify assets and liabilities in a manner that best reflects the way the assets or liabilities are used within the entity. The Boards have decided to retain this approach to classification, but they will refer to it by a different name. Consistent with the cohesiveness objective, the classification of assets and liabilities in the statement of financial position will determine the classification of changes in those assets and liabilities in the statement of comprehensive income and the statement of cash flows. The Boards believe that this approach to classification will allow management to communicate the unique aspects of its business to financial statements users.

The principles described above have specific implications for each of the required financial statements.

Statement of Financial Position

Beginning with the statement of financial position, the proposed model will require an entity to classify its assets and liabilities into short-term and long-term subcategories unless a presentation based on liquidity provides information that is more relevant. Classifying assets and liabilities as short-term and long-term is consistent with the disaggregation principle. The Boards chose the short-term and long-term classifications over the existing current and noncurrent classifications because they feel that the sub-categorization should be on a one-year basis as opposed to the length of an entity's operating cycle. The one-year distinction is easier to understand and it increases comparability.

Another change for the statement of financial position is that cash equivalents will be presented and classified in a manner similar to other short-term investments instead of being aggregated into one line item with cash. An entity will not present any securities as part of cash in the statement of financial position. The separation of cash and cash equivalents helps users better assess liquidity and financial flexibility because cash equivalents are not the same as cash.

Also pertaining to the format of the statement of financial position, the Boards propose that an entity present similar assets and similar liabilities that are measured on different bases as separate line items. This is consistent with the disaggregation principle.

To illustrate this concept, an entity will have to present investments in debt securities measured at amortized cost on a separate line item from debt securities measured at fair value.

The Boards will require that subtotals for total assets and total liabilities be presented on the face of the financial statements.

Statement of Comprehensive Income

Moving on to the statement of comprehensive income, the Boards propose that an entity present comprehensive income and its components in a single statement of comprehensive income. The statement will include a subtotal for net income and a total for the amount of comprehensive income for the period. Items of other comprehensive income will be displayed in their own section (refer to Figure 1-1 on page nine). As opposed to allowing different ways of reporting comprehensive income, having only one format (a single statement) will improve comparability and will make it easier for users to find and use information. The proposal to require a single statement is based on research studies that show that users do not react to other comprehensive income information when it appears in an unexpected location. The FASB is planning to issue an exposure draft on the preparation of a single statement of comprehensive income in the second quarter of 2010.

A major change to the statement of comprehensive income will be the disaggregation of income and expense items by function on the face of the statement and by nature in the notes to the financial statements. Functions include the manufacturing, advertising, marketing, and administration aspects of a business. Nature refers to the economic characteristics or attributes that distinguish income and expense items; labor costs and material costs are of different natures. Management will be required to disaggregate income and expense items only to the extent that it will enhance the usefulness of the information. The Boards recognize that the statement of comprehensive income should not be so lengthy that it becomes less useful. The Boards' proposal will change current U.S. practice because right now, most entities present only a few line items on the income statement. See Appendix A for Green Mountain Coffee Roaster's highly aggregated consolidated statements of financial position.

Statement of Cash Flows

As for the statement of cash flows, the three main sections will remain. However, the Boards propose that the classification of cash flows into the operating, investing, and financing sections be based on the classification of the related assets and liabilities, which is consistent with the cohesiveness principle. This will change the types of activities currently reported in each section.

The Boards also propose that an entity be required to use the direct method of preparing the operating section of the statement of cash flows. The direct method presents separately the operating cash receipts and payments of an entity. The Boards found that many users attempt to construct a direct method cash flow statement if one is not provided. The Boards also found that the direct method cash flow statement is more consistent with the core principles of financial statement presentation. Realizing that some users do prefer the indirect method to the direct, the Boards will require the presentation of an indirect reconciliation of operating income to operating cash flows in the notes to the financial statements.

Statement of Changes in Equity

The proposed form and content of the statement of changes in equity will be similar to what is currently provided. The main change will be that entities applying U.S. GAAP will no longer be able to choose to present information about changes in shareholders' equity in the notes to the financial statements instead of in its own primary statement.

Notes to the Financial Statements

Since the Boards propose not to use the length of an entity's operating cycle as the basis for providing a classified statement of financial position, an entity with an operating cycle longer than one year will describe its operating cycle in the notes to financial statements.

The Boards propose extending the existing requirements to present in the notes to the financial statements all noncash investing and financing activities to noncash operating activities.

Originally, the Boards proposed that an entity present a schedule in the notes to the financial statements that reconciles cash flows to comprehensive income showing cash received or paid, accruals, and re-measurements. The Boards have decided that they will instead require an analysis of the changes in the balances of all significant asset and liability line items. The analysis of changes can be presented in the topic-specific note disclosures and must be accompanied by a narrative explanation of the changes. The Boards will require information about re-measurements to be in a note to the financial statements; the Boards will modify the definition of a re-measurement.

See Appendix B for an example of financial statements prepared using the proposed format. The illustrative financial statements are the ones presented by the FASB and the IASB in their Discussion Paper; therefore, they do not illustrate the changes made after the Discussion Paper was published in October 2008.

Chapter 2

Advantages and Disadvantages of the Proposed Presentation

Just as the way businesses present information about their products has an effect on consumer decisions, the way in which an entity chooses to present financial information has an effect on investor, creditor, and other user decisions. The FASB and the IASB initiated the project on financial statement presentation in response to criticism from financial statement users about the way financial data is currently presented. Research and field testing, both in connection with and separate from the proposed presentation, point to the advantages and disadvantages of the new model and indicate how the proposal will affect those who use financial information.

After analysis of outside research and studies conducted by the FASB and the IASB, three features of the proposed financial statement presentation stand out as the most important in terms of their ability to affect the decisions of financial statement users and their cost of implementation: transparency, disaggregation, and the direct method of preparing operating cash flows. This chapter summarizes research on each of these three attributes and draws conclusions on the effectiveness of the attributes in relation to the proposed presentation.

Transparency

The FASB and the IASB, in initial discussions with financial statement users, found that users believe that financial information is not presented consistently. Financial statement users are finding it difficult to understand how the information presented in one statement relates to information presented in the other statements due to different ways of classifying and presenting information in each of the statements. For example, the current statement of cash flows is separated into operating, investing, and financing activities, but the balance sheet and income statement require no such classifications. Therefore, in analyzing operating cash flow, users have trouble assessing which assets are considered to be the operating assets that generated such cash flow or which components of revenues and expenses are related to changes in operating cash flow.

Though the Boards have decided to address this problem as a lack of cohesion among financial statement line items, it seems that a lack of transparency is the real problem. It is often hard for financial statement users to see through the façade of the financial statements to determine how the numbers are related.

Transparency Defined

Although the phrase is often used, "financial reporting transparency" currently lacks a common definition, and it does not appear as a qualitative characteristic in the conceptual frameworks of the IASB or the FASB (Barth). In their paper, "Financial Reporting Transparency," Mary Barth, Professor of Accounting at Stanford University and member of the IASB, and Katherine Schipper, Professor of Accounting at Duke

University, propose that financial reporting transparency is “the extent to which financial reports reveal an entity’s underlying economics in a way that is readily understandable by those using the financial reports.”

The idea that financial statements should be readily understandable to users means they need to include enough detail to help users make decisions, but not too much detail that the entity’s underlying economics become obscured. This, of course, depends on assumptions about the knowledge of a typical financial statement user (Barth).

A 2007 article from *The CPA Journal*, “Transparency and Understandability, But for Whom?,” references a speech given in 2001 by Lynn Turner, then chief accountant of the SEC. In that speech, Turner reported that the 84 million shareholders in America in 1998 came from all walks of life. Turner expressed the idea that “the average stockholder today is the average American who lives next door” (Ewer).

The FASB, however, primarily attends to the informational needs of investors and creditors. In its Statement of Financial Accounting Concepts (SFAC) 1, *Objectives of Financial Reporting by Business Enterprises*, issued in 1978, the FASB says that “the information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence” (Ewer).

Looking at the joint FASB/IASB proposal on a conceptual framework for financial reporting, the same notion of the knowledge of financial statement users will be retained. In addition, the proposal states that relevant information should not be left out of the financial statements just because it may be too complex or difficult for some users to comprehend.

The current volume and complexity of financial statements make them hard for the average user to understand. Understandability for the average user is an ideal that will be hard to achieve, especially when standard-setters are unwilling to leave out detail. The question is, then, whether the proposed presentation model makes financial statements more understandable to investors, creditors, and other users with general knowledge of financial accounting concepts.

The proposed presentation model has two attributes that have the ability to increase understandability and transparency for the defined users: traceability and the presentation of more information on the face of the financial statements.

Traceability

Since standard setters are unwilling to exclude information from the financial statements, a balance between detail and depth and clarity and understandability must be achieved. In an article for an Ernst & Young Faculty Connection titled “How Come Those Numbers Don’t Match?,” Dan Givoly, Professor of Accounting at Penn State University, suggests that certain improvements do not force a trade-off between detail and clarity. One easily-implemented improvement involves making the numbers on today’s financial statements more traceable. A number that appears on one of the statements should be easily reconciled with numbers that appear in other statements.

Professor Givoly states, “The ability to trace numbers across financial statements is paramount for the transparency of the entity’s accounting system and the understandability of its financial transactions and reports.” He believes that there are too many cases in which financial statement users are unable to conduct a simple reconciliation of certain accounting numbers. For example, the changes in the balances of current operating assets and liabilities often do not match the changes as reported in the statement of cash flows. Referring to the financial statements of Green Mountain Coffee Roasters presented in Appendix A, the change in the balance of accounts receivable on the consolidated balance sheets does not match the associated change reported on the consolidated statements of cash flows. Numerous reasonable explanations exist for these differences, but the reasons are not apparent to financial statement users.

Requiring companies to provide reconciliations between certain line items on the financial statements would require little added cost. Professor Givoly believes that such reconciliations "would add considerably to the transparency of the financial statements and help users of the financial statements understand better the transactions the company is engaged in."

As mentioned in Chapter 1, the original proposal on financial statement presentation included a schedule showing how the accrual numbers on the statement of comprehensive income reconciled to the cash basis numbers on the statement of cash flows. The schedule went beyond the suggestion of Professor Givoly to just make sure that the numbers match. As a result, it was considered too costly and too complex. The new requirement will be an analysis of the changes in the balances of all significant asset and liability line items; in other words, it will be a roll-forward of significant account balances.

The added analysis of account balances and the consistent classification of items across the financial statements will increase traceability. Traceability enhances understandability, which increases transparency.

Face vs. Notes

Transparency can be affected by whether information is recognized on the face of the financial statements or disclosed in the notes. Barth and Schipper refer to this attribute of transparency as salience. They believe that “information that is more salient, in the sense of prominent, should be easier for users of financial reports to understand.” Transparent financial statements would give the most prominence to those items that best capture the underlying economics of the entity; these items would be recognized on the face of the financial statements (Barth).

The proposed presentation model will increase the amount of information presented on the face of the financial statements (see the examples of the proposed presentation format in Appendix B). A research effort by the Financial Accounting Standards Research Initiative (FASRI), led by its director Robert Bloomfield, tested the decision-usefulness of specific proposals contained in the October 2008 Discussion Paper. The experimental study came to some conclusions about the perceived transparency of information presented on the face of financial statements versus information presented in the notes. The details of the study and its conclusions are described below.

The FASRI study had sixty credit analysts evaluate sets of financial statements that varied in how items were classified and disaggregated. Items were either classified by activity on the face of the statements or in the notes, and expenses and related cash flows were either disaggregated by function and nature on the face of the statements or in the notes. The different combinations of these two variations resulted in four different versions of the financial statements.

The results of the study indicate that financial statements that are classified and disaggregated on their face appear to be the most beneficial to analysts. Analysts found these financial statements to be more transparent than the financial statements that they typically see.

The results also indicate that financial statements that provide classification and disaggregation information in the notes to the financial statements are also very beneficial; however, analysts found these financial statements to be less transparent than the financial statements that they typically see.

The researchers noted that the analyst participants were unfamiliar with the proposed financial statement presentation format. As analysts gain experience with the proposed format, results may vary.

It seems likely that the increase in the amount of information on the financial statements and the consistent classification of the information should enhance user understandability and make the financial statements more transparent.

Advantages and Disadvantages of Transparency

If the proposed presentation model does, indeed, increase the transparency of financial statements, firms may see some benefits. Barth and Schipper describe significant research that supports the idea that financial reporting transparency provides benefits to reporting entities. Researchers have shown that reducing information asymmetry among investors (by making information readily understandable) is associated with a lower cost of capital. Other research shows that the quality of investors' information directly affects the cost of equity (Barth).

The benefits of increased understandability and transparency may be minimal and will certainly take a long time to accrue if they are manifested at all. There is a chance that the traceability of financial information in the proposed model will be rendered ineffective because of the inconsistencies in the way management chooses to classify information from year to year. Furthermore, the specifics of the proposed analysis of changes in significant account balances are yet unknown. The analysis could prove to be hard to understand, or it could fail to provide users with new information. Finally, the increase of information on the face of the financial statements could make them even more complex rather than enhance their understandability and transparency.

Disaggregation

According to Barth and Schipper, disaggregation could be considered another attribute that increases financial statement transparency. It is such an important part of the proposal on financial statement presentation that it merits its own section.

The current presentation requirements provide little guidance as to the level of detail that should be presented in financial statements creating inconsistencies. Some companies choose to disaggregate information while others keep it highly aggregated. Also, a separate line item on one financial statement is often aggregated with other line items on another financial statement. For example, R&D expense on the income statement is often included in other operating cash outflows in the statement of cash flows. These inconsistencies hamper the usefulness and comparability of financial statements.

Furthermore, financial statements do not present separately an entity's financing and business activities, and they do not present separately components of income that are derived from different measurement bases. These activities and income components have different future cash flow implications.

The FASB and the IASB responded to complaints from users that dissimilar information is not disaggregated enough by proposing to require the disaggregation of assets and liabilities into business and financing sections and the disaggregation of revenue and expense items by function and nature. They also propose the disaggregation of line items according to their measurement bases.

The classification of line items into the business and financing categories and their respective subcategories will be left to the judgment of management based on the definitions of each category. The extent of the disaggregation of revenue and expense items will also be left to the discretion of management. It is difficult to assess the usefulness of the proposed disaggregation without the recreation of actual financial statements.

Preparer Field Test Results

As part of their project, the FASB and the IASB conducted a field test to determine whether the proposed presentation model improves the usefulness of the information in an entity's financial statements and to understand the costs of implementing the proposed presentation model. The test involved having companies recast two prior years' financial statements and respond to a survey. Quantitative information about the changes in line items was analyzed, and analysts responded to a separate survey. The test was conducted with 31 companies from a variety of industries and four different nations. Below are significant results from the preparer portion of the field test that relate to disaggregation and classification and the changes in the number of line items.

Close to 40 percent of preparers found it difficult to classify income, expenses, gains, losses, or cash flows into the defined sections and categories because the statement of financial position is not disaggregated to a level that supports alignment of items across the primary statements. This led the Boards to change the requirement for cohesion at the line item level. The level of disaggregation required for that kind of cohesion is not feasible.

It is interesting to note that 60 percent of the line items presented were classified in the operating category, and the operating category accounted for over 90 percent of the monetary amounts presented. The overwhelming classification of most line items in the operating category suggests that perhaps disaggregation into different categories is not as useful as originally thought.

A majority of preparers believed that the disaggregation guidance was inadequate with 43 percent of preparers indicating that disaggregating expense items by nature was particularly difficult. A majority of preparers (54 percent) also indicated that they thought the application of the disaggregation principle resulted in too much disaggregation. A majority believed that disaggregation either distracted from or did not affect the communication of company performance.

The recast financial statements saw an increase of 49 percent more line items than the original statements. The results showed that line items increased, on average, by 13 on the statement of financial position, five on the statement of cash flows, and 22 on the statement of comprehensive income. The increase in line items on the statement of comprehensive income was because of the inclusion of the other comprehensive income items and the application of disaggregation by function.

Most companies indicated that information disaggregated by function is commonly used by corporate management, but information disaggregated by nature is not used at the corporate level. One preparer with 250 business units estimated the additional 30-40 line items would be added to the statement of comprehensive income if it disaggregated information by nature. The Boards have since changed the original requirement for disaggregation by nature. Disaggregation by nature will either be presented in the segment notes or in a new, single note disclosure. Disaggregation by function will remain on the face of the statement of comprehensive income.

Preparers identified the management approach to classification as the most useful aspect of the proposed model, as it enhanced their ability to communicate the financial results of their companies. An overall summary of test results indicates that a majority of preparers believed the recast statements communicated their companies' financial results the same or worse than their original statements.

Analyst Field Test Results

The analyst part of the field test involved surveying 43 analysts about their review of an entity's original financial statements and those same statements recast according to the proposal in the discussion paper. The analysts surveyed serve different roles in the financial reporting community; they had varying levels of familiarity with the discussion paper. Below are significant results from the analyst portion of the field test that relate to disaggregation and classification.

The analysts indicated that increased disaggregation was the most useful aspect of the discussion paper (82 percent) and that the separation of business and financing activities was the second most useful. The management approach to classification was the least useful for analysts, as opposed to the preparers who indicated that the management approach to classification was the most useful aspect. Twenty-five percent of analysts indicated that the management approach will allow for too much judgment on the part of management, allowing them to present their businesses any way they want.

Eighty-four percent of respondents believed that the recast financial statements better presented the operating results of the companies than the original financial statements, though analysts did not agree on the classification of several items in the operating section. Almost all of the respondents indicated that they make a distinction between operating and financing activities when evaluating companies.

The analysts indicated that disaggregation by function and disaggregation by nature were more useful than disaggregation by measurement bases. Sixty-five percent of the analysts indicated that the recast financial statements had an appropriate amount of disaggregation; 10 percent said there was still too little disaggregation. Only 13 percent believed there was too much disaggregation, as opposed to the 54 percent of preparers who believed there was too much disaggregation.

Advantages and Disadvantages of Disaggregation

Clearly, the advantages of disaggregation will accrue mostly to users of the financial statements. They commonly make the distinction between business and financing activities when evaluating companies anyway. With the new proposal, management will be making this distinction for them. A disadvantage is the significant judgment that management will have in determining the classifications; if interpretations differ, comparability will be impaired. Another disadvantage is that the separation of items into the proposed sections and categories may make it difficult to calculate certain ratios commonly used by analysts.

Disaggregation of revenue and expense items on the statement of comprehensive income will provide users with predictive information and will enhance comparability if preparers disaggregate these items in a similar manner. Users do not seem to be too concerned with the increased complexity that could result from a significant increase in the number of line items on the financial statements.

Increased disaggregation will probably not help preparers better communicate company performance. They consider the disaggregation difficult, and most line items end up in the operating category, which is likely used as the default category. The significant increase in line items that will result from implementation of the proposed changes does not necessarily mean the information presented is more useful; quantity does not mean quality, especially with highly complex businesses. It seems the only advantage to preparers will be their ability to decide how they classify items, which is a disadvantage to users.

The results of the field tests compiled by the staff of the FASB and IASB are not considered representative of the entire population of preparers and analysts. Participants were self-selected, and only a small number participated because of the time involved with recasting and reviewing financial statements. The true benefits and costs of disaggregation remain to be seen.

Direct Method for Operating Cash Flows

Along with inconsistencies from different levels of disaggregation, inconsistencies from the allowance of different reporting alternatives are problems in current financial reporting that impair comparability. For example, an entity can use a direct or an indirect method for presenting cash flows and an entity can present other comprehensive income in a number of different ways.

The Boards have addressed this inconsistency with two specific requirements in their proposal: the use of the direct method for preparing operating cash flows and the presentation of single statement of comprehensive income. Since the presentation of a single statement of comprehensive income is being considered more fully in another joint project of the FASB and the IASB, only the use of the direct method for preparing operating cash flows is discussed in this section.

Many entities have expressed concern regarding the costs associated with modifying their accounting systems to collect the information needed to produce a direct method statement of cash flows. Achieving an appropriate level of cohesiveness will require much more detail than is currently provided in most reporting systems. In an article from *CFO Magazine* titled "How Extreme is the Makeover?," the controller of PepsiCo, Peter Bridgman, was quoted as saying, "If there were any value to using the direct method, we'd be using it already" (Leone). The article emphasized the significant cost of preparing direct method cash flow statements. The Boards believe, however, that the associated cost will be a one-time cost; they have been seeking input on how the costs might be reduced throughout the course of the project.

Current Usage

In analyzing the effectiveness of the direct method for preparing operating cash flows, it is important to understand the reasons behind current preferences. In 1987, the FASB issued SFAS No. 95, *Statement of Cash Flows*, and made the decision to encourage, but not require, the use of the direct method for reporting purposes. Following the issuance of the standard, many companies chose the indirect method.

An article by Tantatape Brahmasrene, C. David Strupeck, and Donna Whitten in the October 2004 edition of *The CPA Journal* titled "Examining Preferences in Cash Flow Statement Format" showed that 78.9 percent of users surveyed preferred the indirect to the direct method (82.0 percent of management and 70.3 percent of investors). Close to 86 percent of managers and 81 percent of investors agreed that the reason they prefer the indirect method is because of their familiarity with it. Another reason for the preference for the indirect method that was considered important was consistency for comparison with prior years. For those who did prefer the direct method, the reason considered most important was cash received from customers and paid to suppliers is known.

The survey results showed that a sufficient number of users prefer the direct method (over 20 percent overall and almost 30 percent of investors) to warrant changes to the operating cash flow statement, especially since the reasons for preferring the indirect method are mainly familiarity and consistency. Familiarity comes over time with usage, and consistency can be achieved by requiring the restatement of prior years' cash flows. The authors of the article also surmise that the argument that preparers do not collect information that allows them to apply the direct method is no longer legitimate. They believe that the integrated software in use by many companies allows data to be mined for many purposes, including the preparation of direct cash flows from operations.

A study conducted by Allen K. Hunt, Linda M. Lovata, and Michael L. Costigan from Southern Illinois University Edwardsville examined the characteristics of companies that voluntarily choose the direct method. The results of the study showed that organizational complexity affects cash flow presentation decisions; smaller companies with fewer geographic segments tend to use the direct method. The results also showed that companies may choose the direct method in order to highlight positive aspects of their financial statements; companies that choose the direct method tend to have more positive cash flows.

Field Test Results

The results of the field test conducted by the FASB and the IASB and described above show that the direct method statement of cash flows was ranked as the third most useful aspect of the proposed presentation model by analysts. Preparers ranked the direct method statement of cash flows as the least useful aspect.

Over 60 percent of the analysts found that the direct method statement of cash flows communicates the relationship between the entity's cash flows and its assets, liabilities, income, expense, gains, and losses for the period well or very well. Seventy percent of the analysts found the direct method statement of cash flows to be more decision useful than the original cash flow statements with several respondents commenting that the direct method presentation of cash flows is more intuitive.

Predictive Value of Direct Cash Flows

A study by Steven F. Orpurt and Yoonseok Zang from Singapore Management University, published in *The Accounting Review*, investigated whether direct method cash flow statements improve predictions of future operating cash flows and earnings over the widely-used indirect method cash flow statements. Improved predictions yield stock prices that better reflect a firm's future performance. Therefore, one of the primary objectives of financial reporting is to provide information that helps users assess the amount and timing of future cash flows. Up until this study, there was little empirical evidence that the direct method approach was better at providing this type of information.

The study notes that the CFA Institute lists direct method statements of cash flows as one of 12 significant reforms needed to improve financial reporting. The CFA Institute notes that most firms do not provide enough data for analysts to construct components of the direct method statement of cash flows; estimating these components greatly reduces the reliability of the forecasts and valuations that are subsequently generated.

While another study (Krishman and Largay (2000)) showed evidence of errors when estimating direct method line items using the balance sheet and income statement, the results of Orpurt's and Zang's study showed that direct method line items cannot be accurately estimated using income statements and indirect method cash flow statements. The study supports the CFA Institute's conclusion that "it is impossible to relate the adjustments in the indirect method cash flow statement to any single income statement line item" (Orpurt).

The study went on to explore whether direct method cash flow components are incrementally useful for forecasting. The results of the study showed that direct method cash flow disclosures are incrementally informative beyond indirect method cash flow disclosures when predicting future operating cash flows and earnings.

The study also explored whether cash flow statements prepared using the direct method allow current stock returns to better reflect a firm's future performance. The results showed that direct method cash flow statements do yield current returns that are more highly associated with realized future operating cash flows and earnings. This suggests that information provided by the direct method is useful to analysts in estimating firms' future performances.

Advantages and Disadvantages of the Direct Cash Flow Method

The greatest advantage of the direct method of preparing operating cash flows is that it is more useful for predicting future operating cash flows and earnings. Better predictions yield current stock returns that better reflect a firm's future performance. The direct method appears to be more useful for decision making and it seems to be more intuitive for financial statement users, though it is less familiar because of the current use of the indirect method by most companies.

Though the direct method is considered more intuitive, it is often harder to prepare than the indirect method. The presentation of the direct method will save time for financial statement users who do prefer to use direct method line items for decision making. It is difficult, if not impossible, for users to correctly estimate direct cash flow line items using the information that is currently presented.

The disadvantage of preparation using the direct method is the burden that will be placed on financial statement preparers to gather the appropriate information. Though financial statement preparers argue that the cost of gathering the information to construct cash flows using the direct method will greatly outweigh the benefits, it is unclear to some exactly why current accounting systems do not already collect the appropriate information. In any case, it is clear that the biggest disadvantage will be placed on complex, multinational organizations.

For those users who do prefer the indirect method (and research shows that there are many), the FASB and the IASB will require the presentation of the indirect reconciliation of net income to operating cash flows in the notes to the financial statements.

Chapter 3

Perspectives on Financial Statement Presentation

In a summary of comment letters, the FASB and the IASB indicated that the 227 letters received offered a variety of perspectives on the proposed presentation. Comment letters were received from preparers, auditors, users, regulators, and academics among others. The Boards indicated that more than half of the respondents supported the general principles and objectives proposed in the Discussion Paper.

In order to gain first-hand perspectives on the proposal and better understand the benefits and disadvantages, interviews were conducted with three different members of the business community: an analyst, an accounting professor, and a preparer. All had prior knowledge of the proposal.

The questions asked during the interviews were based on the research and analysis discussed in Chapter 2 and the information provided in the FASB/IASB comment letter summary. Questions varied slightly according to interviewee. The general questions asked are listed in Appendix C.

The interviews were conducted as informal conversations over the phone or in person. Often, the answers provided to one question led to conversation about an aspect of the proposal that had not been considered previously. The views of the interviewees were generally in line with the views provided in the comment letters. Summaries of the interviews are provided below.

Analyst Perspective

The first interview conducted was with Christopher Cornett, a CPA who is currently a research analyst at Credit Suisse, a leading financial services company that operates in three global divisions: private banking, investment banking, and asset management. Cornett has been at Credit Suisse since October 2007 conducting equity research in accounting and taxation.

Cornett started off by saying that the proposed presentation changes will only be worthwhile if they provide analysts with new information. If the proposed changes will result in information that has just been moved around on the financial statements, he is not convinced that the changes will be as useful. For now, he believes that the proposed model does have the potential to present analysts with new information. Otherwise, it probably would not have been considered one of the ten big changes to accounting and financial reporting outlined in the article “Changing the Game” that he wrote with fellow research analysts David Zion and Amit Varshney.

Cornett noted that many analysts have not yet heard much about the proposed changes; and if they have, it would only have been a few times via the snapshots of the changes presented in the media. He said that the changes certainly sound like a good idea to most analysts, but cautioned that attention must be paid to how the changes are implemented. Special attention must be paid to how the different sections are defined and whether or not they are defined consistently across companies.

Cornett considers the disaggregation of revenue and expense items by function and nature the most valuable part of the project. Usually, analysts are hunting for this type of information. Disaggregating expense items that are usually presented in one line will make it easier for analysts to construct forecast models. In the article mentioned above, Cornett, Zion, and Varshney note that disaggregation could also be useful to the companies preparing the financial statements; companies may have to give more attention to things that they had not measured previously.

Cornett had considered the original proposed reconciliation as valuable to analysts. He is unsure as to the value of the roll-forwards of significant account balances that have replaced the original reconciliation and will be included in separate footnotes instead of one.

With regard to the direct presentation of operating cash flows, Cornett believes that the cash flow statement, in general, is confusing to most people. He said that a lot of people do not even use it, and for those that do, the uses vary. For example, debt investors need to evaluate cash flows, but equity investors consider them to be volatile. In Cornett's personal opinion, the direct method is easier to understand. He thinks it will be interesting to compare the direct cash flows to the disaggregated line items on the statement of comprehensive income when the changes are implemented.

His reaction to the proposal to require a single statement of comprehensive income is that other comprehensive income items do not belong with net income measures. Analysts do not always use other comprehensive income items in their evaluation of firm performance.

As far as presenting more information on the face of the financial statements rather in the notes to the financial statements, Cornett believes that the project requiring companies to post their financial statements in eXtensible Business Reporting Language

(XBRL) on their web sites will not make this aspect of the proposed presentation much of an issue. With financial statements tagged in XBRL, it might not matter where financial information is reported, he said.

When asked about the costs analysts will incur when the proposed changes are implemented, Cornett replied that the biggest cost will be the additional time and resources needed to reformulate and adapt current forecasting models. He believes that this will be a one-time cost. He mentioned that a lot of time is wasted now just searching for information. He thinks that the reduction in the amount of time spent digging through financial reports may outweigh the increased time analysts will have to put in to reformulate their models.

Cornett mentioned that some analysts may be hurt by a “leveling of the playing field.” The proposed financial statement presentation may negate the work put in by some analysts to adapt the current information to fit their needs.

In Cornett’s opinion, there has not been overwhelming demand from the analyst community to change the current presentation format. He does believe, however, that current financial statement presentation does not meet the demands of an increasingly complex world. Financial analysts and other users of financial information are changing the numbers anyway. “Why shouldn’t the accounting framework provide information that is used?” Cornett asked.

Academic Perspective

An interview was conducted with Dr. J. Edward Ketz, Associate Professor of Accounting at Penn State University, in order to get an academic perspective on the proposed changes. Dr. Ketz's areas of expertise include financial accounting and reporting; and he has taught many financial accounting courses, including financial statement analysis.

His view on the separation of line items into the business and financing categories and their related subcategories is that it will be a difficult task for whoever is charged with it. Often, there is quite a bit of overlap, and the exercise could become arbitrary. If the separation and classification of line items is artificial and meaningless, the proposed model will be less useful.

Dr. Ketz opined that too much disaggregation will discourage people from reading financial statements and reports. They can already be long and complex. He believes that disaggregation by segment is the most useful application of disaggregation, but this is something that already occurs.

With regard to the use of the direct method for preparing the operating section of the cash flow statement, Dr. Ketz thinks that it is more important to get the operating cash flow numbers correct than to worry about which way the numbers are presented. If companies are required to use the direct method, though, Dr. Ketz finds it hard to believe that they will have trouble gathering the necessary information. Direct cash flow numbers can often be derived directly from the numbers on the other financial statements.

Dr. Ketz related the debate between the merits of net income versus comprehensive income to the past debate on operating income versus the all-inclusive income concept that resulted in the issuance of APB Opinion No. 9, *Reporting the Results of Operations*. APB Opinion No. 9 allowed companies to include non-operating items, such as extraordinary items, in their computation of net income.

A more in-depth look at the operating versus all-inclusive income debate was found in *Accounting Theory: Conceptual Issues in a Political and Economic Environment*, by Wolk, Dodd, and Rozycki. The authors propose that comprehensive income pushes the all-inclusive approach to its natural conclusion. They also note that comprehensive income is seen as being the appropriate measure to be used in predictive models and equity valuations.

Dr. Ketz does not foresee his research being affected at all by the proposed changes. When asked how the new presentation will affect the teaching of introductory accounting courses, which often make reference to the structure of financial statements to teach basic concepts, he admitted he had not thought much about it. He noted that he has to make elements of the current financial statement presentation more straightforward in his lectures to introductory students, often telling them to make certain simplifying assumptions. He concurred that the proposed presentation will make things even more complex for students.

Overall, Dr. Ketz seemed to think that the proposed changes are not really useful to either preparers or users.

Preparer Perspective

William Schaupp, Manager of Financial Reporting at PPG Industries, shared his perspective as a preparer of the financial statements of a multinational corporation with billions of dollars in sales. PPG is the world's leading coatings and specialty products and services company that serves customers in construction, consumer products, industrial, and transportation markets.

The level of transparency of financial statements depends on who you ask, said Schaupp. Preparers may have an idea of transparency, and users may have their own idea of transparency. Schaupp believes that when standard-setters add more and more rules, they just make the financial statements more complex and less transparent.

Rules make financial statements harder to put together and harder to follow, and this is especially true when trying to apply more rules to the financial statements of a billion-dollar company, noted Schaupp. Furthermore, Schaupp believes that rules take the information presented in the financial statements and move it further away from the needs of the real users. "Can someone who wants to invest $100 understand [the proposed financial statements]?" he asked.

Schaupp confirmed that preparing the operating section of the cash flow statement at the required level of disaggregation using the direct method will be a significant cost for PPG. He said the change will require additional resources and system upgrades. Furthermore, he believes that not everyone necessarily understands the direct method cash flows better, especially the average investor.

Schaupp is also concerned about the impaired comparability that could result from PPG classifying a line item one way and another company classifying it a different way. The proposed classification is not going to be useful if companies classify things differently, commented Schaupp.

On the subject of comprehensive income, Schaupp believes that there is not a more confusing concept to investors. He believes that one would be hard-pressed to find many people who look at other comprehensive income items; everyone looks at net income.

When asked if a change is needed, Schaupp replied that he does not believe the current financial statement presentation needs updated. He said that it is like the common saying goes: “If it is not broken, why fix it?” Again, he referenced that standard-setters cannot continue to force more information onto the financial statements by making more rules. Some benefit may accrue to financial statement users, but Schaupp believes that the short-term outcome will be an added layer of complexity to the financial statements.

As far as any unforeseen benefits, Schaupp does not believe there will be any. The requirement to classify and disaggregate information will not give companies like PPG any new insight. They already have the information; now, they would just be required to put it in the financial statements. It would just be more work.

That added work will result in added costs. Schaupp believes that the cost to PPG to implement the changes will be significant, somewhere in the millions of dollars. The presentation of more information will require more personnel and system upgrades, keeping in mind that PPG has operations in over 60 countries. Of course, there will be unforeseen “potholes” that will require more time and resources to fix.

Schaupp offered the perception that businesses do not make money complying with standards. They will do what they have to do to comply, but they are more focused on executing their business plans. Perhaps in five years companies will say that the changes have been beneficial, but for now, says Schaupp, the benefits are too far off in the future to matter.

PPG has a very strong corporate culture, and it was evident from Schaupp's tone that the company is committed to transparency in financial reporting. Schaupp said that PPG "takes great pride in its financial statements," and he believes that users can get everything they need from them. In fact, he believes that users can get all of the information they need from most financial statements. He cautioned that he may be biased; he does work with financial statements "five or six days a week, 360 days a year."

The interview with Schaupp led to a discussion about the impact of the changes on private companies, which will be required to adopt most of the changes. He said that most private companies are not going to have the breadth and depth of financial knowledge that multinational corporations do. As a result, the proposal will affect them even more negatively. For private companies, putting together financial statements is generally seen as a burden; they have their own statements that provide management with all of the information needed. He estimated that non-public companies will see "zero benefit" from the proposed changes.

Overall, Schaupp believes that a change is not needed. The cost to companies will certainly outweigh the benefits, at least in the short-term. He even thinks that the changes will not help users and questions whether most people really understand the definitions of operating, investing, and financing activities. Schaupp noted multiple times throughout the interview that the current financial statement format has been in use for over100 years. “Time could be better spent elsewhere,” he said.

Schaupp said that in the end, PPG will comply with any changes that are made. However, he believes it is important that the preparer community continues to comment, offering sound, rational arguments as to why this proposal, and others, may not make sense.

Chapter 4

Conclusion

Summary of Changes

The FASB and the IASB's proposed changes to financial statement presentation will result in a complete overhaul of the current financial statement format. The line items on the statement of financial position will be separated according to whether they relate to the business or financing activities of an entity. The business section will be broken down into operating, investing, and financing arising from operating activities categories. The financing section will show debt and equity. The remaining two sections of the statement of financial position will show discontinued operations and income taxes. Within the proposed sections, assets and liabilities will be further classified as either short-term or long-term.

The disaggregation and classification of line items on the statement of financial position will flow through to the statement of comprehensive income and the statement of cash flows. The reasoning behind the disaggregation and classification is that line items associated with the different activities of the firm have different implications for future cash flows. The consistent classification of line items across the statements is meant to make the financial statements more cohesive and traceable than they currently are.

The proposed changes will also result in the disaggregation of line items according to their measurement bases and the disaggregation of revenue and expense items by function on the face of the statement of comprehensive income and by nature in the notes to the financial statements. The increased disaggregation will result in the display of new information on the face of the financial statements. Disaggregation guidelines should make the financial statements of different companies more comparable.

Firms will no longer be given options for how they present other comprehensive income items. They will be required to present a single statement of comprehensive income with other comprehensive income items in their own section. Firms will no longer have different options to choose from to prepare the operating section of the cash flow statement. They will be required to use the direct method with an indirect reconciliation presented in the notes. The reasoning behind these changes includes enhanced understandability and usability and increased comparability.

Finally, firms will be required to provide an analysis of the changes of significant account balances in the notes to the financial statements. This, too, should enhance understandability and transparency.

Analysis of Research and Interview Results

Though the research in this thesis was limited to the information provided by the FASB supplemented by key research from outside sources and three personal interviews, conclusions can be drawn about the effectiveness of the proposed presentation.

In theory, the proposed changes to financial statement presentation should result in benefits to both the reporting entities and the users of their financial statements. The disaggregation and classification of information should make the information presented more relevant to users. It should especially enhance the predictive value of financial information. The use of the direct method for preparing operating cash flows alone should enhance the accuracy of forecast models. A better understanding of how financial information relates to each aspect of a firm's business on a highly disaggregated level should further ease the forecasting and evaluation process.

If forecasting is made easier for analysts and the accuracy of forecasts improves, better decisions should result. If better decisions are made by financial statement users, companies should see benefits in the form of a decreased cost of capital and stock prices that are more reflective of performance. The benefits to reporting entities may not appear for some time.

Company management will have the benefit of deciding exactly how they want to classify and disaggregate information. It seems that the proposed presentation will allow for enough judgment on the part of management to present the unique aspects of their business in the best way possible. This, too, could make the financial statements more useful to external users and result in better decisions.

While the FASB/IASB proposed presentation sounds good in theory, discussions with those who will be affected by the changes and personal experience lead to the conclusion that in reality, the benefits of the proposed presentation will not outweigh the costs. Furthermore, the theoretical benefits depend solely on how the proposed changes are implemented.

First of all, if the changes do not result in the presentation of new information and information is just moved around, the new financial statements will not be more useful to users. Right now, it looks like new information will be presented; but as mentioned above, the FASB and the IASB have chosen to allow management to decide how line items will be disaggregated and classified. This could result in decreased consistency and decreased comparability, which will negate the usefulness of the new information. A concern for decreased comparability as a result of how the classification is applied was expressed by all three interviewees.

Though cost was not a concern to the analyst who was interviewed, cost was a big concern to the preparer of the financial statements of a large, multinational corporation. The biggest costs will arise because of the need for additional resources and system upgrades, especially in connection with preparing the direct method cash flows. Though there is some skepticism as to the need for extensive system upgrades, the preparer confirmed that preparing a direct method cash flow statement according to the required level of disaggregation will require costly system improvements. It will be interesting to see if the system upgrades are needed or if the appropriate direct cash flows can be derived from existing information once the FASB/IASB Exposure Drafts are released.

In any case, the additional costs required to prepare the direct method cash flow statement may not be worthwhile, because users might not even understand this method much better. The indirect method has been widely used for a long time and personal experience confirms that it is much easier to prepare. Furthermore, cash flow information is used differently by users, if it is even used at all. As the accounting professor indicated, it is better that cash flows are correct and verifiable than presented in a certain way.

From personal experience, it is very difficult to reconstruct a cash flow statement using the information currently presented in the financial statements, but it is unclear that the direct method will make things more traceable.

All three interviewees agreed that other comprehensive income items and total comprehensive income are confusing concepts and are probably not used in evaluating company performance. It most likely will not result in added costs if a single statement of comprehensive income is required, but it will also probably not make much of a difference in terms of increasing or decreasing usefulness. Net income will continue to be an important metric.

As far as disaggregation of revenue and expense items, the analyst believed that it was the most valuable aspect of the proposal. The accounting professor and the preparer believed that too much information will add another layer of complexity to the financial statements and discourage their use.

Personal experience confirms that financial statements are already very complex. In fact, the advanced accounting student is not even familiar with some of the items presented. It is even hard for those who use financial statements regularly to understand all of the nuances and complexities.

It seems that most of the affected business community is in agreement that such a drastic change is not needed. The analyst indicated that there was not overwhelming demand from the analyst community. As the financial statement preparer kept noting, the current format has been used for over 100 years. Certainly the proposed changes may make things easier for users, but the current format is familiar; and the current format provides all of the information needed for effective decision-making.

While financial transactions are becoming more complex, this complexity should be left off of the financial statements. Just because the current format has been unchanged for some time does not mean it is outdated. In fact, it indicates that it is useful to investors, creditors, and the average person who just wants a better understanding of a company's performance. The results of the research and the interviews do not indicate that significantly better, or even different, decisions will result from the proposed changes. The costs of the proposed financial statement presentation will most likely outweigh the potential benefits.

Additional Research Suggestions

Since the new FASB/IASB standards are expected to be issued in 2011, it would be interesting to research the best methods for educating the business community and the general public. How should these changes be communicated?

Once the changes are implemented, follow-up interviews could be conducted with the analyst, the professor, and the preparer to see if their perspectives change. Did the implementation of the changes have the expected results?

Of course, it will be interesting to see if the new presentation format has any effect on the accuracy of forecast models, analyst recommendations, credit decisions, and other business decisions. Numerous research opportunities exist with respect to the expected outcomes of the changes.

It would be interesting to do a comparative analysis of the new financial statements of two similar companies to see if the proposed changes have an effect on their comparability.

Alternative presentation formats could be researched. For example, the direct method for preparing cash flows is already required in Australia; studies that have looked at Australian or other foreign financial reporting formats could be expanded upon. Also, some researchers have suggested the use of the indirect statement with direct method disclosures. Would this be more effective? Alternative reconciliation schedules could be tested, and alternative classification methods could be explored.

For those with a creative side, research on the best way to present information to a given audience could be applied to financial statement presentation.

In the end, one of the most valuable outcomes of researching a FASB standard or proposal is familiarity with the standard-setting process. It is something that all college students should be familiar with. It is also important for students to weigh in on the proposals, sending comment letters of their own using the knowledge they have gained to make rationale arguments for or against specific proposals.

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Appendix A

Financial Statements: Traditional Format

GREEN MOUNTAIN COFFEE ROASTERS, INC.

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 26, 2009	September 27, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 241,811	$ 804
Restricted cash and cash equivalents	280	161
Short-term investments	50,000	—
Receivables, less uncollectible accounts and return allowances of $4,792 and $3,002 at September 26, 2009 and September 27, 2008, respectively	91,559	54,782
Inventories	137,294	85,311
Other current assets	6,706	4,886
Deferred income taxes, net	10,151	6,146
Total current assets	537,801	152,090
Fixed assets, net	135,981	97,678
Intangibles, net	36,478	29,396
Goodwill	99,600	73,953
Other long-term assets	3,979	4,531
Total assets	$ 813,839	$ 357,648
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 5,030	$ 33
Accounts payable	76,961	43,821

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

Accrued compensation costs	17,264	11,669
Accrued expenses	18,570	14,645
Income tax payable	2,971	2,079
Other short-term liabilities	3,257	673
Total current liabilities	124,053	72,920
Long-term debt	73,013	123,517
Deferred income taxes, net	26,599	21,691
Commitments and contingencies (See Notes 5 and 22)		
Stockholders' equity:		
Preferred stock, $0.10 par value: Authorized—1,000,000 shares; No shares issued or outstanding	—	—
Common stock, $0.10 par value: Authorized—60,000,000 shares; Issued—43,603,684 and 41,690,466 shares at September 26, 2009 and September 27, 2008, respectively	4,360	4,169
Additional paid-in capital	450,596	61,987
Retained earnings	137,162	81,280
Accumulated other comprehensive loss	(1,870)	(419)
ESOP unallocated shares, at cost—12,687 and 27,194 shares at September 26, 2009 and September 27, 2008, respectively	(74)	(161)
Treasury shares, at cost—0 and 5,208,993 shares at September 26, 2009 and September 27, 2008, respectively	—	(7,336)
Total stockholders' equity	590,174	139,520
Total liabilities and stockholders' equity	$ 813,839	$ 357,648

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

GREEN MOUNTAIN COFFEE ROASTERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Dollars in thousands except per share data)

	Fifty-two weeks ended September 26, 2009	Fifty-two weeks ended September 27, 2008	Fifty-two weeks ended September 29, 2007
Net sales	$ 803,045	$ 500,277	$ 341,651
Cost of sales	553,281	323,372	210,530
Gross profit	249,764	176,905	131,121
Selling and operating expenses	123,948	92,182	72,641
General and administrative expenses	47,103	39,032	30,293
Patent litigation (settlement) expense	(17,000)	3,279	488
Operating income	95,713	42,412	27,699
Other income (expense)	(662)	(235)	54
Interest expense	(4,693)	(5,705)	(6,176)
Income before income taxes	90,358	36,472	21,577
Income tax expense	(34,476)	(14,173)	(8,734)
Net income	$ 55,882	$ 22,299	$ 12,843
Basic income per share:			
Weighted average shares outstanding	37,993,196	35,924,697	34,875,647
Net income	$ 1.47	$ 0.62	$ 0.37
Diluted income per share:			
Weighted average shares outstanding	40,123,553	38,347,170	37,160,060
Net income	$ 1.39	$ 0.58	$ 0.35

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

GREEN MOUNTAIN COFFEE ROASTERS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED SEPTEMBER 26, 2009, (Dollars in thousands)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other compre-hensive (loss)	ESOP unallocated shares		Treasury stock		Stockholders' Equity
	Shares	Amount				Shares	Amount	Shares	Amount	
Balance at October 1, 2006	39,539,273	$ 3,953	$ 32,996	$ 46,138	$ (548)	(43,965)	$ (263)	(5,208,993)	$ (7,336)	$ 74,940
Options exercised	851,259	85	1,912							1,997
Issuance of common stock under employee stock purchase plan	127,642	13	1,113							1,126
Allocation of ESOP shares			145			9,039	55			200
Tax expense from allocation of ESOP shares			(59)							(59)
Stock compensation expense			4,552							4,552
Tax benefit from exercise of options			3,412							3,412
Deferred compensation expense			51							51
Other comprehensive income, net of tax					36					36
Net income	—	—	—	12,843	—	—	—	—	—	12,843
Balance at September 29, 2007	40,518,174	$ 4,051	$ 44,122	$ 58,981	$ (512)	(34,926)	$ (208)	(5,208,993)	$ (7,336)	$ 99,098
Options exercised	1,058,319	106	3,522							3,628
Issuance of common stock under employee stock purchase plan	113,973	12	2,014							2,026
Allocation of ESOP shares			153			7,732	47			200
Tax expense from allocation of ESOP shares			(61)							(61)
Stock compensation expense			6,348							6,348
Tax benefit from exercise of options			5,782							5,782
Deferred compensation expense			107							107
Other comprehensive income, net of tax					93					93
Net income	—	—	—	22,299	—	—	—	—	—	22,299
Balance at September 27, 2008	41,690,466	4,169	61,987	81,280	(419)	(27,194)	(161)	(5,208,993)	(7,336)	139,520
Options exercised	1,267,456	127	5,645							5,772
Issuance of common stock under employee stock purchase plan	104,755	10	2,468							2,478
Allocation of ESOP shares			912			14,507	87			999
Issuance of common stock for public equity offering	541,007	54	34,739							34,793
Issuance of common stock from treasury for public equity offering			327,664					5,208,993	7,336	335,000
Stock compensation expense			6,697							6,697
Tax benefit from exercise of options			10,362							10,362
Deferred compensation expense			122							122
Other comprehensive income, net of tax					(1,451)					(1,451)
Net income	—	—	—	55,882	—	—	—	—	—	55,882
Balance at September 26, 2009	43,603,684	$ 4,360	$ 450,596	$137,162	$ (1,870)	(12,687)	$ (74)	—	$ —	$ 590,174

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

REEN MOUNTAIN COFFEE ROASTERS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Fifty-two weeks ended September 26, 2009	Fifty-two weeks ended September 27, 2008	Fifty-two weeks ended September 29, 2007
Net income	$ 55,882	$ 22,299	$ 12,843
Other comprehensive income, net of tax:			
Deferred (loss) gain on derivatives designated as cash flow hedges	(1,715)	87	10
Loss on derivatives designated as cash flow hedges reclassified to net income	264	6	26
Other comprehensive (loss) gain	(1,451)	93	36
Comprehensive income	$ 54,431	$ 22,392	$ 12,879

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

GREEN MOUNTAIN COFFEE ROASTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Fifty-two weeks ended September 26, 2009	Fifty-two weeks ended September 27, 2008	Fifty-two weeks ended September 29, 2007
Cash flows from operating activities:			
Net income	$ 55,882	$ 22,299	$ 12,843
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	17,987	13,500	10,328
Amortization of intangibles	5,318	4,812	4,811
Loss on disposal of fixed assets	679	201	133
Provision for doubtful accounts	243	1,159	620
Loss on futures derivatives	264	6	26
Tax expense from exercise of non-qualified options and disqualified dispositions of incentive stock options	(399)	(386)	105
Excess tax benefits from equity-based compensation plans	(10,761)	(6,168)	(3,307)
Tax expense from allocation of ESOP shares	(3)	(61)	(59)
Deferred income taxes	1,683	549	145
Deferred compensation and stock compensation	6,819	6,455	4,603
Contributions to the ESOP	1,000	200	200
Changes in assets and liabilities, net of effects of acquisition:			
Receivables	(37,020)	(16,568)	(9,922)
Inventories	(49,792)	(46,402)	(6,983)
Income tax payable	11,653	6,804	5,368
Other current assets	(1,850)	(1,882)	(141)
Other long-term assets, net	1,769	(660)	(52)
Accounts payable	25,834	8,667	8,969
Accrued compensation costs	5,595	4,642	291
Accrued expenses	3,597	4,779	1,856
Net cash provided by operating activities	38,498	1,946	29,834
Cash flows from investing activities:			
Acquisition of certain assets of Tully's Coffee Corporation	(41,361)	—	—
Purchases of short-term investments	(50,000)	—	—
Capital expenditures for fixed assets	(48,298)	(48,718)	(21,844)
Proceeds from disposal of fixed assets	162	407	187
Net cash used for investing activities	(139,497)	(48,311)	(21,657)
Cash flows from financing activities:			
Net change in revolving line of credit	(95,500)	33,500	(12,800)
Proceeds from issuance of common stock under compensation plans	8,253	5,653	3,123
Proceeds from issuance of common stock for public equity offering	386,688	—	—

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

Financing costs in connection with public equity offering	(16,895)	—	—
Excess tax benefits from equity-based compensation plans	10,761	6,168	3,307
Proceeds from borrowings of long-term debt	50,000	—	45
Deferred financing fees	(1,084)	(907)	—
Repayment of long-term debt	(217)	(63)	(100)
Net cash provided by (used for) financing activities	342,006	44,351	(6,425)
Net increase (decrease) in cash and cash equivalents	241,007	(2,014)	1,752
Cash and cash equivalents at beginning of period	804	2,818	1,066
Cash and cash equivalents at end of period	$ 241,811	$ 804	$ 2,818
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 5,118	$ 6,087	$ 6,654
Cash paid for income taxes	$ 20,368	$ 6,701	$ 3,184
Fixed asset purchases included in accounts payable and not disbursed at the end of each year	$ 12,509	$ 5,203	$ 7,827
Noncash financing activity:			
Debt assumed in conjunction with acquisition of certain assets of Tully's Coffee Corporation	$ 210	$ —	$ —

Source: Green Mountain Coffee Roasters Form 10-K, SEC EDGAR Database

Appendix B

Financial Statements: Proposed Format

The following fictitious financial statements are the ones used by the FASB and the IASB to illustrate the proposed presentation model. Please note that changes have been made since the development of these illustrative financial statements. For example, equity will no longer be displayed in its own section; it will be included as part of a firm's financing activities.

The illustrative financial statements include the type of information typical to a manufacturing company. The financial statements of a financial institution presented in the proposed format will look different.

STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2010	**2009**
BUSINESS		
Operating		
Accounts receivable, trade	945,678	541,375
Less allowance for doubtful accounts	(23,642)	(13,534)
Accounts receivable, net	922,036	527,841
Inventory	679,474	767,102
Prepaid advertising	80,000	75,000
Foreign exchange contracts—cash flow hedge	6,552	3,150
Total short-term assets	*1,688,062*	*1,373,092*
Property, plant and equipment	5,112,700	5,088,500
Less accumulated depreciation	(2,267,620)	(2,023,500)
Property, plant and equipment, net	2,845,080	3,065,000
Investment in associate A	261,600	240,000
Goodwill	154,967	154,967
Other intangible assets	35,000	35,000
Total long-term assets	*3,296,647*	*3,494,967*
Accounts payable, trade	(612,556)	(505,000)
Advances from customers	(182,000)	(425,000)
Wages payable	(173,000)	(200,000)
Share-based remuneration liability	(39,586)	(21,165)
Current portion of lease liability	(35,175)	(33,500)
Interest payable on lease liability	(14,825)	(16,500)
Total short-term liabilities	*(1,057,142)*	*(1,201,165)*
Accrued pension liability	(293,250)	(529,500)
Lease liability (excluding current portion)	(261,325)	(296,500)
Other long-term liabilities	(33,488)	(16,100)
Total long-term liabilities	*(588,063)*	*(842,100)*
Net operating assets	**3,339,504**	**2,824,795**
Investing		
Available-for-sale financial assets (short-term)	473,600	485,000
Investment in associate B (long-term)	46,750	39,250
Total investing assets	**520,350**	**524,250**
NET BUSINESS ASSETS	**3,859,854**	**3,349,045**
FINANCING		
Financing assets		
Cash	1,174,102	861,941
Total financing assets	**1,174,102**	**861,941**
Financing liabilities		
Short-term borrowings	(562,000)	(400,000)
Interest payable	(140,401)	(112,563)
Dividends payable	(20,000)	(20,000)
Total short-term financing liabilities	*(722,401)*	*(532,563)*
Long-term borrowings	(2,050,000)	(2,050,000)
Total financing liabilities	**(2,772,401)**	**(2,582,563)**
NET FINANCING LIABILITIES	**(1,598,299)**	**(1,720,621)**
DISCONTINUED OPERATIONS		
Assets held for sale	856,832	876,650
Liabilities related to assets held for sale	(400,000)	(400,000)
NET ASSETS HELD FOR SALE	**456,832**	**476,650**
INCOME TAXES		
Short-term		
Deferred tax asset	4,426	8,907
Income taxes payable	(72,514)	(63,679)
Long-term		
Deferred tax asset	39,833	80,160
NET INCOME TAX ASSET (LIABILITY)	**(28,255)**	**25,388**
NET ASSETS	*2,690,132*	*2,130,462*
EQUITY		
Share capital	(1,427,240)	(1,343,000)
Retained earnings	(1,100,358)	(648,289)
Accumulated other comprehensive income, net	(162,534)	(139,173)
TOTAL EQUITY	**(2,690,132)**	**(2,130,462)**

Total short-term assets	**4,197,021**	**3,605,591**
Total long-term assets	**3,383,231**	**3,614,377**
Total assets	**7,580,252**	**7,219,968**
Total short-term liabilities	**(2,252,057)**	**(2,197,406)**
Total long-term liabilities	**(2,638,063)**	**(2,892,100)**
Total liabilities	**(4,890,120)**	**(5,089,506)**

Source: FASB, *Preliminary Views on Financial Statement Presentation*

STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December	
	2010	**2009**
BUSINESS		
Operating		
Sales—wholesale	2,790,080	2,591,400
Sales—retail	697,520	647,850
Total revenue	*3,487,600*	*3,239,250*
Cost of goods sold		
Materials	(1,043,100)	(925,000)
Labour	(405,000)	(450,000)
Overhead—depreciation	(219,300)	(215,000)
Overhead—transport	(128,640)	(108,000)
Overhead—other	(32,160)	(27,000)
Change in inventory	(60,250)	(46,853)
Pension	(51,975)	(47,250)
Loss on obsolete and damaged inventory	(29,000)	(9,500)
Total cost of goods sold	*(1,969,425)*	*(1,828,603)*
Gross profit	*1,518,175*	*1,410,647*
Selling expenses		
Advertising	(60,000)	(50,000)
Wages, salaries and benefits	(56,700)	(52,500)
Bad debt	(23,068)	(15,034)
Other	(13,500)	(12,500)
Total selling expenses	*(153,268)*	*(130,034)*
General and administrative expenses		
Wages, salaries and benefits	(321,300)	(297,500)
Depreciation	(59,820)	(58,500)
Pension	(51,975)	(47,250)
Share-based remuneration	(22,023)	(17,000)
Interest on lease liability	(14,825)	(16,500)
Research and development	(8,478)	(7,850)
Other	(15,768)	(14,600)
Total general and administrative expenses	*(494,189)*	*(459,200)*
Income before other operating items	*870,718*	*821,413*
Other operating income (expense)		
Share of profit of associate A	23,760	22,000
Gain on disposal of property, plant and equipment	22,650	-
Realized gain on cash flow hedge	3,996	3,700
Loss on sale of receivables	(4,987)	(2,025)
Impairment loss on goodwill	-	(35,033)
Total other operating income (expense)	*45,419*	*(11,358)*
Total operating income	**916,137**	**810,055**
Investing		
Dividend income	54,000	50,000
Realized gain on available-for-sale securities	18,250	7,500
Share of profit of associate B	7,500	3,250
Total investing income	**79,750**	**60,750**
TOTAL BUSINESS INCOME	**995,887**	**870,805**
FINANCING		
Interest income on cash	8,619	5,500
Total financing asset income	**8,619**	**5,500**
Interest expense	(111,352)	(110,250)
Total financing liability expense	**(111,352)**	**(110,250)**
TOTAL NET FINANCING EXPENSE	**(102,733)**	**(104,750)**
Profit from continuing operations before taxes and other comprehensive income	*893,154*	*766,055*
INCOME TAXES		
Income tax expense	(333,625)	(295,266)
Net profit from continuing operations	*559,529*	*470,789*
DISCONTINUED OPERATIONS		
Loss on discontinued operations	(32,400)	(35,000)
Tax benefit	11,340	12,250
NET LOSS FROM DISCONTINUED OPERATIONS	**(21,060)**	**(22,750)**
NET PROFIT	**538,469**	**448,039**
OTHER COMPREHENSIVE INCOME (after tax)		
Unrealized gain on available-for-sale securities (investing)	17,193	15,275
Revaluation surplus (operating)	3,653	-
Foreign currency translation adjust—consolidated subsidiary	2,094	(1,492)
Unrealized gain on cash flow hedge (operating)	1,825	1,690
Foreign currency translation adjust—associate A (operating)	(1,404)	(1,300)
TOTAL OTHER COMPREHENSIVE INCOME	**23,361**	**14,173**
TOTAL COMPREHENSIVE INCOME	**561,830**	**462,212**
Basic earnings per share	7.07	6.14
Diluted earnings per share	6.85	5.96

Source: FASB, *Preliminary Views on Financial Statement Presentation*

STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2010	2009
BUSINESS		
Operating		
Cash received from wholesale customers	2,108,754	1,928,798
Cash received from retail customers	703,988	643,275
Total cash collected from customers	*2,812,742*	*2,572,073*
Cash paid for goods		
Materials purchases	(935,544)	(785,000)
Labour	(418,966)	(475,313)
Overhead—transport	(128,640)	(108,000)
Pension	(170,100)	(157,500)
Overhead—other	(32,160)	(27,000)
Total cash paid for goods	*(1,685,409)*	*(1,552,813)*
Cash paid for selling activities		
Advertising	(65,000)	(75,000)
Wages, salaries and benefits	(58,655)	(55,453)
Other	(13,500)	(12,500)
Total cash paid for selling activities	*(137,155)*	*(142,953)*
Cash paid for general and administrative activities		
Wages, salaries and benefits	(332,379)	(314,234)
Contributions to pension plan	(170,100)	(157,500)
Capital expenditures	(54,000)	(50,000)
Lease payments	(50,000)	-
Research and development	(8,478)	(7,850)
Settlement of share-based remuneration	(3,602)	(3,335)
Other	(12,960)	(12,000)
Total cash paid for general and administrative activities	*(631,519)*	*(544,919)*
Cash flow before other operating activities	*358,657*	*331,388*
Cash from other operating activities		
Disposal of property, plant and equipment	37,650	-
Investment in associate A	-	(120,000)
Sale of receivable	8,000	10,000
Settlement of cash flow hedge	3,402	3,150
Total cash received (paid) for other operating activities	*49,052*	*(106,850)*
Net cash from operating activities	**407,709**	**224,538**
Investing		
Purchase of available-for-sale financial assets	-	(130,000)
Sale of available-for-sale financial assets	56,100	51,000
Dividends received	54,000	50,000
Net cash from investing activities	**110,100**	**(29,000)**
NET CASH FROM BUSINESS ACTIVITIES	**517,809**	**195,538**
FINANCING		
Interest received on cash	8,619	5,500
Total cash from financing assets	**8,619**	**5,500**
Proceeds from issue of short-term debt	162,000	150,000
Proceeds from issue of long-term debt	-	250,000
Interest paid	(83,514)	(82,688)
Dividends paid	(86,400)	(80,000)
Total cash from financing liabilities	**(7,914)**	**237,312**
NET CASH FROM FINANCING ACTIVITIES	**705**	**242,812**
Change in cash from continuing operations before taxes and equity	*518,514*	*438,350*
INCOME TAXES		
Cash taxes paid	(281,221)	(193,786)
Change in cash before discontinued operations and equity	*237,293*	*244,564*
DISCONTINUED OPERATIONS		
Cash paid from discontinued operations	(12,582)	(11,650)
NET CASH FROM DISCONTINUED OPERATIONS	**(12,582)**	**(11,650)**
Change in cash before equity	*224,711*	*232,914*
EQUITY		
Proceeds from reissue of treasury stock	84,240	78,000
NET CASH FROM EQUITY	**84,240**	**78,000**
Effect of foreign exchange rates on cash	3,209	1,027
CHANGE IN CASH	**312,161**	**311,941**
Beginning cash	**861,941**	**550,000**
Ending cash	**1,174,102**	**861,941**

Source: FASB, *Preliminary Views on Financial Statement Presentation*

Appendix C

General Interview Questions

1. What are your thoughts with respect to three specific aspects of the proposal: transparency, disaggregation, and the use of the direct method for preparing cash flows from operating activities?
2. How will the classification of items into the business and financing categories affect preparers and users?
3. What do you think of the proposal to require one statement of comprehensive income that lists both net income and other comprehensive income items? Do you think other comprehensive income items are important in evaluating firm performance?
4. Is a change in financial statement presentation needed?
5. What are possible unforeseen benefits of changing financial statement presentation? What are possible unforeseen problems and costs?
6. What will be the specific costs of the implementation of the changes in terms of both time and money?
7. Do you have any other thoughts regarding the proposal to change financial statement presentation?

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Bachelor of Science in Accounting, May 2010
Minor in The Legal Environment of Business

RESEARCH:

Honors Thesis: Financial Statement Overhaul: An Analysis of the Implementation of the Joint FASB/IASB Proposal on Financial Statement Presentation
Thesis Supervisor: Dan Givoly
Honors Adviser: Orie Barron

WORK EXPERIENCE:

Deloitte LLP: Audit Intern, Summer 2009

- Worked as a staff auditor on three different client engagements in three different industries.
- Gained experience completing both year-end and interim testing procedures.
- Gave a presentation to audit partners of SFAS 157, *Fair Value Measurements,* and SFAS 159, *Fair Value Option*
- Accepted full-time offer, commencing Fall 2010

The Pennsylvania State University: Supplemental Instruction Leader for ACCTG 211, Fall 2009-Spring 2010

- Prepared and facilitated interactive review sessions for introductory accounting students
- Served as a mentor to prospective accounting majors

HONORS:

Smeal College of Business College Student Marshall, Commencement, May 2010
Evan Pugh Scholar Award for Seniors, 2010
Evan Pugh Scholar Award for Juniors, 2009
Penn State President Sparks Award, 2008
Penn State President's Freshman Award, 2007
PICPA Outstanding Senior, 2010
Recipient of the Robert W. Koehler Academic Excellence in Accounting Scholarship
2008-2009 and 2009-2010
Beta Alpha Psi Distinguished Member, 2008, 2009, and 2010
Josephine Rhea Award for Excellence in Italian Studies, 2008-2009
Dean's List, all semesters

ACTIVITES/LEADERSHIP:

Beta Alpha Psi, Beta Theta Chapter, Fall 2007-Spring 2010

- Corresponding Secretary, 2008-2009, 2009-2010
- Treasurer, 2010
- National Conventions in Anaheim, CA, and Brooklyn, NY
- Community Service Projects

Penn State Tapestry Dance Company, Spring 2007-Spring 2010

- Treasurer, 2008-2009, 2009-2010
- Performances and Community Events

Penn State THON Finance Committee, 2008, 2009, and 2010
Penn State Accounting Society, Fall 2007-Spring 2010
Schreyer Honors College Student Orientation Mentor, 2007 and 2008
Women In Business, Fall 2006-Spring 2008