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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

A Financial Accounting and Reporting Practice Aid

Edited By
Robert Durak, CPA
Technical Manager, Accounting and Auditing Publications
January 2001 Edition

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Checklists and Illustrative Financial Statements for Corporations has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.
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Comment Card
FSP Section 6000

Checklists and Illustrative Financial Statements for Corporations

Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of financial statements and by practitioners who audit, review or compile them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited financial statements.
- **Accountants' Compilation and Review Report Checklist**—For use by accountants in reporting on compiled or reviewed financial statements of nonpublic business enterprises.
- **Basic Financial Statement Formats**—Illustrating formats commonly used to present financial statements.
- **Illustrative Financial Statements**—Illustrating a full set of financial statements.

.02 These checklists and illustrative materials have been developed by the AICPA Accounting and Auditing Publications Staff to serve as nonauthoritative practice aids for use by preparers and auditors of financial statements. The auditor's report checklist addresses those requirements most likely to be encountered when reporting on financial statements of a commercial enterprise prepared in conformity with generally accepted accounting principles (GAAP). It does not include reporting requirements relating to other matters such as internal control, agreed-upon procedures, etc. The financial statement and notes checklist includes disclosures that should be considered by commercial corporations in preparing financial statements in conformity with generally accepted accounting principles. The checklist does not include disclosures that are applicable only to entities in specific industries (such as insurance enterprises, not-for-profit organizations, etc.); nor does it include disclosures prescribed by pronouncements whose applicability to commercial corporations is considered to be remote.

.03 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with GAAP are not included in the checklist.

.04 The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through October 31, 2000. Those pronouncements include:

- FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*
- FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation—an Interpretation of APB Opinion No. 25*
• EITF Consensuses adopted through the September 2000 Emerging Issues Task Force (EITF) meeting
• AcSEC Practice Bulletin No. 15, Accounting by the Issuer of Surplus Notes
• AICPA Statement of Position (SOP) 00-2, Accounting by Producers or Distributors of Films

.05 The auditor's and accountant's reporting checklists have been updated to include reporting requirements in pronouncements issued through October 31, 2000. Those pronouncements include:

• AICPA Statement on Auditing Standards (SAS) No. 93, Omnibus Statement on Auditing Standards—2000
• AICPA Statement on Standards for Accounting and Review Services No. 8, Amendment to Statement on Standards for Accounting and Review Services 1, Compilation and Review of Financial Statements Omnibus Statement on Standards for Accounting and Review Services—1992

.06 These checklists contain numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AC = Reference to section number in FASB Accounting Standards—Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1)
SFAS = FASB Statement of Financial Accounting Standards
FASBI = FASB Interpretation
APB = Accounting Principles Board Opinion
ARB = Accounting Research Bulletin
TB = Technical Bulletin issued by the staff of the FASB
SOP = AICPA Statement of Position
EITF = FASB Emerging Issues Task Force Consensus
PB = AICPA Practice Bulletin
AIN = AICPA Accounting Interpretation
FASCON = FASB Statement of Financial Accounting Concepts
SAS = AICPA Statement on Auditing Standards
SSARS = AICPA Statement on Standards for Accounting and Review Services

Instructions

.07 These checklists consist of a number of questions or statements that are accompanied by references to applicable authoritative pronouncements. The checklists provide spaces for checking off or initialing each question or point to indicate that it has been considered. Users should check or initial—

• Yes—if the disclosure is required and has been made appropriately.
• No—if the disclosure is required but is not made.
• N/A (Not Applicable)—If the disclosure is not required to be made.

Users may find it helpful to include references to the place where each disclosure for which a "Yes" is indicated can be found in the financial statements. It may also be helpful to include either on the checklist or elsewhere the reasons that items marked "N/A" do not apply in the circumstances of the particular report.
.08 It is important that the effect of any "No" response be considered on the auditor's report. A "No" response that is material to the financial statements may warrant the issuance of a qualified or adverse report on the financial statements. (See paragraphs 35–60 of SAS No. 58, Reports on Audited Financial Statements, as amended [AICPA, Professional Standards, vol. 1, AU sec. 508.35–60]. If a "No" response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements) or to indicate the effect that the response will have on the auditor's report.

.09 The financial statements and notes checklist is organized into six discrete sections. Disclosures listed in the General, Balance Sheet, Income Statement, Statement of Cash Flows, and Summary of Significant Accounting Policies sections are common to most commercial corporations. Those listed in the Other Financial Statement Disclosures section are required only when circumstances dictate. Carefully review the topics listed and consider whether they represent potential disclosure items for the reporting entity for which you are preparing or auditing financial statements. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the reporting entity changed an accounting principle during the year, place a check mark by Other Financial Statement Disclosures, section C, "Changes in Accounting" and complete that section of the checklist. On the other hand, if the reporting entity did not enter into any business combinations accounted for by the pooling of interests method during the year, do not place a check mark by Other Financial Statement Disclosures, section A, "Business Combinations—Pooling of Interests Method" and skip that section when completing the checklist.

.10 The use of these or any other checklists requires the exercise of individual professional judgment. These checklists are not substitutes for original authoritative pronouncements. Users of these checklists and illustrative materials are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative materials may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Users of the checklists and illustrative materials are encouraged to tailor them as required to meet specific circumstances of each particular engagement.

.11 These checklists and illustrative materials have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

Note: This publication was extracted from sections 6000 through 6500 of the AICPA Financial Statement Preparation Manual (FSP).
# FSP Section 6100

## Financial Statements and Notes Checklist

### General
- **A.** Titles and References
- **B.** Comparative Financial Statements
- **C.** Consolidated Financial Statements
- **D.** Nature of Operations

### Balance Sheet
- **A.** General
- **B.** Cash
- **C.** Certain Investments in Debt and Equity Securities
- **D.** Receivables
- **E.** Inventories
- **F.** Investments Accounted for by the Equity Method
- **G.** Property and Equipment
- **H.** Deferred Income Tax Assets and Liabilities
- **I.** Other Assets and Deferred Charges
- **J.** Current Liabilities
- **K.** Notes Payable and Other Debt
- **L.** Shareholders’ Equity
- **M.** Changes in Shareholders’ Equity

### Income Statement
- **A.** Revenue and Expenses
- **B.** Income Taxes
- **C.** Discontinued Operations
- **D.** Extraordinary Items
- **E.** Earnings Per Share
- **F.** Comprehensive Income

### Statement of Cash Flows

### Summary of Significant Accounting Policies
- **A.** Accounting Policies
- **B.** Certain Significant Estimates

### Other Financial Statement Disclosures
- **A.** Business Combinations—Pooling of Interests Method
- **B.** Business Combinations—Purchase Method
- **C.** Changes in Accounting
- **D.** Commitments and Contingencies
- **E.** Current Vulnerability Due to Certain Concentrations
- **F.** Employee Stock Ownership Plans
- **G.** Employers' Disclosures About Pensions and Other Postretirement Benefits
- **H.** Environmental Remediation Liabilities
- **I.** Extinguishment of Debt
### J. Financial Instruments

K. Foreclosed Assets

L. Foreign Currency Translation

M. Futures Contracts [If SFAS 133 is not adopted]

N. Impaired Loans

O. Impairment of Long-Lived Assets

P. Leases—Lessors

Q. Leases—Lessees

R. Nonmonetary Transactions

S. Postemployment Benefits

T. Related-Party Transactions and Economic Dependency

U. Research and Development Arrangements

V. Restructuring Charges

W. Segment Information

X. Stock Compensation Plans

Y. Subsequent Events

Z. Transfers and Servicing of Financial Assets and Securitizations

AA. Troubled Debt Restructurings—Creditors

BB. Troubled Debt Restructurings—Debtors

### General

#### A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
   a. Balance sheet?
      [Yes] [No] [N/A]
   b. Statement of income (operations)?
      [Yes] [No] [N/A]
   c. Statement of retained earnings or changes in shareholders' equity?
      [Yes] [No] [N/A]
   d. Statement of cash flows?
      [Yes] [No] [N/A]
   e. Description of accounting policies?
      [Yes] [No] [N/A]
   f. Notes to the financial statements?
      [Yes] [No] [N/A]
      [Generally Accepted]

2. Is each financial statement suitably titled?
   [Generally Accepted]
   [Yes] [No] [N/A]

3. Does each statement include a reference to the notes, which are an integral part of the financial statements?
   [Generally Accepted]
   [Yes] [No] [N/A]

#### B. Comparative Financial Statements

1. If comparative statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance?
   [ARB 43, Ch. 2A, par. 2 (AC F43.102)]
   [Yes] [No] [N/A]

2. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed?
   [ARB 43, Ch. 2A, par. 3 (AC F43.103)]
   [Yes] [No] [N/A]
3. In connection with prospectively applying the consensuses in EITF Issue 00-14, Accounting for Certain Sales Incentives, if it is impracticable to reclassify prior-period financial statements to comply with the income statement display requirements under Issue 3 of EITF Issue 00-14, is disclosure made of the reasons why reclassification was not made and the effects of the reclassification on the current period? [EITF 00-14]

4. In connection with applying the consensuses in EITF Issue 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, if it is impracticable to reclassify prior-period financial statements, is disclosure made of both the reasons why reclassification was not made and the effect of the reclassification on the current period? [EITF 99-19]

C. Consolidated Financial Statements

1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]

2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94, par. 13 (AC C51.103)]

3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51, par. 4 (AC C51.107)]

D. Nature of Operations

1. Is a description of the major products and services the reporting entity sells or provides and the principal markets, including the location of those markets, disclosed? [SOP 94-6, par. 10]

2. If the reporting entity operates in more than one business, is the relative importance of its operations in each business and the basis for the determination (for example, assets, revenues, or earnings) disclosed? [SOP 94-6, par. 10]

Balance Sheet

The following table summarizes the titles used to describe the statement of assets, liabilities, and equity in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet</td>
<td>569</td>
<td>569</td>
<td>565</td>
<td>564</td>
<td>562</td>
</tr>
<tr>
<td>Statement of Financial Position</td>
<td>28</td>
<td>27</td>
<td>30</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Statement of Financial Condition</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>
A. General

1. For classified balance sheets, are assets and liabilities segregated into current and noncurrent classifications with totals presented for current assets and current liabilities?
   [ARB 43, Ch. 3A, pars. 2–8 (AC B05.103–.109); SFAS 6, par. 15 (AC B05.118); FASB 8, par. 3 (AC B05.117); TB 79-3 (AC B05.501–.503)]

2. Are assets not expected to be realized during the current operating cycle classified as noncurrent?
   [ARB 43, Ch. 3A, pars. 5 and 6 (AC B05.106 and .107)]

B. Cash (Note: If FASB Statement No.133 has not been adopted, see section J1 of the “Other Financial Statement Disclosures” section for additional disclosures.)

1. Is separate disclosure made of restricted cash?
   [ARB 43, Ch. 3A, par. 6 (AC B05.107)]

2. Are restrictions on cash properly disclosed?
   [SFAS 5, par. 18 (AC C59.120)]

3. Are bank overdrafts reclassified to and presented separately in current liabilities?
   [Generally Accepted]

4. Are held checks (those written before but not released until after the balance sheet date) reclassified to accounts payable?
   [Generally Accepted]

C. Certain Investments in Debt and Equity Securities

1. If an enterprise presents a classified statement of financial position, are all individual held-to-maturity securities, individual available-for-sale securities, and individual trading securities reported as either current or noncurrent, as appropriate, under the provisions of ARB 43, Chapter 3A, Working Capital—Current Assets and Current Liabilities?
   [SFAS 115, par. 17 (AC I80.116)]

Practice Tip

Presentation of individual amounts for trading securities, held-to-maturity securities, and available-for-sale securities on the face of the balance sheet is not required as long as the information is provided in the notes to the financial statements.

Note: SFAS 133, Accounting for Derivative Instruments and Hedging Activities, modifies the disclosure requirements of SFAS 115, paragraphs 19, 20 (for financial institutions), 21, and 22. If SFAS 133 has not been adopted, replace Steps 2, 3, 4, 5, and 6 below with those shown in section J1 of the Other Financial Statement Disclosures section of this checklist.

2. For securities classified as available-for-sale, has the reporting entity made the following disclosures by major security type as of each date for which a statement of financial position is presented:
   a. Aggregate fair value?
   b. Total gains for securities with net gains in accumulated other comprehensive income?
   c. Total losses for securities with net losses in accumulated other comprehensive income?
   [SFAS 115, par. 19 (AC I80.118)]
3. For securities classified as held-to-maturity, has the reporting entity made the following disclosures by major-security type as of each date for which a statement of financial position is presented:
   a. Aggregate fair value? [Yes No N/A]
   b. Gross unrecognized holding gains or losses? [Yes No N/A]
   c. Net carrying amount? [Yes No N/A]
   d. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities? [SFAS 115, par. 19 (AC I80.118)] [Yes No N/A]

4. For investments in debt securities classified as available-for-sale or held-to-maturity:
   a. Is disclosure made about their contractual maturities as of the date of the latest balance sheet presented (maturity information may be combined in appropriate groupings)? [Yes No N/A]
   b. If securities not due at a single date (such as mortgage-backed securities) are allocated over several maturity groupings, is the basis for allocation disclosed? [SFAS 115, par. 20 (AC I80.119)] [Yes No N/A]

5. For each period for which an income statement is presented, are the following disclosed:
   a. The proceeds from sales of available-for-sale securities and gross realized gains and losses that have been included in earnings as a result of those sales? [Yes No N/A]
   b. The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings was determined (i.e., specified identification, average cost, or other method used)? [Yes No N/A]
   c. The gross gains and losses included in earnings from transfers of securities from the available-for-sale category to the trading category? [Yes No N/A]
   d. The amount of the net unrealized holding gain or loss on available-for-sale securities for the period that has been included in accumulated other comprehensive income and the amount of gains and losses reclassified out of accumulated other comprehensive income into earnings for the period? [SFAS 115, par. 21 (AC I80.120)] [Yes No N/A]
   e. The portion of trading gains and losses for the period that relates to trading securities still held at the reporting date? [SFAS 115, par. 22 (AC I80.121)] [Yes No N/A]

6. For any sales of or transfers from securities classified as held-to-maturity, are the following disclosed for each period for which an earnings statement is presented:
   a. Net carrying amount of the sold or transferred security? [Yes No N/A]
   b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security? [Yes No N/A]
   c. Related realized or unrealized gain or loss? [Yes No N/A]
   d. The circumstances leading to the decision to sell or transfer the security? [SFAS 115, par. 22 (AC I80.121)] [Yes No N/A]
D. Receivables

1. Are accounts and notes receivable from officers, employees, and affiliated companies shown separately with appropriate disclosures? [ARB 43, Ch. 1A, par. 5 (AC R36.105)]

2. Are unbilled receivables (e.g., unbilled costs and fees under cost-plus-fixed-fee contracts) shown separately from billed receivables? [ARB 43, Ch. 11A, par. 4]

3. Are allowances for uncollectible receivables shown as deductions from the related receivables? [APB 12, par. 3 (AC V18.102)]

4. Are unearned discounts (other than cash or quantity discounts and the like), finance charges, and interest included in the face amounts of receivables shown as a deduction from the related receivables? [APB 6, par. 14 (AC B05.105)]

5. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a deduction from or addition to the face amount of the note?
   b. Does the disclosure include the effective interest rate and face amount of the note?
   c. Is amortization of discount or premium reported as interest in the income statement?
   d. Are issue costs reported on the balance sheet as deferred charges? [APB 21, par. 16 (AC I69.109)]

E. Inventories

1. Are the major classes of inventory disclosed (e.g., finished goods, work in process, raw materials)? [Generally Accepted]

2. Is the method of determining inventory cost (e.g., LIFO, FIFO) disclosed? [ARB 43, Ch. 3A, par. 9 (AC I78.120)]

3. Is the basis for stating inventory disclosed (e.g., lower of cost or market)? [ARB 43, Ch. 4, par. 14 (AC I78.120); APB 22, par. 13 (AC A10.106)]

4. Are valuation allowances for inventory losses shown as a deduction from the related inventory? [APB 12, par. 3 (AC V18.102)]

5. Are the net losses on firm purchase commitments for goods for inventory disclosed in the income statement? [ARB 43, Ch. 4, par. 17 (AC I78.121 and .122)]

Practice Tip
Disclosures required of entities using LIFO of annual income, profit, or loss of any inventory basis other than LIFO may be made only in the notes to the financial statements or in a supplementary schedule and should be excluded from the face of the financial statements. (See IRS Regulation 1.472-2(e) for details of LIFO conformity disclosure requirements.)
F. Investments Accounted for by the Equity Method

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are investments in common stock shown in the balance sheet of the investor as a single amount, and is the investor's share of earnings or losses of the investee shown in the income statement as a single amount (except for extraordinary items or prior period adjustments)? [APB 18, par. 19 (AC 182.109c)]</td>
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<tr>
<td>2. Are the following disclosures made for investments in common stock accounted for by the equity method:</td>
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</tr>
<tr>
<td>a. The name of each investee and their percentage of ownership of common stock?</td>
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</tr>
<tr>
<td>b. The accounting policies of the investor with respect to investments in common stock?</td>
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<tr>
<td>c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?</td>
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<tr>
<td>d. The accounting treatment of the difference described in c.?</td>
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<tr>
<td>e. For investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)</td>
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<tr>
<td>f. For investments in common stock, corporate joint ventures, or other investments which are in the aggregate material in relation to the financial position or results of operations of an investor, summarized information as to assets, liabilities, and results of operation of the investees as appropriate?</td>
<td></td>
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</tr>
<tr>
<td>g. Material effects of conversions of outstanding convertible securities, exercises or contingent issuances? [APB 18, par. 20 (AC 182.110)]</td>
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</tr>
<tr>
<td>3. If the reporting entity holds 20 percent or more of the voting stock of a significant investee corporation but does not account for the investment using the equity method, are the following disclosed:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The name of such investee?</td>
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<tr>
<td>b. The reasons why the equity method is not considered appropriate? [APB 18, par. 20, fn. 13 (AC 182.110 fn. 14)]</td>
<td></td>
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</tr>
<tr>
<td>4. If the reporting entity holds less than 20 percent of the voting stock of a significant investee corporation and accounts for the investment using the equity method, are the following disclosed:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The name of such investee?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The reasons why the equity method is considered appropriate? [APB 18, par. 20, fn. 13 (AC 182.110 fn. 14)]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Practice Tip**
The significance of an investment to the investor’s financial position and results of operations should be considered in evaluating the extent of disclosures relating to the financial position and results of operations of an investee.
G. Property and Equipment

1. For depreciable assets, do the financial statements include disclosure of:
   
   a. Depreciation expense for each period?  
   b. Balances of major classes of depreciable assets by nature or function?  
   c. Accumulated depreciation, either by major classes of assets or in total?  
   d. The method or methods used in computing depreciation for each major class of depreciable assets?  
   [APB 12, par. 5 (AC D40.105)]

2. If property and equipment is impaired and the reporting entity recognizes an impairment loss, are the following disclosed:
   
   a. A description of the impaired assets and the facts and circumstances leading to impairment?  
   b. The amount of the impairment loss and how fair value was determined?  
   c. The caption in the income statement in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement?  
   d. If applicable, the business segments affected?  
   [SFAS 121, par. 14 (AC I08.133)]

H. Deferred Income Tax Assets and Liabilities

1. Are deferred tax assets and liabilities classified as current or noncurrent based on the classification of the related asset or liability?  
   [SFAS 109, par. 41 (AC I27.140)]

2. Are deferred tax assets not related to an asset or liability, including those related to carryforwards, classified according to the expected reversal date of the temporary difference pursuant to SFAS 37?  
   [SFAS 109, par. 41 (AC I27.140)]

3. For each particular tax-paying component of the reporting entity and within each particular tax jurisdiction:
   
   a. Are all current deferred tax liabilities and assets offset and presented as a single amount?  
   b. Are all noncurrent deferred tax liabilities and assets offset and presented as a single amount?  
   [SFAS 109, par. 42 (AC I27.141)]

4. Is the valuation allowance for each particular tax jurisdiction allocated between current and noncurrent deferred tax assets for that jurisdiction on a pro rata basis?  
   [SFAS 109, par. 41 (AC I27.140)]

5. Are the components of the net deferred tax liability or asset recognized in the balance sheet disclosed as follows:
   
   a. The total of all deferred tax liabilities (measured as described in paragraph 17b of SFAS 109)?
b. The total of all deferred tax assets (measured as described in paragraph 17c and d of SFAS 109)?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   c. The total valuation allowance recognized for deferred tax assets (measured as described in paragraph 17e of SFAS 109)?

   [SFAS 109, par. 43 (AC I27.142)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

6. Is the net change during the year in the valuation allowance disclosed?

   [SFAS 109, par. 43 (AC I27.142)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

7. If the reporting entity is a public enterprise:

   a. Is the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   b. If the reporting entity is not subject to income taxes because its income is taxed directly to its owners, is that fact and the net difference between the tax bases and reported amounts of the enterprises' assets and liabilities disclosed?

   [SFAS 109, par. 43 (AC I27.142)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

8. If the reporting entity is a nonpublic enterprise, are the types of temporary differences and carryforwards that give rise to a significant portion of deferred tax liabilities and deferred tax assets (before valuation allowances) disclosed?

   [SFAS 109, par. 43 (AC I27.142)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

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**Practice Tip**

SFAS 109 requires that deferred taxes be determined separately for each tax-paying component in each tax jurisdiction (for example, federal, state, or local). A component may be an individual entity or a group of entities that is consolidated for tax purposes. A valuation allowance for deferred tax assets in a particular tax jurisdiction should be allocated between current and noncurrent assets for that jurisdiction on a pro rata basis.

---

**I. Other Assets and Deferred Charges**

1. Do disclosures relating to intangible assets include the method and period of amortization?

   [APB 16, par. 95e (AC B50.164e); APB 17, par. 30 (AC I60.111); APB 22, par. 13 (AC A10.106)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
</table>

2. Do disclosures relating to intangible assets include the reason for any unusual reduction of the value and future benefits of intangible assets recognized during the period?

   [APB 17, par. 31 (AC I60.112)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

3. For computer software to be sold, leased, or otherwise marketed, are the following disclosed:

   a. The amount of unamortized computer software costs included in each balance sheet presented?

   [SFAS 86, par. 11a (AC Co2.110a)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

   b. The amount charged to expense for amortization of these costs and for amounts written down to net realizable value disclosed in each income statement presented?

   [SFAS 86, par. 11b (AC Co2.110b)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
c. The amount of research and development expense incurred for computer software to be sold, leased, or otherwise marketed charged to expense in each period for which an income statement is presented?
   [SFAS 86, par. 12 (AC Co2.111)]

4. Is a payment by an S Corporation to the IRS to retain its fiscal year for tax purposes classified as an asset (deposit)?
   [EITF 88-4]

J. Current Liabilities

Practice Tip
Section B05 of the FASB Current Text contains a detailed discussion of the nature of items that should be included in the current liabilities caption when a classified balance sheet is presented.

1. Are significant categories of current liabilities, such as accounts payable, accrued expenses, deferred revenue, interest payable, and amounts due to officers and employees segregated and presented separately?
   [Generally Accepted]

2. If a classified balance sheet is presented, is a total for current liabilities shown?
   [SFAS 6, par. 15 (AC B05.118)]

3. Are short term obligations expected to be refinanced reclassified to long term liabilities?
   [SFAS 6, par. 15 (AC B05.118)]

4. If the reporting entity has not accrued compensated absences (SFAS 43) because the amount cannot be reasonably estimated, is that fact disclosed?
   [SFAS 43, par. 6 (AC C44.104)]

5. If a debtor enters into a binding contract with a holder of its debt obligation to redeem the debt security at a future date within one year for a specified amount greater than (or less than) the debtor's carrying amount of the debt, is the debt obligation classified as a current liability?
   [EITF 95-15]

6. Are borrowings outstanding under revolving credit agreements that include both a subjective acceleration clause and a requirement to maintain a lock-box arrangement, whereby remittances from the borrower's customers reduce the debt outstanding, classified as short-term obligations?
   [EITF 95-22]

K. Notes Payable and Other Debt

1. Are major categories of debt (notes payable to banks, mortgages payable, notes to related parties) identified on the balance sheet or in the notes to the financial statements?
   [Generally Accepted]
2. Are interest rates, maturities, conversion features, and other significant terms (for example, subordinated features) of long term debt disclosed? [Generally Accepted]  
   Yes  No  N/A  
   ______  ______  ______

3. Are terms and conditions provided in loan agreements and bond indentures, such as assets pledged as collateral, covenants to reduce debt, maintain working capital, and restrict dividends disclosed? [SFAS 5, par. 18 (AC C59.120)]  
   Yes  No  N/A  
   ______  ______  ______

4. Are the following disclosed for each of the five years following the latest balance sheet presented:
   a. The aggregate amount of payments for unconditional purchase obligations that meet the criteria set forth in SFAS 47 and that have been recognized in the purchaser’s balance sheet?  
      Yes  No  N/A  
      ______  ______  ______
   b. The combined aggregate amount of maturities and sinking fund requirements for all long term borrowings? [SFAS 47, par. 7 (AC C32.105)]  
      Yes  No  N/A  
      ______  ______  ______

5. If a note is noninterest bearing or has an inappropriate stated interest rate:
   a. Is the discount or premium presented as a direct deduction from or addition to the face amount of the note?  
      Yes  No  N/A  
      ______  ______  ______
   b. Is the effective interest rate disclosed?  
      Yes  No  N/A  
      ______  ______  ______
   c. Is the face amount of the note disclosed?  
      Yes  No  N/A  
      ______  ______  ______
   d. Is amortization of the discount or premium reported as interest in the income statement?  
      Yes  No  N/A  
      ______  ______  ______
   e. Are issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]  
      Yes  No  N/A  
      ______  ______  ______

6. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]  
   Yes  No  N/A  
   ______  ______  ______

7. If short-term obligations have been excluded from current liabilities pursuant to SFAS 6, do disclosures include:
   a. A general description of the financing agreement?  
      Yes  No  N/A  
      ______  ______  ______
   b. Terms of any new obligation incurred or expected to be incurred, or equity securities issued, or expected to be issued, as a result of the refinancing? [SFAS 6, par. 15 (AC B05.118)]  
      Yes  No  N/A  
      ______  ______  ______

8. Are long-term obligations that are or will be callable by the creditor, either because the debtor’s violation of the debt agreement at the balance-sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable, reclassified to current unless one of the following conditions is met:
   a. The creditor has waived or subsequently lost the right to demand repayment for more than one year (or operating cycle, if longer) from the balance-sheet date?  
      Yes  No  N/A  
      ______  ______  ______
   b. The obligation contains a grace period within which the debtor may cure the violation, and it is probable that the violation will be cured within that period, thus preventing the violation from becoming callable? [SFAS 78, par. 5 (AC B05.109A)]  
      Yes  No  N/A  
      ______  ______  ______
9. If an obligation under question 8 above is included in long-term liabilities (or in the case of an unclassified balance sheet is included as a long-term liability in the disclosure of debt maturities), are the circumstances disclosed? [SFAS 78, par. 5 (AC B05.118); see also EITF 86-30]

10. If the reporting entity has borrowed funds in the form of participating mortgage loans, are the following disclosed in the financial statements:
   a. The aggregate amount of participating mortgage obligations at the balance-sheet date, with separate disclosure of the aggregate participation liabilities and related debt discounts?
   b. Terms of the participations by the lender in either the appreciation in the market value of the mortgaged real estate project or the results of operations of the mortgaged real estate project, or both? [SOP 97-1]

11. For insurance-related assessments:
   a. If amounts relating to insurance-related assessments have been discounted pursuant to the provisions of SOP 97-3, Accounting by Insurance and Other Enterprises for Insurance-Related Assessments (effective for financial statements for fiscal years beginning after December 15, 1998, with earlier adoption encouraged), has the entity disclosed in the financial statements the undiscounted amounts of the liability and any related asset for premium tax offsets or policy surcharges as well as the discount rate used?
   b. If amounts have not been discounted, has the entity disclosed in the financial statements the amounts of the liability, any related asset for premium tax offsets or policy surcharges, the periods over which the assessments are expected to be paid, and the period over which the recorded premium tax offsets or policy surcharges are expected to be realized? [SOP 97-3, par. 27]

L. Shareholders' Equity

The following table summarizes the titles used to describe the equity section in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' Equity</td>
<td>284</td>
<td>244</td>
<td>246</td>
<td>250</td>
<td>248</td>
<td>255</td>
</tr>
<tr>
<td>Stockholders' Equity</td>
<td>238</td>
<td>271</td>
<td>271</td>
<td>263</td>
<td>256</td>
<td>249</td>
</tr>
<tr>
<td>Shareowners' Equity</td>
<td>25</td>
<td>26</td>
<td>25</td>
<td>20</td>
<td>23</td>
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<tr>
<td>Common Stockholders' Equity</td>
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<td>11</td>
<td>12</td>
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<tr>
<td>Shareholders' Investment</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>15</td>
<td>14</td>
<td>9</td>
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<tr>
<td>Common Shareholders' Equity</td>
<td>7</td>
<td>12</td>
<td>10</td>
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<td>8</td>
</tr>
<tr>
<td>Stockholders' Investment</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>7</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>Other or no title</td>
<td>26</td>
<td>23</td>
<td>25</td>
<td>25</td>
<td>29</td>
<td>33</td>
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<tr>
<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>
1. For each class of stock, do disclosures include the number of shares authorized, issued, and outstanding, and par or stated value per share? [Generally Accepted]

2. Are classes of capital stock presented in order of priority in liquidation? [Generally Accepted]

3. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding (e.g., dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares)? [SFAS 129, par. 4 (AC C24.102)]

4. Do disclosures include the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented? [SFAS 129, par. 5 (AC C24.103)]

5. For preferred stock that has a preference in involuntary liquidation considerably in excess of par or stated value of the shares, is the liquidation preference disclosed in the equity section of the balance sheet in the aggregate, either parenthetically or "in short," rather than on a per share basis or in the notes to the financial statements? [SFAS 129, par. 6 (AC C24.104)]

6. Are the following disclosed on the face of the balance sheet or in the notes:
   a. The aggregate or per-share amounts at which preferred stock may be called or are subject to redemption through sinking-fund operations or otherwise? [SFAS 129, par. 7 (AC C24.105)]
   b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends?

7. For redeemable stock, do disclosures include the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or redeemable dates in each of the five years following the date of the latest balance sheet? [SFAS 129, par. 8 (AC C24.106)]

8. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]

9. Are restrictions on payment of dividends disclosed? [SFAS 5, pars. 18 and 19 (AC C59.120)]

10. After completion of a quasi-reorganization, is a new retained earnings account established and dated with the date being disclosed in subsequent financial statements until it is no longer deemed significant? [ARB 43, Ch. 7A, par. 10 (AC Q15.111); ARB 46 (AC Q15.111)]
11. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed?  
[Generally Accepted]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
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</tbody>
</table>

12. If treasury stock is purchased for purposes other than retirement or if ultimate disposition has not yet been decided is its cost:  
a. Shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings, or  

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</table>

b. Accorded the accounting treatment appropriate for retired stock?  
[APB 6, par. 12b (AC C23.103)]  

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</tbody>
</table>

13. If state laws relating to acquisition of stock restrict the availability of retained earnings for payment of dividends or other significant effects, is appropriate disclosure made?  
[APB 6, par. 13 (C23.104)]  

<p>| | | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
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</tbody>
</table>

The following table summarizes the presentations of treasury stock in the balance sheets of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

### TREASURY STOCK—BALANCE SHEET PRESENTATION

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of treasury stock shown as stockholders' equity deduction</td>
<td>370</td>
<td>355</td>
<td>360</td>
<td>350</td>
<td>349</td>
<td>342</td>
</tr>
<tr>
<td>Par or stated value of treasury stock deducted from issued stock of the same class</td>
<td>13</td>
<td>23</td>
<td>19</td>
<td>19</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Cost of treasury stock deducted from stock of the same class</td>
<td>14</td>
<td>12</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>6</td>
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<tr>
<td>Total Presentations</td>
<td>401</td>
<td>392</td>
<td>387</td>
<td>374</td>
<td>385</td>
<td>373</td>
</tr>
<tr>
<td><strong>Preferred Stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of treasury stock shown as stockholders' equity deduction</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Par or stated value of treasury stock deducted from issued stock of the same class</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>—</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total Presentations</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>Number of Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosing treasury stock</td>
<td>400</td>
<td>392</td>
<td>384</td>
<td>373</td>
<td>384</td>
<td>373</td>
</tr>
<tr>
<td>Not disclosing treasury stock</td>
<td>200</td>
<td>208</td>
<td>216</td>
<td>227</td>
<td>216</td>
<td>227</td>
</tr>
<tr>
<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

14. If an additional liability required to be recognized pursuant to SFAS 87, paragraph 36 (AC P16.130), exceeds unrecognized prior-service cost, is the excess (which would represent a net loss not yet recognized as net periodic pension cost) reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences, for purposes of applying the provisions of SFAS 87, paragraph 37 (AC I27) and SFAS 109, paragraph 287?  
[SFAS 87, par. 37 (AC P16.131)]  

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</table>

M. Changes in Shareholders' Equity

The following table summarizes the method used to present changes in retained earnings in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA's Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

### PRESENTATION OF CHANGES IN RETAINED EARNINGS

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Statement of stockholders' equity</td>
<td>534</td>
<td>562</td>
<td>521</td>
<td>505</td>
<td>497</td>
<td>488</td>
</tr>
<tr>
<td>Separate statement of retained earnings</td>
<td>41</td>
<td>15</td>
<td>26</td>
<td>32</td>
<td>33</td>
<td>36</td>
</tr>
<tr>
<td>Combined statement of income and retained earnings</td>
<td>8</td>
<td>7</td>
<td>12</td>
<td>15</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Schedule in notes</td>
<td>17</td>
<td>16</td>
<td>41</td>
<td>48</td>
<td>51</td>
<td>53</td>
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<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

1. Are changes in the separate accounts of shareholders' equity disclosed? [APB 12, par. 10 (AC C08.102)]

2. Are changes in the number of shares of equity securities disclosed? [APB 12, par. 10 (AC C08.102)]

3. If prior-period adjustments have been recorded during the current year, are their resulting effects (both gross and net of applicable income taxes and including the amounts of income tax applicable to the prior period adjustments) appropriately disclosed?

   a. For single-period statements, does the disclosure indicate the effects of such restatement on the balance of retained earnings at the beginning of the period and on the net income of the immediately preceding period? [APB 9, par. 26 (AC A35.107)]

   b. If financial statements of more than one period are presented, does disclosure include the effects for each of the periods presented in the statements?

4. If interim financial reports contain an adjustment related to prior interim periods of the current fiscal year, do disclosures include:

   a. The effect on income from continuing operations, net income, and related per share amounts for each prior interim period of the current fiscal year? [SFAS 16, par. 15 (AC A35.111)]

   b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated?

5. If the reporting entity is a publicly traded company and if interim financial data and disclosures are not separately reported for the fourth quarter, are accounting changes made during the fourth quarter,
disposals of segments of a business, extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, and the aggregate effect of year end adjustments that are material to the results of that quarter disclosed in a note to the financial statements? [APB 28, par. 31 (AC I73.147)]

6. If the reporting entity is a publicly traded company, is disclosure about the effect of accounting changes on interim periods that are required by paragraphs 23-26 of APB 28 or by paragraphs 9-13 of SFAS 3 included in a note to the financial statements for the fiscal year in which the change is made? [SFAS 3, par. 14 (AC I73.147)]

Income Statement

The following table summarizes the titles used to describe the income statement in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>296</td>
<td>298</td>
<td>299</td>
<td>308</td>
<td>298</td>
<td>291</td>
</tr>
<tr>
<td>Operations</td>
<td>186</td>
<td>180</td>
<td>173</td>
<td>162</td>
<td>167</td>
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<tr>
<td>Earnings</td>
<td>114</td>
<td>117</td>
<td>122</td>
<td>125</td>
<td>127</td>
<td>117</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>5</td>
<td>8</td>
<td>12</td>
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<td>Total Companies</td>
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<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

A. Revenue and Expenses

1. Are the important components of income, such as sales or other sources of revenue, cost of sales, selling and administrative expenses, interest expense and income taxes, separately disclosed on the face of the income statement? [Generally Accepted]

2. Is the following information concerning interest costs disclosed:
   a. For accounting periods in which no interest is capitalized, the amount of interest cost incurred and charged to expense during the period?
   b. For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized? [SFAS 34, par. 21 (AC I67.118)]

3. Are interest costs associated with product financing arrangements identified separately? [SFAS 49, par. 9 (AC D18.107)]

4. Are research and development costs charged to expense when incurred and appropriately disclosed? [SFAS 2, pars. 12 and 13 (AC R50.108 and .109)]
5. Do the disclosures for advertising costs include:
   
   a. The accounting policy for reporting advertising including whether such costs are expensed as incurred or the first time the advertising takes place?  
   
   b. A description of direct-response-advertising reported as assets (if any), the related accounting policy, and the amortization method and period?  
   
   c. The amount charged to advertising expense for each statement of income presented, with separate disclosure of amounts, if any, representing a write-down of capitalized advertising costs to net realizable value?  
   
   d. The amount of advertising reported as assets in each balance sheet presented?  
   [SOP 93-7, par. 49]  

6. For a sales incentive offered voluntarily by a vendor and without charge to customers that can be used in, or that becomes exercisable by a customer as a result of, a single exchange transaction:
   
   a. Is the reduction in or refund of the selling price of the product or service resulting from any cash sales incentive classified as a reduction of revenue?  
   
   b. If the sales incentive is a free product or service delivered at the time of sale (for example, a gift certificate or free airline ticket that will be honored by another, unrelated entity), is the cost of the free product or service classified as an expense?  
   [EITF 00-14]  

7. Is the amount of revenue and expense recognized from advertising barter transactions disclosed for each income statement period presented?  
   [EITF 99-17]  

8. If the entity engages in advertising barter transactions for which the fair value is not determinable within the limits of EITF Issue 99-17, is information regarding the volume and type of advertising surrendered and received (such as the number of equivalent pages, the number of minutes, or the overall percentage of advertising volume) disclosed for each income statement period presented?  
   [EITF 99-17]  

B. Income Taxes

1. Are the following significant components of income tax expense attributable to continuing operations for each year presented disclosed:
   
   a. Current tax expense or benefit?  
   
   b. Deferred tax expense or benefit (exclusive of the effects of other components listed below)?  
   
   c. Investment tax credits?  
   
   d. Government grants (to the extent recognized as a reduction of income tax expense)?
e. The benefits of operating loss carryforwards?

f. Tax expense that results from allocating certain benefits, either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity?

g. Adjustments of a deferred tax liability or asset for enacted changes in tax laws or rates or a change in the tax status of the reporting entity?

h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years?

[SFAS 109, par. 45a–h (AC I27.144a–h)]

2. Are the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to discontinued operations, extraordinary items, items charged directly to shareholders' equity, and prior period adjustments disclosed for each year for which those items are presented?

[SFAS 109, par. 46 (AC I27.145)]

3. If the reporting entity is a public enterprise, is there a reconciliation in both percentages and dollar amounts of the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?

[SFAS 109, par. 47 (AC I27.146)]

4. If the reporting entity is a nonpublic enterprise, is there disclosure of the nature of significant items required to reconcile the reported amount of income tax expense attributable to continuing operations for the year to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations?

[SFAS 109, par. 47 (AC I27.146)]

5. Are the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes disclosed?

[SFAS 109, par. 48 (AC I27.147)]

6. Is the amount of any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated (1) to reduce goodwill or other noncurrent intangible assets of an acquired entity or (2) directly to contributed capital disclosed?

[SFAS 109, par. 48 (AC I27.147)]

7. If the reporting entity is a member of a group that files a consolidated tax return, are the following items disclosed in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each income statement presented and the amount of any tax-related balances due to or from affiliates as of the date of each balance sheet presented?

Yes  No  N/A
b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in a. above are presented?
[SFAS 109, par. 49a and b (AC I27.148a and b)]

8. If the reporting entity is an S corporation, partnership, or proprietorship, is the reason that no income tax expense is recorded disclosed?
[Generally Accepted]

C. Discontinued Operations

1. Are operations of any segments that have been or will be discontinued reported separately from income from continuing operations and as a component of income before extraordinary items and the cumulative effect of accounting changes (if any)?
[APB 30, par. 8 (AC I13.105)]

2. Is any gain or loss from disposal of any discontinued segments reported in conjunction with results of discontinued operations as a component of income before extraordinary items?
[APB 30, par. 8 (AC I13.105)]

3. Are amounts of income taxes applicable to the results of discontinued operations and the gains or losses from disposals disclosed on the face of the income statement or in the notes to the financial statements?
[APB 30, par. 8 (AC I13.105)]

4. Are revenues applicable to discontinued operations separately disclosed in the notes to the financial statements?
[APB 30, par. 8 (AC I13.105)]

5. Do notes to the financial statements for the period encompassing the measurement date disclose:
   a. Identity of the segment discontinued?
   b. Expected disposal date, if known?
   c. Expected manner of disposal?
   d. Description of the remaining assets and liabilities of the discontinued segment at the balance-sheet date?
   e. Income or loss from operations and any proceeds from disposal of the discontinued segment during the period from the measurement date to the balance-sheet date?
[APB 30, par. 18 (AC I13.108)]

6. If the loss on disposal cannot be estimated within reasonable limits, is that fact disclosed?
[APB 30, par. 18, fn. 7 (AC I13.109)]

7. For periods subsequent to the measurement date and including the period of disposal, do notes to the financial statements disclose the information listed in questions 5a, b, c, and d above as well as the information in 5e compared with prior estimates?
[APB 30, par. 18 (AC I13.108)]
8. If any losses on disposals of business segments that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as a gain or loss on disposal of a segment? [APB 30, par. 25 (AC I13.104)]

D. Extraordinary Items

1. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income? [APB 30, par. 11 (AC I17.102)]

2. Is the caption extraordinary items used to identify separately the effects of events and transactions, other than disposals of business segments, that meet the criteria for classification as extraordinary as discussed in APB 30 (AC I17.106–111)? [APB 30, par. 11 (AC I17.102)]

3. Are descriptive captions and amounts presented for individual extraordinary events or transactions, preferably on the face of the income statement if practicable? [APB 30, par. 11 (AC I17.102)]

4. Are the nature of each extraordinary event or transaction and the principle items entering into the determination of extraordinary gains or losses described? [APB 30, par. 11 (AC I17.102)]

5. Are income taxes applicable to any extraordinary items disclosed on the face of the income statement (preferable) or disclosed in the notes to the financial statements? [APB 30, par. 11 (AC I17.102)]

6. Are material events or transactions that are either unusual in nature or of infrequent occurrence, but not both (and therefore not meeting the criteria for extraordinary items):
   a. Reported as a separate component of income from continuing operations? 
   b. Accompanied by disclosure of the nature and financial effects of each event? [APB 30, par. 26 (AC I22.101)]

7. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:
   a. A description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources? 
   b. The income tax effect in the period of extinguishment? 
   c. The per share amount of the aggregate gain or loss net of related income tax effect? [SFAS 4, par. 9 (AC I17.104)]
8. If any extraordinary items that were reported in prior periods are adjusted during the current period, are the adjustments separately disclosed as to year of origin, nature, and amount and classified separately on the current period as an extraordinary item? [SFAS 16, par. 16(c) (AC II7.119)]

E. Earnings Per Share

Note: SFAS 128, Earnings per Share, applies only to entities with publicly held common stock or potential common stock.

1. If the reporting entity has a simple capital structure (only common stock outstanding), are basic per-share amounts for income from continuing operations and for net income presented on the face of the income statement for all periods for which an income statement or summary of earnings is presented? [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

2. If the reporting entity has other than a simple capital structure, are basic and diluted per-share amounts for income from continuing operations and for net income presented on the face of the income statement with equal prominence for all periods for which an income statement or summary of earnings is presented? (Note: If diluted EPS data are reported for at least one period, they should be reported for all periods presented, even if they are the same amounts as basic EPS.) [SFAS 128, pars. 36 and 38 (AC E11.131 and .133)]

3. If discontinued operations, extraordinary items, or the cumulative effect of accounting changes are reported in the period, are the basic and diluted per share amounts for those line items presented on the face of the income statement or in the notes? [SFAS 128, par. 37 (AC E11.132)]

4. If per share amounts not required to be presented by SFAS 128 are disclosed, are they disclosed only in the notes and do the disclosures indicate whether the per share amounts are pretax or net of tax? [SFAS 128, par. 37 (AC E11.132)]

5. Are the following disclosed for each period for which an income statement is presented:
   a. A reconciliation of the numerators and denominators of the basic and diluted per share computations for income from continuing operations?

   b. The effect that has been given to preferred dividends in arriving at income available to common shareholders' in computing basic EPS?

   c. Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented? [SFAS 128, par. 40 (AC E11.135)]
6. For the latest period for which an income statement is presented, do disclosures include a description of any transaction that occurs after the end of the most recent period but before issuance of the financial statements that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period?

   [SFAS 128, par. 41 (AC E11.136)]

F. Comprehensive Income

   Practice Tip

   A listing of items of other comprehensive income under current accounting standards can be found in section C49.106 of the FASB Current Text.

1. Are all components of comprehensive income reported in the financial statements in the period in which they are recognized?

   [SFAS 130, par. 14 (AC C49.108)]

2. Is a total amount for comprehensive income displayed in the financial statement where the components of other comprehensive income are reported?

   [SFAS 130, par. 14 (AC C49.108)]

3. Is an amount for net income displayed and included as a component of comprehensive income?

   [SFAS 130, pars. 15 and 22 (AC C49.109 and .116)]

4. Are items included in other comprehensive income classified separately into foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities?

   [SFAS 130, par. 17 (AC C49.111)]

5. Are reclassification adjustments made to avoid double counting in comprehensive income of items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or other periods presented on the face of the financial statement in which comprehensive income is reported or disclosed in the notes?

   [SFAS 130, par. 20 (AC C49.114)]

6. Are comprehensive income and its components displayed in a financial statement that is displayed with the same prominence as the other financial statements? (Note: SFAS 130 encourages but does not require that the components of other comprehensive income and total comprehensive income be displayed below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.)

   [SFAS 130, pars. 22 and 23 (AC C49.116 and .117)]

7. Are the components of other comprehensive income displayed either net of related tax effects, or before related tax effects with one amount
shown for the aggregate tax effect related to the total of other comprehensive income items?

[SFAS 130, par. 24 (AC C49.118)]

8. Is the amount of income tax expense or benefit allocated to each component of other comprehensive income (including reclassification adjustments) displayed on the face of the statement in which those components are displayed or disclosed in the notes to the financial statements?

[SFAS 130, par. 25 (AC C49.119)]

9. Is the total of other comprehensive income for a period transferred to a component of equity that is displayed separately from retained earnings and additional paid-in-capital in the balance sheet with a descriptive title such as accumulated other comprehensive income?

[SFAS 130, par. 26 (AC C49.120)]

10. Are accumulated balances for each classification within accumulated other comprehensive income disclosed on the face of the balance sheet, in the statement of changes in shareholders’ equity, or in the notes?

[SFAS 130, par. 26 (AC C49.120)]

11. Has the enterprise reported a total for comprehensive income in condensed financial statements of interim periods?

[SFAS 130, par. 27 (AC C49.121)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Steps 12 and 13 apply only if SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.

12. Has the entity displayed as a separate classification within other comprehensive income the net gain or loss on derivative instruments designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 30 and 41 of SFAS 133?

[SFAS 133, par. 46 (AC D50)]

13. As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 26 of SFAS 130, Reporting Comprehensive Income, has the entity separately disclosed the beginning and ending accumulated derivative gain or loss, the related net change associated with current period hedging transactions, and the net amount of any reclassification into earnings?

[SFAS 133, par. 47 (AC D50)]

<table>
<thead>
<tr>
<th>Statement of Cash Flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the statement of cash flows report net cash provided or used by the operating, investing, and financing activities and the effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents?</td>
</tr>
<tr>
<td>[SFAS 95, par. 26 (AC C25.124)]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. Is the accounting policy for determining which items are treated as cash equivalents disclosed? [SFAS 95, par. 10 (AC C25.108)]

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The following table summarizes the methods used to report cash flows from operating activities in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect method</td>
<td>593</td>
<td>593</td>
<td>590</td>
<td>589</td>
<td>585</td>
</tr>
<tr>
<td>Direct method</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

3. If the direct method of reporting net cash flow from operating activities is used, do cash flows from operating activities separately report:
   a. Cash received from customers? __ __ __
   b. Interest and dividends received? __ __ __
   c. Other operating cash receipts? __ __ __
   d. Cash paid to employees and suppliers? __ __ __
   e. Interest paid? __ __ __
   f. Income taxes and other payments to government? __ __ __
   g. Other operating cash payments (if any)? [SFAS 95, par. 27 (AC C25.125)] __ __ __

---

**Practice Tip**

SFAS 95 encourages reporting entities to use the direct method of reporting cash flows. The sample financial statements in section 6400 illustrate a statement of cash flows prepared using the direct method.

---

4. If the direct method is used, is a separate reconciling schedule provided to reconcile net income to net cash flow from operating activities? [SFAS 95, par. 30 (AC C25.128)] __ __ __

5. If the direct method of reporting net cash flow from operating activities is not used, is the net cash flow from operating activities reported indirectly by adjusting net income to reconcile it to net cash flow from operating activities? [SFAS 95, par. 28 (AC C25.126)] __ __ __

6. Is the reconciliation of net income to net cash flow from operating activities, including separate reporting of all major classes of reconciling items, presented? [SFAS 95, par. 29 (AC C25.127)] __ __ __

---

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### 7. If the indirect method of reporting net cash flow from operating activities is used, are amounts of interest paid (net of amounts capitalized) and income taxes paid during the period provided in related disclosures?

Yes | No | N/A
--- | --- | ---

[SFAS 95, par. 29 (AC C25.127)]

### 8. Are investing and financing activities that affect recognized assets or liabilities, but that do not result in cash receipts or cash payments in the period, disclosed?

Yes | No | N/A
--- | --- | ---

[SFAS 95, par. 32 (AC C25.134)]

### 9. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Receipts from collections or sales of loans?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Receipts from sales of property, plant, and equipment?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Loans to others?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Payments to acquire property, plant, and equipment?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SFAS 95, pars. 16 and 17 (AC C25.114 and .115)]

### 10. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Proceeds from issuing debt?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Issuance of equity instruments?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Payment of dividends?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Repayments for amounts borrowed?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Purchases of treasury stock?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Other principal payments to creditors who have extended long-term debt?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[SFAS 95, pars. 19 and 20 (AC C25.117 and .118); EITF 95-13]

### 11. Except for certain items whose turnover is quick, amounts are large, and maturities are short, are cash receipts and cash payments from investing and financing activities shown separately on the statement of cash flows?

Yes | No | N/A
--- | --- | ---

[SFAS 95, pars. 12, 13, and 31 (AC C25.110, .111, and .129)]

### 12. If the indirect method is used, is the reduction of income taxes paid as a result of a deduction triggered by employee exercise of stock options classified as an operating cash flow?

Yes | No | N/A
--- | --- | ---

[EITF 00-15]

### 13. If a material income tax benefit realized as a result of the deduction triggered by employee exercise of stock options is not presented as a separate line item in the statement of cash flows or in the statement of changes in stockholders' equity, is disclosure made of the material income tax benefit realized?

Yes | No | N/A
--- | --- | ---

[EITF 00-15]
Summary of Significant Accounting Policies

Practice Tip

As you evaluate the completeness of the significant accounting policies, consider whether additions or revisions are required in response to recently issued accounting pronouncements. Also consider whether disclosures of accounting policies covered in other sections of this checklist are included. For example:

- Inventories
- Investments accounted for by the equity method
- Property and equipment
- Business combinations
- Advertising costs
- Statement of cash flows
- Employee stock ownership plans
- Futures contracts
- Environmental remediation liabilities
- Impaired loans
- Stock compensation plans

If the accounting policy disclosures called for in sections such as these are not included in notes elsewhere in the financial statements, they should be included in the summary of accounting policies.

A. Accounting Policies

1. Is a description of all significant accounting policies of the reporting entity presented as either a separate summary preceding the notes to the financial statements or as the initial note? [APB 22, par. 15 (AC A10.108)]

2. Do the summary or notes identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, and results of operations? [APB 22, par. 12 (AC A10.105)]

3. Do those principles and methods identified in question 2 include all instances in which there:
   a. Is a selection from existing acceptable alternatives? 
   b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry? 
   c. Are unusual or innovative applications of GAAP? [APB 22, par. 12 (AC A10.105)]

4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management’s estimates included? [SOP 94-6, par. 11]
The following table lists accounting policies that were most frequently included in the summary of accounting policies of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

**DISCLOSURE OF ACCOUNTING POLICIES**

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<thead>
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<tbody>
<tr>
<td>Consolidation policy</td>
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<td>578</td>
<td>583</td>
<td>583</td>
<td>585</td>
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<tr>
<td>Depreciation methods</td>
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<td>587</td>
<td>586</td>
<td>581</td>
<td>584</td>
<td>582</td>
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<tr>
<td>Use of estimates</td>
<td>574</td>
<td>568</td>
<td>582</td>
<td>577</td>
<td>358</td>
<td>—</td>
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<tr>
<td>Inventory pricing</td>
<td>542</td>
<td>543</td>
<td>555</td>
<td>555</td>
<td>560</td>
<td>556</td>
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<tr>
<td>Property</td>
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<td>521</td>
<td>526</td>
<td>509</td>
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<tr>
<td>Cash equivalents</td>
<td>516</td>
<td>503</td>
<td>509</td>
<td>492</td>
<td>495</td>
<td>483</td>
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<tr>
<td>Earnings per share calculation</td>
<td>405</td>
<td>413</td>
<td>475</td>
<td>482</td>
<td>470</td>
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<tr>
<td>Amortization of intangibles</td>
<td>479</td>
<td>448</td>
<td>439</td>
<td>419</td>
<td>415</td>
<td>380</td>
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<tr>
<td>Inter-period tax allocation</td>
<td>377</td>
<td>359</td>
<td>358</td>
<td>362</td>
<td>384</td>
<td>410</td>
</tr>
<tr>
<td>Translation of foreign currency</td>
<td>386</td>
<td>366</td>
<td>358</td>
<td>351</td>
<td>338</td>
<td>320</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>428</td>
<td>406</td>
<td>398</td>
<td>327</td>
<td>311</td>
<td>282</td>
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<tr>
<td>Stock-based compensation</td>
<td>336</td>
<td>281</td>
<td>290</td>
<td>253</td>
<td>219</td>
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<tr>
<td>Employee benefits</td>
<td>124</td>
<td>101</td>
<td>290</td>
<td>253</td>
<td>219</td>
<td>181</td>
</tr>
<tr>
<td>Nature of operations</td>
<td>312</td>
<td>267</td>
<td>274</td>
<td>239</td>
<td>204</td>
<td>105</td>
</tr>
<tr>
<td>Research and development costs</td>
<td>179</td>
<td>173</td>
<td>178</td>
<td>181</td>
<td>165</td>
<td>153</td>
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<tr>
<td>Fiscal years</td>
<td>171</td>
<td>157</td>
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<td>Environmental costs</td>
<td>140</td>
<td>136</td>
<td>145</td>
<td>130</td>
<td>122</td>
<td>111</td>
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<tr>
<td>Advertising costs</td>
<td>174</td>
<td>151</td>
<td>129</td>
<td>123</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Credit risk concentrations</td>
<td>147</td>
<td>124</td>
<td>126</td>
<td>100</td>
<td>91</td>
<td>71</td>
</tr>
<tr>
<td>Capitalization of interest</td>
<td>76</td>
<td>81</td>
<td>75</td>
<td>86</td>
<td>89</td>
<td>79</td>
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</tbody>
</table>

**B. Certain Significant Estimates**

1. If known information available before the financial statements are issued indicates that: (a) it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed the date of the financial statements will change in the near term due to one or more future confirming events, and (b) the effect of the change would be material to the financial statements:

   a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?  

   b. If the estimate involves a loss contingency covered by SFAS 5, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?

   c. Does the disclosure describe the factors that cause the estimate to be sensitive to change?

   [SOP 94-6, pars. 13 and 14]
Other Financial Statement Disclosures

A. Business Combinations—Pooling of Interests Method

1. If a business combination occurred during the period and met the specified conditions for a pooling-of-interests, are the following disclosed:

   a. The fact that a combination accounted for by the pooling-of-interests method has occurred during the period disclosed? [APB 16, pars. 63 and 64b (AC B50.122 and .123b)]

   b. The name and a brief description of the enterprises combined? [APB 16, par. 64a (AC B50.123a)]

   c. A description and the number of shares of stock issued in the combination? [APB 16, par. 64c (AC B50.123c)]

   d. Details (including revenue, extraordinary items, net income, other changes in shareholders' equity, and amount and manner of accounting for intercompany transactions) of the results of operations of the previously separate enterprises for the period before the combination is consummated that are included in the current combined net income? [APB 16, par. 64d (AC B50.123d)]

   e. Descriptions of the nature of adjustments of net assets of the combining enterprises to adopt the same accounting practices and the effects of the changes on net income previously reported separately and now presented in comparative financial statements? [APB 16, par. 64e (AC B50.123e)]

   f. Details (including at least revenue, expenses, extraordinary items, net income, and other changes in shareholders' equity for the period excluded from the reported results of operations) of increases or decreases in retained earnings from changing the fiscal year of a combining enterprise? [APB 16, par. 64f (AC B50.123f)]

   g. Reconciliations of amounts of revenue and earnings previously reporting by the enterprise that issued the stock to effect the combination with the combined amounts currently presented in financial statements and summaries? (Or if a new enterprise was formed to effect the combination, the earnings of the separate enterprises that comprise combined earnings for prior periods may be disclosed.) [APB 16, par. 64g (AC B50.123g)]

2. If a business combination that was either incomplete as of the date of the financial statements or initiated after that date is consummated before the financial statements are issued, are details (including revenue, net income, earnings per share, and the effects of anticipated changes in accounting methods as if the combination had been consummated at the date of the financial statements) of the effects of the combination disclosed? [APB 16, par. 65 (AC B50.124)]
B. Business Combinations—Purchase Method

1. If a business combination occurred during the period and is to be accounted for under the purchase method, are the following disclosed:

   a. The name and a brief description of the acquired enterprise? [APB 16, par. 95a (AC B50.164a)]

   b. The method of accounting for the combination—that is, the purchase method? [APB 16, par. 95b (AC B50.164b)]

   c. The period for which results of operations of the acquired enterprise are included in the income statement of the acquiring enterprise? [APB 16, par. 95c (AC B50.164c)]

   d. The cost of the acquired enterprise and, if applicable, the number of shares of stock issued or issuable and the amount assigned to the shares? [APB 16, par. 95d (AC B50.164d)]

   e. A description of the plan for amortization of acquired goodwill, the amortization method, and period? [APB 16, par. 95e (AC B50.164e)]

   f. Contingent payments, options, or commitments specified in the acquisition agreement and their proposed accounting treatment (including consideration that is issued or issuable at the end of a contingency period or that is held in escrow)? [APB 16, pars. 78 and 95f (AC B50.136 and .164f)]

   g. For public companies only, the following as supplemental information (including at least revenue, income before extraordinary items, net income, and earnings per share) on a pro forma basis:

      (1) Results of operations for the current period as though the enterprises had combined at the beginning of the period, unless the acquisition was at or near the beginning of the period? [APB 16, par. 96a (AC B50.165a); SFAS 79, par. 6 (AC B50.165)]

      (2) Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative statements are presented? [APB 16, par. 96b (AC B50.165b); SFAS 79, par. 6 (AC B50.165)]

2. If the reporting entity elects not to include a preacquisition contingency (other than the effects of tax loss carryforwards) in the purchase price allocation or, for those that arise after the end of the allocation period, are not included in net income of the period in which the adjustment is determined as described in SFAS 38, is there disclosure of the amount and nature of adjustments, including the effect of the adjustments on current or expected future cash flows? [SFAS 38, par. 10 (AC B50.166)]
3. If, as part of a business combination accounted for as a purchase, a material liability is recognized by the combined company for costs incurred to (a) exit an activity, (b) involuntarily terminate employees of an acquired company, or (c) relocate employees of an acquired company:

   a. Are the following disclosures made for the period in which a purchase business combination occurs:

      (1) If the plans to exit an activity or involuntarily terminate (relocate) employees of the acquired company are not final as of the balance sheet date, a description of any unresolved issues, the types of additional liabilities that may result in an adjustment to the purchase price allocation, and how any adjustment will be reported?

      (2) A description of the type and amount of liabilities assumed in the purchase price allocation for costs to exit an activity or involuntarily terminate (relocate) employees?

      (3) A description of the major actions comprising the plan to exit an activity or involuntarily terminate (relocate) employees of an acquired company?

      (4) A description of activities of the acquired company that will not be continued, including the method of disposition, and the anticipated date of completion and description of employee group(s) to be terminated (relocated)?

   b. Are the following disclosures made for all periods presented subsequent to the acquisition date in which a purchase business combination occurred, until a plan to exit an activity or involuntarily terminate or relocate employees of an acquired company is fully executed:

      (1) A description of the type and amount of exit costs, involuntary employee termination costs, and relocation costs paid and charged against the liability?

      (2) The amount of any adjustment to the liability account and whether the corresponding entry was an adjustment of the costs of the acquired company or included in the determination of net income for the period?

      [EITF 95-3]

C. Changes in Accounting

1. For changes in accounting principle, does disclosure in the period of the change include:

   a. Nature of the change?

   b. Justification for the change including a clear explanation of why the newly adopted principle is preferable? [APB 20, par. 17 (AC A06.113)]

2. For all changes in accounting principles accounted for as cumulative effect adjustments (all except those concerning a change in entity and those recognized in paragraphs 27–30 of APB 20):

   a. Are financial statements for prior periods included for comparative purposes presented as previously reported?
b. Is the effect on income before extraordinary items and net income including, related per share amounts, shown?  
   Yes  No  N/A

c. Is the cumulative effect of changing to the new accounting principle shown as a separate item in the income statement between the captions “extraordinary items” and “net income”?  
   Yes  No  N/A

d. Is the tax effect of the cumulative change shown?  
   Yes  No  N/A

e. Are income before extraordinary items and net income computed on a pro forma basis shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected? [APB 20, pars. 19–21 (AC A06.115–117)]  
   Yes  No  N/A

f. If the pro forma amounts cannot be computed or reasonably estimated for individual prior periods, although the cumulative effect on retained earnings at the beginning of the period of change can be determined, is the reason for not showing the pro forma amounts by periods explained? [APB 20, par. 25 (AC A06.121)]  
   Yes  No  N/A

g. If computing the effect on retained earnings at the beginning of the period of change is considered impossible (for example, a change from the FIFO method of inventory pricing to the LIFO method), are disclosures limited to showing the effect of the change on results of net income of the period of change and explaining the reason for omitting accounting for the cumulative effect and disclosure of pro forma amounts for prior years? [APB 20, par. 26 (AC A06.122)]  
   Yes  No  N/A

3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:

   a. Are all financial statements of prior periods presented restated? [APB 20, par. 27 (AC A06.123)]  
      Yes  No  N/A

   b. Is the effect on income before extraordinary items and net income (and related per share amounts) for all prior periods presented shown? [APB 20, par. 28 (AC A06.124)]  
      Yes  No  N/A

---

**Practice Tips**

Changes in accounting principle that are required to be accounted for by restating prior period financial statements include:

- Change from LIFO method of inventory pricing to another method
- Change in method of accounting for long-term, construction-type contracts
- Change to or from the full cost method of accounting in extractive industries
- Change from retirement-replacement-betterment accounting to depreciation accounting

*****

If the reporting entity is first issuing its financial statements for the purpose of (a) obtaining additional equity capital from investors, (b) effecting a business combination, or (c) registering securities, and its securities are not widely held, there is a one time exemption available from the required disclosure rules that allow all prior periods to be retroactively stated.

---

4. For accounting changes that are changes in estimates that affect several future periods that are not ordinary course of business accounting (e.g., uncollectible accounts), is the effect on income before
extraordinary items, net income, and related per share amounts of the current period disclosed? *(Note: Disclosure of the effect of a change in estimate that is in the ordinary course of business is recommended if the effect of such changes is material.)*

[APB 20, par. 33 (AC A06.132)]

5. For accounting changes that are in effect a change in entity, are the following disclosed for all periods presented:

a. The nature of the change?

b. The reason for the change?

c. The effect of the change on income before extraordinary items, net income, and related per share amounts?

[APB 20, par. 35 (AC A35.113)]

6. For accounting changes that are corrections of errors in previously issued financial statements:

a. Is the nature of the error disclosed?

b. Is its effect on income before extraordinary items, net income, and related per share amounts disclosed?

[APB 20, par. 37 (AC A35.105)]

7. For summaries of financial information in reports that include an accounting period in which a change in accounting principle was made, is the amount of the cumulative effect of the change that was included in net income of the period of the change shown separately along with the net income and related per share amounts of that period in the financial statements (not in a note or parenthetically)?

[APB 20, par. 39 (AC A06.134)]

The following table lists accounting changes that were most frequently reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s *Accounting Trends & Techniques*, 2000, Fifty-fourth Edition.

**ACCOUNTING CHANGES**

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D. Commitments and Contingencies

1. Is disclosure made of the nature of estimated loss contingencies accrued when (a) information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and (b) the amount of loss can be reasonably estimated? [SFAS 5, par. 9 (AC C59.108)]

2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 above disclosed? [SFAS 5, par. 9 (AC C59.108)]

3. For loss contingencies not accrued because one or both of the conditions described in question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate the:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109)]

4. Are the nature and amount of guarantees disclosed (e.g., guarantees of indebtedness of others, guarantees to repurchase receivables (or, in some cases, the related property) that have been sold or otherwise assigned) even though the possibility of loss may be remote? [SFAS 5, par. 12 (AC C59.113); FASB I 34, pars. 1–3 (AC C59.114); EITF 85-20]

5. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]

6. Is disclosure of the following items made:
   a. Unused letters of credit?
   b. Commitments to reduce debts, maintain working capital, or restrict dividends? [SFAS 5, pars. 18 and 19 (AC C59.120)]

7. For long-term unconditional purchase obligations that are not recorded in the purchaser's balance sheet, are the following disclosed:
   a. Nature and term of the obligations?
   b. Amount of the fixed and determinable portion of the obligations as of the date of the latest balance sheet presented in the aggregate and, if determinable, for each of the next five years?
   c. Nature of any variable components of the obligation?
   d. Amounts of purchases under the obligations for each year for which an income statement is presented? [SFAS 47, par. 7 (AC C32.102)]
The following table lists the types of contingencies (loss and gain) and commitments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

**CONTINGENCIES**

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</tr>
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</table>

E. Current Vulnerability Due to Certain Concentrations

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity’s operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, (a) the concentration existed at the date of the financial statements, (b) made the enterprise vulnerable to the risk of a near-term severe impact, and (c) it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? [SOP 94-6, pars. 21 and 22]

2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity’s home country that (a) exist at the date of the financial statements and (b) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:
F. Employee Stock Ownership Plans

1. For any employee stock ownership plans (ESOPs) sponsored by the reporting entity, do the financial statements include disclosure of:
   - A description of the plan?  
   - The basis for determining contributions?  
   - The employee groups covered?  
   - The nature and effect of significant matters affecting comparability of information for all periods presented?  
   - For leveraged ESOPs and pension reversion ESOPs, the basis for releasing shares and how dividends on allocated and unallocated shares are used?  
   [SOP 93-6, par. 53a]

2. A description of the accounting policies followed for ESOP transactions, including:
   - The method of measuring compensation?  
   - The classification of dividends on ESOP shares?  
   - The treatment of ESOP shares for earnings per share (EPS) computation?  
   [SOP 93-6, par. 53b]

3. If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, are the accounting policies set forth in question 2 above disclosed for both blocks of shares?  
   [SOP 93-6, par. 53b]

4. Is the amount of compensation cost recognized during the period disclosed?  
   [SOP 93-6, par. 53c]

5. Is the number of allocated shares, committed-to-be-released shares, and suspense shares held by the ESOP at the balance-sheet date disclosed?  
   (Note: If the reporting entity has both old ESOP shares for which it does not adopt the guidance in SOP 93-6 and new ESOP shares for which the guidance in SOP 93-6 is required, these disclosures should be made separately for both blocks of shares.)  
   [SOP 93-6, par. 53d]

6. Is the fair value of unearned ESOP shares at the balance-sheet date for shares accounted for under SOP 93-6?  
   [SOP 93-6, par. 53e]
7. Is disclosure made of the existence and nature of any repurchase obligation, including disclosure of the fair value of the shares allocated as of the balance-sheet date, which are subject to a repurchase obligation? [SOP 93-6, par. 53f]

---

**Practice Tip**

SOP 93-6 encourages, but does not require the application of its guidance to shares acquired by ESOPs on or before December 31, 1992. However, reporting entities with ESOPs that do not adopt SOP 93-6 are required to make all of the applicable disclosures listed above.

8. If the reporting entity issues shares or sells treasury shares to an ESOP or if a leveraged ESOP buys outstanding shares on the market rather than from the employer, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 13]

---

9. If the ESOP used assets from a terminated defined benefit pension plan to purchase employer shares, has a corresponding charge to unearned ESOP shares, a contra-equity account presented as a separate item in the balance sheet, been reported? [SOP 93-6, par. 46]

---

10. If the employer sponsors an ESOP with an indirect loan, is the outside loan reported as a liability and the receivable from the ESOP not reported on the employer’s balance sheet? [SOP 93-6, par. 26]

---

11. If the employer sponsors an ESOP with an employer loan, is the employer’s note receivable from the ESOP not reported in the employer’s balance sheet? [SOP 93-6, par. 27]

---

12. If the reporting entity has guaranteed the debt of an ESOP or made a commitment to make future contributions to the ESOP sufficient to meet debt service requirements, are the compensation element and the interest element of annual contributions reported separately and are the interest rate and debt terms disclosed in the notes to the financial statements? [SOP 76-3, par. 10]

---

**G. Employers’ Disclosures About Pensions and Other Postretirement Benefits**

**Pensions and Other Postretirement Benefits**

1. If an employer sponsors one or more defined benefit pension plans or one or more defined benefit post-retirement plans has the following information been provided:

   a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during

---

1 For defined benefit pension plans, the benefit obligation is the projected benefit obligation-the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation-the actuarial present value of benefits attributed to employee service rendered to a particular date.
the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes\(^2\) benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits?

[SFAS 132, par. 5a (AC P16.150, P40.169)]

\(b\). A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes,\(^3\) contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements?

[SFAS 132, par. 5b (AC P16.150, P40.169)]

c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:

1. The amount of any unamortized prior service cost?

2. The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?

3. The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of SFAS 87 or SFAS 106?

4. The net pension or other postretirement benefit prepaid assets or accrued liabilities?

5. Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended?

[SFAS 132, par. 5c (AC P16.150, P40.169)]

d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment?

[SFAS 132, par. 5d (AC P16.150, P40.169)]

e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended?

[SFAS 132, par. 5e (AC P16.150, P40.169)]

f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets?

[SFAS 132, par. 5f (AC P16.150, P40.169)]

\(2\) The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to SFAS 52, *Foreign Currency Translations.*

\(3\) Refer to footnote 2.
The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?

[SFAS 132, par. 5g (AC P40.169)]

The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits? (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)

[SFAS 132, par. 5h (AC P40.169)]

If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?

[SFAS 132, par. 5i (AC P16.150, P40.169)]

If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106?

[SFAS 132, par. 5j (AC P16.150, P40.169)]

If applicable, any substantive commitment such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation?

[SFAS 132, par. 5k (AC P16.150, P40.169)]

If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event?

[SFAS 132, par. 5l (AC P16.150, P40.169)]

An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by SFAS 132?

[SFAS 132. par. 5m (AC P16.150, P40.169)]

2. Are amounts related to the employer's results of operations disclosed for each period for which an income statement is presented?

[SFAS 132, par. 5 (AC P16.150, P40.169)]

3. Are amounts related to the employer's statement of financial position disclosed for each balance sheet presented?

[SFAS 132, par. 5 (AC P16.150, P40.169)]

Employers With Two or More Plans

4. The disclosures required by SFAS 132 may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for
all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7 of SFAS 132. Has the entity elected to aggregate these disclosures?

5. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligation in excess of assets. The same aggregation is permitted for postretirement plans. Has the entity elected to aggregate these disclosures?

6. If those disclosures are combined, has the employer disclosed the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets?

7. Has the aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also been disclosed?

8. Do disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately?

[SFAS 132, par. 6 (AC P16.153, P40.172)]

9. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions. Has the entity elected to combine these disclosures?

[SFAS 132, par. 7 (AC P16.153A, P40.173)]

Reduced Disclosure Requirements for Nonpublic Entities

10. For a nonpublic entity has the election been made to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of SFAS 132:

a. The benefit obligation, fair value of plan assets, and funded status of the plan?

[SFAS 132, par. 8a (AC P16.150A, P40.169A)]

b. Employer contributions, participant contributions, and benefits paid?

[SFAS 132, par. 8b (AC P16.150A, P40.169A)]

c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of SFAS 87, as amended?

[SFAS 132, par. 8c (AC P16.150A, P40.169A)]

d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of SFAS 87, as amended?

[SFAS 132, par. 8d (AC P16.150A, P40.169A)]

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4 A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market or (c) that is controlled by an entity covered by (a) or (b).
e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets?  
[SFAS 132, par. 8e (AC P16.150A, P40.169A)]  

f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved?  
[SFAS 132, par. 8f (AC P16.150A, P40.169A)]  

g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period?  
[SFAS 132, par. 8g (AC P16.150A, P40.169A)]  

h. The nature and effect of significant non-routine events, such as amendments, combinations, divestitures, curtailments, and settlements?  
[SFAS 132, par. 8h (AC P16.150A, P40.169A)]

**Defined Contribution Plans**

11. Has the employer disclosed the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans?  

12. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture?  
[SFAS 132, par. 9 (AC P16.162, P40.198)]

**Multiemployer Plans**

13. Has the employer disclosed the amount of contributions to multiemployer plans during the period?  

14. Has the employer chosen to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits? If so do the disclosures include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture?  
[SFAS 132, par. 10 (AC P16.166, P40.178)]  

15. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, have the provisions of SFAS 5, *Accounting for Contingencies*, been applied?  
[SFAS 132, par. 11 (AC P16.166)]
16. In some situations, withdrawal from a multiemployer plan may result in employer’s having an obligation to the plan for a portion of the plan’s unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer’s contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a “maintenance of benefits” clause), has the employer applied the provisions of SFAS 5, Accounting for Contingencies? [SFAS 132, par. 11 (AC P40.179)]

### H. Environmental Remediation Liabilities

1. Is there disclosure of the following accounting policies:
   
   a. Whether accruals for environmental remediation liabilities are measured on a discounted basis?

   b. The policy concerning the timing of recognition of recoveries?
      
      (Encouraged, but not required.)
      
      [SOP 96-1 (Ch. 7, pars. 11 and 12)]

2. Do the financial statements disclose the event, situation, or set of circumstances that triggered recognition of loss contingencies that arose out of the reporting entity’s environmental remediation-related obligations? (Encouraged, but not required.)

   [SOP 96-1 (Ch. 7, par. 12)]

**Recognized Losses and Recoveries of Losses, and Reasonably Possible Loss Exposures**

3. With respect to recorded accruals for environmental remediation loss contingencies and assets for third-party recoveries related to environmental remediation obligations, are the following disclosed?

   a. The nature of the accruals, if such disclosure is necessary for the financial statements not to be misleading, and, in situations where disclosure of the nature of the accruals is necessary, the total amount accrued for the remediation obligation, if such disclosure is also necessary for the financial statements not to be misleading?

   b. If any portion of the accrued obligation is discounted, the undiscounted amount of the obligation and the discount rate used in the present-value determinations?

   c. If the criteria of SOP 94-6 (it is at least reasonably possible that an estimate of the effect on the financial statements of a matter that existed at the balance-sheet date will change in the near term and the effect of the change would be material to financial statements) are met with respect to the accrued obligation or to any recognized asset for third-party recoveries, an indication that it is at least reasonably possible that a change in the estimate of the obligation or of the asset will occur in the near term?

   [SOP 96-1 (Ch. 7, par. 20)]

4. With respect to reasonably possible loss contingencies, including reasonably possible loss exposures in excess of the amount accrued, are the following disclosed:
a. The nature of the reasonably possible loss contingency, that is, a description of the reasonably possible remediation obligation, and an estimate of the possible loss exposure or the fact that such an estimate cannot be made?

b. If the criteria of SOP 94-6 are met with respect to estimated loss (or gain) contingencies, an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?

c. The estimated time frame of disbursements for recorded amounts if expenditures are expected to continue over the long term? (Encouraged, but not required.)

d. The estimated time frame for realization of recognized probable recoveries, if realization is not expected in the near term? (Encouraged, but not required.)

e. If the criteria of SOP 94-6 are met with respect to the accrued obligation, to any recognized asset for third-party recoveries, or to reasonably possible loss exposures or disclosed gain contingencies, the factors that cause the estimate to be sensitive to change? (Encouraged, but not required.)

f. If an estimate of the probable or reasonably possible loss or range of loss cannot be made, the reasons why it cannot be made? (Encouraged, but not required.)

g. If information about the reasonably possible loss or the recognized and additional reasonably possible loss for an environmental remediation obligation related to an individual site is relevant to an understanding of the financial position, cash flows, or results of operations of the entity, the following with respect to the site: (Encouraged, but not required.)

(1) The total amount accrued for the site?

(2) The nature of any reasonably possible loss contingency or additional loss, and an estimate of the possible loss or the fact that an estimate cannot be made and the reasons why it cannot be made?

(3) Whether other potentially responsible parties are involved and the entity’s estimated share of the obligation?

(4) The status of regulatory proceedings?

(5) The estimated time frame for resolution of the contingency?

[SOP 96-1 (Ch. 7, pars. 21 and 22)]

Probable But Not Reasonably Estimable Losses

5. If the reporting entity’s probable but not reasonably estimable environmental remediation obligations may be material, are the nature of the probable contingency (that is, a description of the remediation obligation) and the fact that a reasonable estimate cannot currently be made disclosed?

[SOP 96-1 (Ch. 7, par. 25)]

6. Is the estimated time frame for resolution of the uncertainty as to the amount of the loss disclosed? (Encouraged, but not required)

[SOP 96-1 (Ch. 7, par. 25)]
Environmental Remediation Costs Recognized Currently

7. Is the amount of environmental remediation costs recognized in the income statement disclosed in the following detail: *(Encouraged, but not required.)*
   
a. The amount recognized for environmental remediation loss contingencies in each period?  

b. The amount of any recovery from third parties that is credited to environmental remediation costs in each period?  

c. The income statement caption in which environmental remediation costs and credits are included?  
   
   [SOP 96-1 (Ch. 7, par. 29)]

Other Matters

8. Do the financial statements include a *contingency conclusion* that addresses the estimated total unrecognized exposure to environmental remediation and other loss contingencies? *(Optional.)*
   
   [SOP 96-1 (Ch. 7, par. 30)]

9. Is there a description of the general applicability and impact of environmental laws and regulations upon their business and how the existence of such laws and regulations may give rise to loss contingencies for future environmental remediation? *(Optional.)*
   
   [SOP 96-1 (Ch. 7, par. 31)]

I. Extinguishments of Debt

1. Are the gains and losses from extinguishment(s) of debt aggregated and, if material, shown as an extraordinary item, net of related income tax effect? *(Note: Does not apply to gains and losses from extinguishments of debt made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment.)*
   
   [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]

2. Are gains or losses from extinguishment(s) made to satisfy sinking fund requirements that the reporting entity must meet within one year of the date of the extinguishment aggregated and identified as a separate item?
   
   [SFAS 4, par. 8, as amended by SFAS 64, par. 4 (AC L35.107)]

3. For gains and losses from extinguishment(s) of debt that are classified as an extraordinary item, are the following disclosed in a single note to the financial statements or adequately cross-referenced if in more than one note, to the extent not shown separately on the face of the income statement:
   
a. A description of the extinguishment transactions, including sources of any funds used to extinguish debt if it is practicable to identify the sources?  

b. The income tax effect in the period of extinguishment?  

c. The per share amount of the aggregate gain or loss net of related income tax effect?
   
   [SFAS 4, par. 9 (AC L35.109c)]
4. If debt was considered to be extinguished under the provisions of SFAS 76 prior to the effective date of SFAS 125, do disclosures include:
   a. A general description of the transaction?  
   b. The amount of debt that is considered extinguished at the end of the period as long as the debt remains outstanding?  
      [SFAS 125, par. 17b; SFAS 140, par. 17b (AC L35.109a)]

5. If assets were set aside after the effective date of SFAS 125 (December 31, 1996) solely for satisfying scheduled payments of a specific obligation, is disclosure made describing the nature of restrictions placed on assets?  
   [SFAS 125, par. 17c; SFAS 140, par. 17c (AC L35.109b)]

6. If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under SFAS 133 when the debt is extinguished, is the reclassified amount not classified as extraordinary?  
   [EITF 00-9]

7. Is the component of gain or loss resulting from a prior period adjustment of the debt's carrying amount for a fair value hedge classified in accordance with the requirements of SFAS 4 when that debt is extinguished?  
   [EITF 00-9]

J. Financial Instruments

**Note:** If SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, has not been adopted, the following questions do not apply. See section J1 for the disclosures required prior to the effective date of SFAS 133. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.

*Derivative Instruments and Hedging Activities*

1. If an entity holds or issues derivative instruments (or non-derivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives?  

2. Does the description distinguish between derivative instruments (and non-derivative instruments) designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, derivative instruments (and non-derivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives?  

3. Does the description also indicate the entity’s risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged?  

4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?  

5. Qualitative disclosures about an entity’s objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of an entity’s overall
Do not risk a fair complete (1) derivative value entity's (4) the qualified required, (3) SFAS 133, par. 44 (AC D50)]

6. Do the entity's disclosures for every reporting period for which a complete set of financial statements is presented also include the following:

**Fair Value Hedges**

a. For derivative instruments, as well as non-derivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?

(2) The amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge?

[SFAS 133, par. 45a (AC D50)]

**Cash Flow Hedges**

b. For derivative instruments that have been designated and have qualified as cash flow hedging instruments and for the related hedged transactions:

(1) The net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance?

(2) A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months?

(3) The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments?

(4) The amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within additional two-month period of time thereafter?

[SFAS 133, par. 45b, as amended by SFAS 138, par. 4r (AC D50)]
Hedges of the Net Investment in a Foreign Operation

c. For derivative instruments, as well as non-derivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133, par. 45c (AC D50)]

7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or non-financial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the entity presented a more complete picture of its activities by disclosing that information? (Encouraged, but not required.) [SFAS 133, par. 45 (AC D50)]

Disclosures About Fair Value of Financial Instruments

8. Has the entity disclosed, either in the body of the financial statements or in the accompanying notes, the fair value of financial instruments (except for those excluded in paragraphs 8 and 13 of SFAS 107) for which it is practicable to estimate fair value? [SFAS 107, par. 10 (AC F25)]

9. Has the fair value disclosed in the notes been presented together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the statement of financial position? [SFAS 107, par. 10 (AC F25)]

10. In disclosing the fair value of a financial instrument, has the entity taken care not to net that fair value with the fair value of other financial instruments—even if those financial instruments are of the same class or are otherwise considered to be related, for example, by a risk management strategy—except to the extent that the offsetting of amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASBI 39, 

     Offsetting of Amounts Related to Certain Contracts, or the exceptions for master netting arrangements in paragraph 10 of FASBI 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASBI 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements? [SFAS 107, par. 14 (AC F25)]

11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:

a. Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?

b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25)]

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5 If disclosed in more than a single note, one of the notes shall include a summary table. The summary table shall contain the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by this Statement as amended.
Practice Tip

SFAS 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Non-public Entities, makes the disclosure about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities
- Have total assets of less than $100 million on the date of the financial statements, and
- Have no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, during the reporting period.

Disclosure About Concentrations of Credit Risk of All Financial Instruments

12. Except as indicated in paragraph 15B of SFAS 107, has the entity disclosed all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (Group concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)?

13. Has the entity made the following disclosures about each significant concentration:

   a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?

   b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the entity?

   c. The entity's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the entity's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?

   d. The entity's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements for which the entity is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the entity's maximum amount of loss due to credit risk?

— SFAS 107, par. 15A (AC F25) —
14. Has the entity disclosed quantitative information\(^7\) about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? (Encouraged, but not required.)

[SFAS 107, par. 15C (AC F25)]

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15. For a written put option involving a reporting entity’s own stock that gives the reporting entity a choice of settlement methods, is the classification within equity based on the settlement method that required the written put option to be initially classified as equity under the EITF 94-7 framework?

[EITF 96-13]

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16. Are the classification guidelines under EITF 96-13 followed for written put options involving a reporting entity’s own stock that give the reporting entity a choice of settlement methods?

[EITF 96-13]

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The following table lists the types of financial instruments that were most commonly reported in the financial statements of 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

### FINANCIAL INSTRUMENTS

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</tr>
<tr>
<td>Letters of credit</td>
<td>172</td>
<td>166</td>
<td>177</td>
<td>183</td>
<td>170</td>
</tr>
<tr>
<td>Sale of receivables with recourse</td>
<td>26</td>
<td>28</td>
<td>33</td>
<td>61</td>
<td>78</td>
</tr>
</tbody>
</table>

J1. Financial Instruments

Note: The following disclosures apply only if SFAS 133, Accounting for Derivative Instruments and Hedging Activities has not been adopted. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.

1. Are significant concentrations of credit risk arising from cash deposits in excess of federally insured limits disclosed?

[SFAS 105, par. 20 (AC F25.115)]

\(^7\) Appropriate ways of reporting the quantitative information encouraged will differ for different entities and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (a) more details about current positions and perhaps activity during the period, (b) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (c) a gap analysis of interest rate re-pricing or maturity dates, (d) the duration of the financial instruments, or (e) the entity’s value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and an entity is encouraged to develop other ways of reporting quantitative information.
2. Are significant concentrations of credit risk arising from receivables disclosed? 
   [SFAS 105, par. 20 (AC F25.115)]

3. Are significant concentrations of credit risk arising from concentrations of securities of a particular issuer disclosed? 
   [SFAS 105, par. 20 (AC F25.115)]

4. If the reporting entity holds or is party to financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed by category of financial instrument:

   | Note: “Category of financial instrument” refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the reporting entity also should describe for each category the classes of financial instruments included in that category. |
   |---|---|---|
   | a. The face or contract amount (or notional principal amount if there is no face or contract amount)? |
   | b. The nature and terms, including, at a minimum, a discussion of: |
   |   (1) The credit and market risk of those instruments? |
   |   (2) The cash requirements of those instruments? |
   |   (3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? |
   |   [SFAS 105, par. 17 (AC F25.112)] |
   | c. The amount of accounting loss the reporting entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the reporting entity? |
   | d. The reporting entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk? |
   | e. Information about the reporting entity’s access to that collateral or other security? |
   | f. The nature and a brief description of the collateral or other security supporting those financial instruments? |
   | [SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)] |

5. Do the disclosures in questions 1a and b distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? 
   [SFAS 105, par. 17, as amended by SFAS 119, par. 14 (AC F25.112A)]

6. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed by category of financial instrument:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The reporting entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Information about the reporting entity’s access to that collateral or other security?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The nature and a brief description of the collateral or other security supporting those financial instruments?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[SFAS 105, par. 18, as amended by SFAS 119, par. 14 (AC F25.113)]</td>
<td></td>
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</tr>
</tbody>
</table>

7. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for those excluded in SFAS 105), include:

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>a. Information about the (shared) activity, region, or economic characteristic that identified the concentration?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b. The amount of accounting loss due to credit risk the reporting entity would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the reporting entity?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

c. The reporting entity’s policy of requiring collateral or other security to support financial instruments subject to credit risk?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

d. The information about the reporting entity’s access to that collateral or other security?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

e. The nature and a brief description of the collateral or other security supporting those financial instruments?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

[SFAS 105, par. 20 (AC F25.115)]

---

**Practice Tip**

SFAS 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*, makes the disclosures about fair values of financial instruments prescribed in SFAS 107 optional for reporting entities that:

- Are nonpublic entities,
- Have total assets of less than $100 million on the date of the financial statements, and
- Did not hold or issue any derivative financial instruments (as defined in SFAS 119) during the reporting period.

---

8. For financial instruments for which it is practicable to estimate fair value (except for those excluded in paragraphs 8 and 13 of SFAS 107) are the following disclosed:

<table>
<thead>
<tr>
<th>a.</th>
<th>The fair value of the financial instruments?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

b. The methods and significant assumptions used to estimate the fair values of the instruments? *(Note: This disclosure is not required for trade receivables and payables when their carrying amounts approximate fair value.)*

<table>
<thead>
<tr>
<th>SFAS 107, par. 10 (ACF25.115C)</th>
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</thead>
<tbody>
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</table>

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

9. Are the fair values disclosed in the notes presented together with the related carrying amounts in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the balance sheet?

<table>
<thead>
<tr>
<th>SFAS 119, par. 15b (AC F25.115C)</th>
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<tbody>
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<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</table>

10. Do the disclosures distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading?

<table>
<thead>
<tr>
<th>SFAS 119, par. 15c (AC F25.115C)</th>
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</thead>
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<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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</tbody>
</table>

11. If it is not practicable to estimate the fair value of a financial instrument or a class of financial instruments, are the following disclosed:

<table>
<thead>
<tr>
<th>a.</th>
<th>Information pertinent to estimating the fair value of that financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

b. The reasons why it is not practicable to estimate fair value?

<table>
<thead>
<tr>
<th>SFAS 107, par. 14 (ACF25.115)</th>
</tr>
</thead>
<tbody>
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</table>

<table>
<thead>
<tr>
<th>Yes</th>
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<th>N/A</th>
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</tbody>
</table>

54
12. In disclosing the fair value of derivative financial instruments, does the reporting entity not:

   a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?

   b. Net the fair value with the fair value of other derivative financial instruments?

   \[SFAS\ 119,\ par.\ 15d\ (AC\ F25.115)]

   \[SFAS\ 119,\ par.\ 15d\ (AC\ F25.115)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

Practice Tip

In certain situations, offsetting may be permitted under FASBI 39, *Offsetting of Amounts Related to Certain Contracts*, as modified by FASBI 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

13. For options held and other derivative financial instruments not within the scope of SFAS 105 (because they do not have off-balance-sheet risk of accounting loss), are the following disclosures made by category of financial instrument:

   a. The face or contract amount (or notional principal amount if there is no face or contract amount)?

   b. The nature and terms, including at a minimum a discussion of:

      (1) Credit and market risk of the instruments?

      (2) Cash requirements of the instruments?

      (3) Related accounting policy as required by APB 22?

   \[SFAS\ 119,\ par.\ 8\ (AC\ F25.115L)]

<table>
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<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

14. Do disclosures in questions 10a and b above distinguish between financial instruments held or issued for:

   a. Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?

   b. Purposes other than trading?

   \[SFAS\ 119,\ par.\ 9\ (AC\ F25.115M)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

15. If the reporting entity holds or issues derivative financial instruments for trading purposes, are the following disclosed:

   a. The average fair value of those derivative financial instruments during the reporting period presented together with the related end-of-period fair value, distinguishing between assets and liabilities?

   b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk, or other category consistent with management of those activities and where those net trading gains or losses are reported in the income statement?

   (1) If the disaggregation is other than by class, are the classes of derivative financial instruments, other financial instruments and nonfinancial assets and liabilities from which the net trading gains and losses arose disclosed for each category?

   c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets? (Encouraged, but not required.)

   \[SFAS\ 119,\ par.\ 10\ (AC\ F25.115N)]

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
</table>
16. If the reporting entity holds or issues derivative financial instruments for purposes other than trading, are the following disclosed:

- **a.** A description of:
  - (1) The objectives for holding or issuing?
  - (2) The context needed to understand those objectives?
  - (3) The strategies for achieving those objectives?
  - (4) The classes of derivative financial instruments used?

- **b.** A description of how each class of derivative financial instrument is reported in the financial statements, including:
  - (1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?
  - (2) When recognized, where the instruments and related gains and losses are reported?

- **c.** For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:
  - (1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?
  - (2) A description of the classes of derivative financial instruments used to hedge?
  - (3) The amount of explicitly deferred hedging gains and losses?
  - (4) A description of the transactions or events that result in the recognition in earnings of the deferred gains or losses?

  [SFAS 119, par. 11 (AC F25.115O)]

17. Is quantitative information about the following considered for disclosure (Encouraged, but not required):

- **a.** Interest rate?
- **b.** Foreign exchange?
- **c.** Commodity price?
- **d.** Other market risks consistent with management’s strategies?
- **e.** Information about the risks of other financial instruments or non-financial assets and liabilities to which the derivative financial instruments are related?

  [SFAS 119, pars. 12 and 13 (AC F25.115P and .115Q)]

### Practice Tip

Methods of disclosure of this quantitative information about risks of derivative financial instruments include:

- **a.** Additional details about current positions and activity.
- **b.** Hypothetical effects on equity or annual income of several possible changes in market prices.
- **c.** Gap analysis of interest rate repricing or maturity dates.
- **d.** Duration of the financial instruments.
- **e.** The reporting entity’s value at risk from derivative financial instruments and other positions at year-end and the average value at risk during the year.
18. For a written put option involving a reporting entity’s own stock that
gives the reporting entity a choice of settlement methods, is the
classification within equity based on the settlement method that
required the written put option to be initially classified as equity
under the EITF 94-7 framework?
[EITF 96-13]

19. Are the classification guidelines under EITF 96-13 followed for writ-
ten put options involving a reporting entity’s own stock that give the
reporting entity a choice of settlement methods?
[EITF 96-13]

Note: If SFAS 133 has not been adopted, replace questions 2, 3, 4, 5, and 6 in section C of the Balance Sheet
section with the following questions—

17. For investments in debt and marketable equity securities classified as
available-for-sale or held-to-maturity, are the following disclosures
made by major-security type, for each balance sheet presented:
   a. Aggregate fair value?
   b. Gross unrealized holding gains or losses?
   c. Amortized cost basis?
      [SFAS 115, par. 19 (AC l80.118)]

18. For investments in debt securities classified as available-for-sale or
held-to-maturity:
   a. Is disclosure made about their contractual maturities as of the date
      of the latest balance sheet presented (maturity information may be
      combined in appropriate groupings)?
   b. If securities not due at a single date (such as mortgage-backed
      securities) are allocated over several maturity groupings, is the
      basis for allocation disclosed?
      [SFAS 115, par. 20 (AC l80.119)]

19. For each period for which an income statement is presented, are the
following disclosed:
   a. The proceeds from sales of available-for-sale securities and gross
      realized gains and losses on those sales?
   b. The basis on which cost was determined in computing realized
      gain or loss (i.e., specified identification, average cost, or other
      method used)?
   c. The gross gains and losses included in earnings from transfers
      of securities from the available-for-sale category to the trading
      category?
   d. The change in net unrealized holding gain or loss on available-for-
      sale securities that is included in other comprehensive income?
   e. The change in net unrealized holding gain or loss on trading
      securities that is included in earnings?
      [SFAS 115, par. 21 (AC l80.120)]

20. For any sales of or transfers from securities classified as held-to-
maturity, are the following disclosed for each period for which an
earnings statement is presented:
   a. Amortized cost of the sold or transferred security?
   b. Related realized or unrealized gain or loss?
c. The circumstances leading to the decision to sell or transfer the security?  
[SFAS 115, par. 22 (AC I80.121)]

K. Foreclosed Assets

1. Are foreclosed assets held for the production of income reported and accounted for in the same way had they been acquired by other means?  
[SOP 92-3, par. 15]

2. If foreclosed assets originally classified as held-for-sale are to be held for production of income, is the net effect reported in income from continuing operations in the period in which the decision to retain the asset was made?  
[SOP 92-3, par. 16]

L. Foreign Currency Translation

1. Is the aggregate transaction gain or loss included in net income for the period disclosed? (Note: For this disclosure, gains and losses on forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52, shall be considered transaction gains or losses.8)  
[SFAS 52, par. 30 (AC F60.140)]

2. Is an analysis of changes during the period in the accumulated amount of translation adjustments reported in equity included, and does it disclose:
   
   a. Beginning and ending amount of cumulative translation adjustments?
   
   b. The aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances? (Note: Paragraph 45c of SFAS 133 specifies additional disclosures for instruments designated as hedges of the foreign currency exposure of a net investment in a foreign operation. See section J1.)

   c. The amount of income taxes for the period allocated to translation adjustments?

   d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity?  
[SFAS 52, par. 31 (AC F60.141)]

3. If significant rate changes have occurred after the date of the financial statements, are the effects on unsettled balances related to foreign currency translations disclosed?  
[SFAS 52, par. 32 (AC F60.142)]

4. Are any foreign earnings reported in addition to amounts received in the U.S. disclosed, if significant?  
[ARB 43, Ch. 12, par. 5 (AC F65.102)]

8 If SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, the phrase "forward contracts determined in conformity with the requirements of paragraphs 18 and 19 of SFAS 52 shall be considered transaction gains or losses" is replaced by "derivative instruments shall comply with paragraph 45 of SFAS 133." SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.
5. If the reporting entity entered into a foreign currency swap contract to replace foreign currency debt with reporting currency debt, is the contract accounted for separately and not netted against the foreign currency debt (because they are two separate legal transactions and do not have the legal right of setoff)?

[EITF 86-25; FASBI 39]

6. Is the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities reported in shareholders' equity?

[EITF 96-15]

7. Are foreign currency transaction gains and losses on a forward exchange contract or a foreign-currency-denominated liability that is designated as, and is effective as, a hedge of the foreign-currency-denominated available-for-sale debt security also reported in the SFAS 115 component of shareholders' equity (to offset the portion of the market value change of a foreign-currency-denominated available-for-sale debt security attributable to foreign exchange rates)?

[EITF 96-15]

M. Futures Contracts [If SFAS 133 has not been adopted]

Note: If SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been adopted, question 1 does not apply. See section J for the required disclosures. SFAS 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000.

1. If futures contracts are accounted for as hedges, do disclosures include:

   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?

   b. The method of accounting for the futures contract, including a description of the events or transactions that result in recognition in income of changes in value of the futures contract?

   [SFAS 80, par. 12 (AC F80.112)]

N. Impaired Loans

1. Is the following information about loans that meet the definition of impaired loans in SFAS 114 disclosed as of the date of each balance sheet presented:

   a. The total recorded investment in the impaired loans?

   b. The amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with SFAS 114 and the amount of that allowance?

   c. The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with SFAS 114?

   [SFAS 118, par. 6i (AC I08.118a)]

2. Is the policy for recognizing interest income on impaired loans, including how cash receipts are handled, disclosed?

   [SFAS 114, par. 6i (AC I08.118b)]

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3. Are the following disclosures made for each period for which an income statement is presented:

   a. The average recorded investment in the impaired loans during the period? ___________________________ × __________ __________

   b. The related amount of interest income recognized during the time within the period that the loans were considered impaired? ___________________________ × __________ __________

   c. Unless not practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within the period that the loans were impaired? ___________________________ × __________ __________

   d. Activity in the total allowance for credit losses related to loans, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off? (Note: The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with SFAS 5 and SFAS 114.) ___________________________ × __________ __________

[SFAS 118, par. 6i (AC 108.118c)]

**Practice Tip**

Information about impaired loans that have been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by questions 1 and 3a–c above in years after the restructuring if (a) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk and (b) the loan is not impaired based on the terms specified in the restructuring agreement. That exception must be applied consistently for questions 1 and 3a–c above to all loans restructured in a troubled debt restructuring that meet the specified criteria.

4. In years after a restructuring, are loans that are restructured in a troubled debt restructuring into two (or more) loan agreements considered separately when assessing the applicability of the disclosures in paragraphs 20(a) and 20(c) of SFAS 114 as amended by SFAS 118 (questions 1 and 3a–c above)? ___________________________ × __________ __________

[SFAS 118, par. 6i (AC 108.118c)]

5. If the reporting entity is an SEC registrant, is adequate disclosure made of the impact of the multiple loan structures on impaired loan disclosures for loans restructured in troubled debt restructurings? ___________________________ × __________ __________

[SFAS 118, par. 6i (AC 108.118c)]

**O. Impairment of Long-Lived Assets**

1. If an impairment loss is recognized for assets to be held and used, do disclosures include:

   a. A description of the impaired assets and the facts and circumstances leading to the impairment? ___________________________ × __________ __________

   b. The amount of the impairment loss and how fair value was determined? ___________________________ × __________ __________

   c. The caption in the income statement in which the impairment loss is aggregated if that loss is not presented as a separate caption or reported parenthetically on the face of the statement? ___________________________ × __________ __________

   d. The business segment(s) affected, if applicable? ___________________________ × __________ __________

[SFAS 121, par. 14 (AC 108.133)]
2. For assets to be disposed of, do disclosures include:
   a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets? ___ ___ ___
   b. The business segment(s) in which assets to be disposed of are held, if applicable? ___ ___ ___
   c. The loss, if any, resulting from applying paragraph 15 of SFAS 121? ___ ___ ___
   d. The gain or loss, if any, resulting from changes in the carrying amounts of assets to be disposed of that arises from applying paragraph 17 of SFAS 121? ___ ___ ___
   e. The caption in the income statement in which the gains or losses in c and d are aggregated if those gains or losses are not presented as a separate caption or reported parenthetically on the face of the statement? ___ ___ ___
   f. The results of operations for assets to be disposed of to the extent that those results are included in the reporting entity’s results of operations for the period and can be identified? [SFAS 121, par. 19] ___ ___ ___

3. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18] ___ ___ ___

P. Leases—Lessors

1. For sales-type and direct financing leases, do disclosures include:
   a. The components of the net investment in sales-type and direct financing leases as of each balance-sheet date:
      (1) Future minimum lease payments to be received, with separate deductions for (a) amounts representing executory costs, including any profit thereon, included in minimum lease payments and (b) the accumulated allowances for uncollectible minimum lease payments receivable? ___ ___ ___
      (2) The unguaranteed residual values accruing to the benefit of the lessor? ___ ___ ___
      (3) For direct financing leases only, initial direct costs? ___ ___ ___
      (4) Unearned income? ___ ___ ___
   b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the latest balance sheet presented? ___ ___ ___
   c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23a, as amended by SFAS 91, par. 25 (AC L10.119a)] ___ ___ ___

2. For operating leases, do disclosures include:
   a. The cost and carrying amount (if different) of property on lease or held for leasing by major classes of property according to nature and function, and the amount of accumulated depreciation in total as of the latest balance-sheet date? ___ ___ ___
   b. Minimum future rentals on noncancelable leases as of the latest balance-sheet date presented, in the aggregate and for each of the five succeeding fiscal years? ___ ___ ___
   c. Total contingent rentals included in income for each period for which an income statement is presented? [SFAS 13, par. 23b (AC L10.119b)] ___ ___ ___
3. For investments in leveraged leases, do disclosures include:
   a. In the balance sheet, the amount of deferred taxes presented separately from the remainder of the net investment?  
   b. In the income statement or the notes thereto, separate presentation (from each other) of pretax income from the leveraged lease, the tax effect of pretax income, and the amount of investment tax credit recognized as income during the period?  
   c. When leveraged leasing is a significant part of the lessor’s business activities in terms of revenue, net income, or assets, the components of the net investment balance in leveraged leases in the notes to the financial statements? [SFAS 13, par. 47 (AC 1L0.149)]

4. Do disclosures include a general description of the lessor’s leasing arrangements? [SFAS 13, par. 23 (AC 1L0.119c)]

5. For leasing transactions with related parties, are the nature and extent of the transaction disclosed? [SFAS 13, par. 29 (AC 1L0.125)]

6. For contingent rental income:
   a. Has disclosure been made of the lessor’s accounting policy for contingent rental income?
   b. If the lessor accrues contingent rental income prior to the lessee’s achievement of the specified target (provided achievement of that target is considered probable), has disclosure been made of the impact on rental income as if the lessor’s accounting policy was to defer contingent rental income until the specified target is met? [EITF 98-9]

Q. Leases—Lessees

1. For capital leases, do disclosures include:
   a. The gross amounts of assets recorded as of each balance-sheet date presented by major classes according to nature or function? (Note: This information may be combined with comparable information for owned assets.) [SFAS 13, par. 16 (AC 1L0.112a(1))]  
   b. Future minimum lease payments as of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years with separate deductions from the total for the amount representing executory costs, including any profit thereon, included in the minimum lease payments and for the amount of imputed interest necessary to reduce net minimum lease payments to present value? [SFAS 13, par. 16a (AC 1L0.112a(2))]  
   c. Total of future minimum sublease rentals to be received in the future under noncancelable subleases as of the latest balance-sheet date? [SFAS 13, par. 16a (AC 1L0.112a(3))]  
   d. Total contingent rentals actually incurred for each period for which an income statement is presented? [SFAS 13, par. 16a (AC 1L0.112a(4))]  
   e. Are the following separately identified in the balance sheet or in the notes to the financial statements:
Yes  No  N/A

(1) Assets recorded under capital leases and the accumulated amortization thereon related obligations under the lease?  ____  ____  ____

(2) The related obligations under the lease?  [SFAS 13, par. 13 (AC L10.112a(5))]  ____  ____  ____

f. Amortization expense, unless it is included in depreciation expense and that fact is disclosed?  [SFAS 13, par. 13 (AC L10.112a(5))]  ____  ____  ____

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, do disclosures include:
   a. Future minimum rental payments required as of the latest balance sheet presented, in the aggregate, and for each of the five succeeding fiscal years?  ____  ____  ____
   b. Total of future minimum rentals under noncancelable subleases as of the date of the latest balance sheet presented?  [SFAS 13, par. 16b (AC L10.112b)]  ____  ____  ____

3. For all operating leases:
   a. Do disclosures include rental expense for each period for which an income statement is presented?  ____  ____  ____
   b. Are separate amounts presented for:
      (1) Minimum rentals?  ____  ____  ____
      (2) Contingent rentals?  ____  ____  ____
      (3) Sublease rentals?  [SFAS 13, par. 16c (AC L10.112c)]  ____  ____  ____

4. Do disclosures include a general description of the lessee's leasing arrangements including but not limited to:
   a. The basis on which contingent rental payments are determined?  ____  ____  ____
   b. The existence and terms of renewal or purchase options or escalation clauses?  ____  ____  ____
   c. Restrictions imposed by lease agreements, such as those concerning dividends, additional debt or further leasing?  [SFAS 13, par. 16d (AC L10.112d)]  ____  ____  ____

5. If there is a modification of lease terms and the increase in lease payments is a termination penalty, is the accounting policy disclosed in accordance with APB 22?  [EITF 95-17; APB 22, pars. 12–14 (AC L10.108 and 109)]  ____  ____  ____

R. Nonmonetary Transactions

1. Do disclosures for nonmonetary transactions during the period include:
   a. Nature of the transactions?  ____  ____  ____
   b. Basis of accounting for the assets transferred?  ____  ____  ____
   c. Gains or losses recognized on the transfers?  [APB 29, par. 28 (AC N35.120)]  ____  ____  ____

2. Is the amount of gross operating revenue recognized as a result of nonmonetary transactions addressed by EITF Issue 00-8, Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services, disclosed in each period's financial statements?  [EITF Issue 00-8]  ____  ____  ____
S. Postemployment Benefits

1. If an obligation for postemployment benefits (for example, salary continuation, supplemental unemployment benefits, severance benefits, disability related benefits, job training and counseling, and continuation of health and insurance coverage) has not been accrued because the amount cannot be reasonably estimated, is that fact disclosed in the financial statements? [SFAS 112, par. 7 (AC P32.105)]

T. Related-Party Transactions and Economic Dependency

1. For related-party transactions, do disclosures include:
   a. The nature of the relationships involved?
   b. For each period for which an income statement is presented:
      (1) A description of the transaction, including transactions to which no amounts or nominal amounts were ascribed?
      (2) Other information deemed necessary to an understanding of the effects of the transaction on the financial statements?
      (3) The dollar amount of transactions?
      (4) The effect of any changes in the method of establishing the terms from that used in the preceding period?
   c. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2–4 (AC R36.102–104)]

2. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57, par. 3 (AC R36.103)]

3. If (a) the reporting entity and one or more other enterprises are under common ownership or management control and (b) the existence of the control could result in operating results or financial position of the reporting entity being significantly different from that if the enterprise were autonomous, is the nature of the controlled relationships disclosed (even if there are no transactions between the enterprises)? [SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]

5. Are combined financial statements considered for entities under common control? [ARB 51, pars. 22 and 23 (AC C51.121 and .122)]

U. Research and Development Arrangements

1. If the reporting entity accounts for its obligations under research and development arrangements as contracts to perform research and development for others in accordance with SFAS 68, are the following disclosed:
a. The terms of significant agreements under the research and development arrangements (including royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding) as of the date of each balance sheet presented?  

b. The amount of compensation earned and costs incurred under such contracts for each period for which an income statement is presented?  

[SFAS 68, par. 14 (AC R55.112)]

V. Restructuring Charges

1. If a material liability is recognized for certain employee termination benefits in accordance with Section A of EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), are the following disclosures made in all periods until the plan of termination is completed:

   a. The amount of termination benefits accrued and charged to expense and the classification of those costs in the income statement?  

   b. The number of employees to be terminated?  

   c. A description of the employee group(s) to be terminated?  

   d. The amount of actual termination benefits paid and charged against the liability and the number of employees actually terminated as a result of the plan to terminate employees?  

   e. The amount of any adjustment(s) to the liability?  

   [EITF 94-3, Section A]

2. If management commits to an exit plan that meets the criteria in Section B of EITF 94-3, are the following reporting requirements followed:

   a. Reporting the income statement effect of recognizing a liability at the commitment date in income from continuing operations and not on the face of the income statement net of taxes?  

   b. No disclosure made on the face of the income statement for earnings per share effect?  

   c. Revenue and related costs and expenses of activities that will not be continued should not be combined and reported as a separate component of income?  

   [EITF 94-3, Section B]

3. If the activities that will not be continued are significant to the reporting entity's revenue or operating results, or if the exit costs recognized at the commitment date are material, are the following disclosures made in all periods until the exit plan is completed:

   a. A description of the major actions comprising the exit plan, activities that will not be continued, including the method of disposition, and the anticipated date of completion?  

   b. A description of the type and amount of exit costs recognized as liabilities and the classification of those costs in the income statement?  

   c. A description of the type and amount of exit costs paid and charged against the liability?  

   d. The amount of any adjustment(s) to the liability?  

   e. For all periods presented, the revenue and net operating income or losses from activities that will not be continued if those activities have separately identifiable operations?  

   [EITF 94-3, Section B]
W. Segment Information

1. Are the factors used to identify the reporting entity’s reportable segments, including the basis of organization (for example, whether management has chosen to organize the reporting entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated) disclosed? [SFAS 131, par. 26 (AC F30.125)]

2. Are the types of products and services from which each reportable segment derives its revenues disclosed? [SFAS 131, par. 26 (AC F30.125)]

3. Has a measure of profit or loss and total assets been reported for each reportable segment? [SFAS 131, par. 27 (AC F30.126)]

4. If the following specified amounts (a) are included in the measure of segment profit or loss reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss, are they disclosed for each reportable segment:
   (1) Revenues from external customers?
   (2) Revenues from transactions with other operating segments of the reporting entity?
   (3) Interest revenue?
   (4) Interest expense?
   (5) Depreciation, depletion, and amortization expense?
   (6) Unusual items as described in paragraph 26 of APB 30?
   (7) Equity in the net income of investees accounted for by the equity method?
   (8) Income tax expense or benefit?
   (9) Extraordinary items?
   (10) Significant noncash items other than depreciation, depletion, and amortization expense? [SFAS 131, par. 27 (AC F30.126)]

5. If the following specified amounts are (a) included in the determination of segment assets reviewed by the chief operating decision maker or (b) are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment assets, are they disclosed for each reportable segment:
   (1) The amount of investment in equity method investees?
   (2) Total expenditures for additions to long-lived assets other than financial instruments and deferred tax assets? [SFAS 131, par. 28 (AC F30.127)]

6. Is an explanation of the measurements of segment profit or loss and segment assets that discloses the following for each reportable segment provided:
   a. The basis of accounting for any transactions between reportable segments?
b. The nature of any differences between the reporting entity’s consolidated income before taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principle?

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c. The nature of any differences between the measurements of the reportable segments’ assets and the reporting entity’s consolidated assets?

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d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss?

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e. The nature and effect of any asymmetrical allocations to segments? [SFAS 131, par. 31 (AC F30.130)]

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7. Are reconciliations of the totals of the reportable segments’ revenues, measures of profit or loss, assets, and every other significant item of information disclosed to corresponding consolidated amounts presented with all significant reconciling items separately identified and described? [SFAS 131, par. 32 (AC F30.131)]

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8. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments, is the corresponding information for prior periods restated and is the fact that the corresponding items of segment information for earlier periods have been restated disclosed? [SFAS 131, par. 34 (AC F30.133)]

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9. If the reporting entity changes the structure of its internal organization in a manner that changes the composition of its reportable segments and the corresponding information for prior periods is not restated, does disclosure in the year in which the change occurs include segment information for the current period under both the old basis and the new basis? [SFAS 131, par. 35 (AC F30.134)]

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10. For all reporting entities subject to SFAS 131, including those that have a single reportable segment, are the following enterprise-wide items disclosed:

a. Revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so? [SFAS 131, par. 37 (AC F30.136)]

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b. The following geographic information unless it is impracticable to do so:

1. Revenues from external customers (a) attributed to the reporting entity’s country of domicile and (b) attributed to all foreign countries in total from which the reporting entity derives revenue?

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2. Revenues from external customers attributed to an individual foreign country, if material?

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3. The basis for attributing revenues from external customers to individual countries?

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4. Long-lived assets other than financial instruments and deferred tax assets (a) located in the reporting entity’s country of domicile and (b) located in all foreign countries in total in which the reporting entity holds assets?

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(5) Long-lived assets as described above in an individual foreign
country, if material?
[SFAS 131, par. 38 (AC F30.137)]

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c. Information about the extent of the reporting entity's reliance on
its major customers, including the following:

(1) If revenues from transactions with any single customer amount
to 10 percent or more of the reporting entity's revenues, that fact,
the total amount of revenues from each such customer, and the
identity of the segment or segments reporting the revenue?
[SFAS 131, par. 39 (AC F30.138)]

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11. If the information described in questions 10a and b above has not been
disclosed because it is impracticable, is that fact disclosed?
[SFAS 131, pars. 37 and 38 (AC F30.136 and .137)]

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X. Stock Compensation Plans

1. If the reporting entity continues to apply APB 25 in accounting for its
stock-based compensation arrangements, is the pro forma net income
and, if earnings per share are presented, pro forma earnings per share
determined as if the fair-value based method (described in SFAS 123)
had been applied in measuring compensation cost, disclosed for each
year for which an income statement is presented?
[SFAS 123, par. 45 (AC C36.144)]

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2. Is a description of the plan(s), including the general terms of awards
under the plan(s) disclosed?
[SFAS 123, par. 46 (AC C36.145)]

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3. Are the following disclosed for each year for which an income state-
ment is presented:

   a. The number and weighted-average exercise prices of options for
each of the following groups of options:

      (1) Those outstanding at the beginning of the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (2) Those outstanding at the end of the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (3) Those exercisable at the end of the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (4) Those granted during the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (5) Those exercised during the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (6) Those forfeited during the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

      (7) Those expired during the year?

      |       | Yes | No | N/A |
      |-------|-----|----|-----|
      |       |     |    |     |

   b. The weighted-average grant-date fair value of options granted
during the year? (*Note: That if the exercise prices of some options
differ from the market price of the stock on the grant date,
weighted-average fair values of options shall be disclosed sepa-
ately for options whose exercise price (1) equals, (2) exceeds, or
(3) is less than the market price of the stock on the grant date.)

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   c. The number and weighted-average grant date-fair value of equity
instruments other than options granted during the year?

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   d. A description of the method and significant assumptions used during
the year to estimate the fair values of options, including the following
weighted-average information: (1) risk-free interest rate, (2) expected
life, (3) expected volatility, and (4) expected dividends?

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c. Total compensation cost recognized in income for stock-based employee compensation awards?  

f. The terms of significant modifications of outstanding awards?  

[SFAS 123, par. 47a-­f (AC C36.146)]

4. If the reporting entity grants options under multiple stock-based employee compensation plans, are the items in question 3 above disclosed separately for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of the reporting entity's use of stock-based compensation?  

[SFAS 123, par. 47 (AC C36.146)]

5. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:

a. The range of exercise prices?  

b. The weighted-average exercise price?  

c. The weighted-average remaining contractual life?  

[SFAS 123, par. 48 (AC C36.147)]

6. If the range of exercise prices is wide (the highest exercise price exceeds approximately 150 percent of the lowest exercise price), are the exercise prices segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises and are the following disclosed for each range:

a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?  

b. The number and weighted-average exercise price of options currently exercisable?  

[SFAS 123, par. 48 (AC C36.147)]

Note: SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities replaces SFAS 125. SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS 140 is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000.

7. For bonus arrangements issued in connection with the grant of stock compensation awards, is any amount recognized as a bonus liability during the service period that exceeds the ultimate bonus paid to the employee reclassified to equity?  

[EITF 00-23]

Y. Subsequent Events

1. Are subsequent events that provide evidence about conditions that did not exist at the balance sheet date, but arose subsequent to that date, disclosed?  

[SFAS 5, par. 11 (AC C59.112); APB 16, par. 61 (AC B50.120); SAS 1, secs. 560.05-­07, .09, and 561.01-­10 (AU 560.05-­07, .09, and 561.01-­10)]
Z. Transfers and Servicing of Financial Assets and Securitizations

1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions?
   [SFAS 125, par. 17a; SFAS 140, par. 17a]

2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements?
   [SFAS 125, par. 17d; SFAS 140, par. 17d]

3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. The amounts of servicing assets or liabilities recognized and amortized during the period?
   b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?
   c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 37 of SFAS 125, or paragraph 63 of SFAS 140, if SFAS 140 has been adopted?
   d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented?
   [SFAS 125, par. 17e; SFAS 140, par. 17e]

4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:
   a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?
   b. The characteristics of securitizations (a description of the transferor’s continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?
   c. The key assumptions’ used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?
   d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

   a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?  

   b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?  

   c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under (b) above independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?  

   d. For the securitized assets and any other financial assets that it manages together with them:*

      (1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?  

      (2) Delinquencies at the end of the period?  

      (3) Credit losses, net of recoveries, during the period?  

Disclosure of average balances during the period is encouraged, but not required.  

[SFAS 140, par. 17f-g]

**Collateral**

6. If SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, has been adopted, consider the following disclosures. If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented?  

[SFAS 140, par. 17a(2)]

   a. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed?  

[SFAS 140, par. 17a(3)]

* Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
b. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140, par. 17(a)(3)]

AA. Troubled Debt Restructurings—Creditors

1. Is the amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings disclosed either in the body of the financial statements or in the notes thereto as of the date of each balance sheet presented? [SFAS 15, par. 40b (AC D22.145)]

For restructurings in fiscal years beginning before December 16, 1994

2. For outstanding receivables whose terms have been modified in troubled debt restructurings, are the following disclosed by major category either in the body of the financial statements or the notes thereto as of the date of each balance sheet presented:
   a. The aggregate recorded investment?
   b. The gross interest income that would have been recorded in the period then ended if those receivables had been current in accordance with their original terms and had been outstanding throughout the period or since origination?
   c. The amount of interest income on those receivables that was included in net income for the period? [SFAS 15, par. 40a (AC D22.145)]

(See the Financial Instruments and Impaired Loans sections for possible additional disclosure requirements.)

BB. Troubled Debt Restructurings—Debtors

1. For a troubled debt restructuring occurring during the current period, do disclosures include:
   a. A description of the principal changes in terms, the major features of settlement, or both?
   b. Aggregate gain on restructuring of payables and the related income tax effect?
   c. Aggregate net gain or loss on transfers of assets recognized during the period?
   d. Per-share amount of the aggregate gain on restructuring of payables, net of related income tax effect? [SFAS 15, par. 25 (AC D22.121)]

2. For periods after a troubled debt restructuring, do disclosures include:
   a. The extent to which amounts contingently payable are included in the carrying amount of restructured payables?
   b. Total amounts contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven? [SFAS 15, par. 26 (AC D22.122)]
FSP Section 6200
Auditors’ Reports Checklist

1. Is each financial statement audited specifically identified in the introductory paragraph of the auditor’s report?
   [SAS 58, par. 6 (AU 508.06)]

2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor’s report match the titles of the financial statements presented?
   [Generally Accepted]

3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor’s report match the dates of the financial statements presented?
   [Generally Accepted]

4. Is the report appropriately addressed?
   [SAS 58, par. 9 (AU 508.09)]

The following table identifies the address mentioned in the independent Auditor’s Report for 600 public companies surveyed by the AICPA, Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

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<tbody>
<tr>
<td>Board of Directors and Stockholders</td>
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<td>469</td>
<td>489</td>
<td>480</td>
<td>484</td>
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<td>Stockholders</td>
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<td>50</td>
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<td>5</td>
<td>6</td>
<td>4</td>
<td>9</td>
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<tr>
<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
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</tbody>
</table>

5. Does the auditor’s report include appropriate:
   a. A title that includes the word “independent”?
      [SAS 58, par. 8a (AU 508.08a)]

   b. A statement that the financial statements identified in the report were audited?
      [SAS 58, par. 8b (AU 508.08b)]

   c. A statement that the financial statements are the responsibility of management and that the auditor’s responsibility is to express an opinion on the financial statements based on his or her audit?
      [SAS 58, par. 8c (AU 508.08c)]

   d. A statement that the audit was conducted in accordance with generally accepted auditing standards (Note: IF SAS No. 93, Omnibus Statement on Auditing Standards—2000, has been adopted, then the following wording is added to the end of this question— “and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards)”. SAS No. 93 is effective for reports issued or reissued on or after June 30, 2001. Earlier application is permitted.)?
      [SAS 58, par. 8d (AU 508.08d)]
e. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement?  
[SAS 58, par. 8e (AU 508.08e)]

f. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation?  
[SAS 58, par. 8f (AU 508.08f)]

g. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion?  
[SAS 58, par. 8g (AU 508.08g)]

h. An opinion as to whether the financial statements present fairly, in all material respects, the financial position of the reporting entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended in conformity with generally accepted accounting principles? If SAS No. 93 (see above) is adopted, the opinion should include an identification of the country of origin of those accounting principles (for example, accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles).  
[SAS 58, par. 8h (AU 508.08h)]

i. The manual or printed signature of the auditor’s firm?  
[SAS 58, par. 8i (AU 508.08i)]

j. The date of the audit report?  
[SAS 58, par. 8j (AU 508.08j)]

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**Practice Tip**

Paragraph 8 of SAS 58 illustrates the form of the auditor’s standard report on financial statements covering a single year and on comparative financial statements.

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The following table identifies the location of the independent Auditor’s Report in relation to the financial statements and notes for 600 public companies surveyed by the AICPA, Reprinted from the AICPA’s *Accounting Trends & Techniques, 2000*, Fifty-fourth Edition.

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<td>Follows financial statements and notes</td>
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<td>357</td>
<td>356</td>
<td>367</td>
<td>385</td>
</tr>
<tr>
<td>Precedes financial statements and notes</td>
<td>259</td>
<td>228</td>
<td>222</td>
<td>216</td>
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<tr>
<td>Between financial statements and notes</td>
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<td>9</td>
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<tr>
<td>Other</td>
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<td>8</td>
<td>13</td>
<td>9</td>
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<tr>
<td><strong>Total Companies</strong></td>
<td>600</td>
<td>600</td>
<td>600</td>
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<td>600</td>
</tr>
</tbody>
</table>

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the auditor’s report, has the need for dual-dating of the report been considered?  
[SAS 1, sec. 530, pars. 3–5 (AU 530.03–05)]

7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (non-public companies only)?  
[SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]

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8. If the opinion is based in part on the report of another auditor:
   
a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors?
   
   [SAS 58, pars. 11a, 12, and 13 (AU 508.11a, .12, and .13)]
   
b. Does the opinion paragraph include a reference to the report of the other auditor?
   
   [SAS 58, pars. 11b and 15 (AU 508.11b and .15)]

9. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA Council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule?

   [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]

   Practice Tip

   In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity’s ability to continue as a going concern. See SAS 77 for an example.

11. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity’s financial statements:

   a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that change?

   b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail?

   [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]

   c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor’s report? (Note: A change in the reporting entity resulting from a transaction or event, such as a pooling of interests, or the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require that an explanatory paragraph about consistency be included in the auditor’s report.)

   [SAS 88, par. 8, AU 420.08]
12. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:
   a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?
      □ Yes □ No □ N/A
   b. Does the explanatory paragraph disclose:
      (1) The date of the auditor’s previous report?
          □ Yes □ No □ N/A
      (2) The type of opinion previously expressed?
          □ Yes □ No □ N/A
      (3) The circumstances or events that caused the auditor to express a different opinion?
          □ Yes □ No □ N/A
      (4) That the auditor’s updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements?
          [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]
          □ Yes □ No □ N/A

13. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:
   a. Does the introductory paragraph of the report indicate:
      (1) That the financial statements of the prior period were audited by another auditor?
          □ Yes □ No □ N/A
      (2) The date of the predecessor auditor’s report?
          □ Yes □ No □ N/A
      (3) The type of report issued by the predecessor auditor?
          □ Yes □ No □ N/A
      (4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor’s report or his or her opinion qualification?
          □ Yes □ No □ N/A
   b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement?
          [SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]
          □ Yes □ No □ N/A

14. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact?
    [SAS 58, par. 11f (AU 508.11f); SAS 71, par. 41 (AU 722.43)]
    □ Yes □ No □ N/A

15. If supplementary information required by the FASB has been omitted, the presentation of such information departs materially from FASB guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to FASB guidelines, does the report include an additional paragraph stating that fact?
    [SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8 (AU 558.08)]
    □ Yes □ No □ N/A

16. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor’s report, or both require revision?
    [SAS 58, par. 11h (AU 508.11h); SAS 8, par. 4 (AU 550.04)]
    □ Yes □ No □ N/A
17. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation"?
[SAS 58, pars. 11 and 19, as amended by SAS 79 (AU 508.11 and .19); Interpretation 3 of SAS 1, sec. 410 (AU 9410.18); Interpretation 1 of SAS 57 (AU 9342.03)]

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<th>Yes</th>
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**Practice Tip**

In December 1995, SAS 79, Amendment to Statement on Auditing Standards No. 58, Reports on Audited Financial Statements, was issued. This Statement amends SAS 58 to eliminate the requirement that, when certain criteria are met, the auditor add an uncertainties explanatory paragraph to the auditor’s report.

18. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion?
[SAS 58, as amended by SAS 79, par. 22 (AU 508.22)]

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<th>Yes</th>
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19. If a qualified opinion is to be expressed because of a scope limitation:

a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph?

b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of?

c. Is the situation described and referred to in both the scope and opinion paragraphs?

d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself?

[SAS 58, as amended by SAS 79, pars. 22–27 (AU 508.22–27)]

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<th>Yes</th>
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**Practice Tip**

Scope limitations include situations in which the auditor is unable to obtain sufficient evidential matter to support management’s assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements. [SAS 58, as amended by SAS 79, par. 31]

**Note:** Consult the Topical Index to the AICPA Professional Standards under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

20. If an opinion is disclaimer because of a scope limitation:

a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs?

b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion?

c. Does the report avoid identifying procedures that were performed?

d. Is the scope paragraph omitted?

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<tr>
<th>Yes</th>
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22. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? [SAS 58, as amended by SAS 79, par. 63 (AU 508.63)]

21. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion? [SAS 58, as amended by SAS 79, par. 35 (AU 508.35)]

22. If a qualified opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph? 
   b. Does the qualified opinion include the word except or exception in a phrase such as except for or with the exception of and a reference to the explanatory paragraph?
   c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [SAS 58, as amended by SAS 79, pars. 37 and 38 (AU 508.37 and .38)]

23. If an adverse opinion is to be expressed because of a GAAP departure:
   a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?
   b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?
   c. State that the financial statements do not present fairly the financial position, or results of operations or cash flows in conformity with GAAP? [SAS 58, as amended by SAS 79, pars. 58 and 59 (AU 508.58 and .59)]

Note: Consult the Topical Index to the AICPA Professional Standards under “Departures From Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

24. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, is it accompanied by a report that:
   a. States that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole?
   b. Specifically identifies the accompanying information?
   c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)?  

[SAS 29, par. 6 (AU 551.06)]

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**Practice Tip**

SAS 87, *Restricting the Use of an Auditor’s Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report. SAS 87 is effective for reports issued after December 31, 1998.
FSP Section 6300

Accountants’ Reports on Compiled or Reviewed Financial Statements of Nonpublic Entities Checklist

Part I—If the Accountant is Engaged to Report on Compiled Financial Statements or Submits Financial Statements to a Client that Are or Reasonably Might Be Expected to Be Used by a Third Party

1. Is the compilation report appropriately worded?  
   [SSARS 1, par. 11 (AR 100.11)]
   
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?  
   [SSARS 1, par. 11 (AR 100.11)]
   
3. For compiled financial statements that contain departures from generally accepted accounting principles (GAAP) or, where applicable, an other comprehensive basis of accounting (OCBOA):
   
a. If the departure is the omission of substantially all required disclosures, does the accountant’s report clearly indicate such omission?  
   [SSARS 1, pars. 16 and 18 (AR 100.16 and .18)]
   
b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a few matters, are such disclosures labeled “Selected Information—Substantially All Disclosures Required by GAAP (or OCBOA) Are Not Included”?  
   [SSARS 1, par. 16 (AR 100.16)]
   
c. If statements that omit substantially all required disclosures are prepared on a basis of accounting other than GAAP, and if such statements do not include disclosure of the basis of accounting used, does the accountant’s report disclose the basis of accounting?  
   [SSARS 1, par. 17 (AR 100.17)]

Practice Tip

SAS 62, paragraphs 9 and 10 (AU 623.09 and .10), provides guidance on evaluating the adequacy of disclosure in financial statements prepared in conformity with an other comprehensive basis of accounting.

   d. If the financial statements contain a departure from GAAP or an OCBOA, is the report modified to disclose the departure?  
   [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]

---

1 Other than departures required by a prescribed form or related instructions when the accountant issues a SSARS 3 (AR 300) compilation report on financial statements included in a prescribed form.
(1) If the effects of the departure on the financial statements are determined by management or are known as a result of the accountant’s procedures, are these effects also disclosed in the modified report? [SSARS 1, par. 40 (AR 100.40)]

(2) If the effects are not determined, is this fact stated in the accountant’s report? [SSARS 1, par. 40 (AR 100.40)]

4. If the accountant is not independent with respect to the entity for which financial statements are compiled, does the compilation report state “I am (we are) not independent with respect to XYZ Company”? [SSARS 1, par. 19 (AR 100.19)]

5. Is the date of completion of the compilation used as the date of the report? [SSARS 1, par. 12 (AR 100.12)]

6. Does each page of the financial statements include a reference such as “See Accountant’s Compilation Report”? [SSARS 1, par. 13 (AR 100.13)]

7. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity’s ability to continue as a going concern or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]

8. If the accountant compiles both the basic financial statements and other data that is presented for supplementary analysis purposes, does the compilation report also include the other data, indicating the degree of responsibility taken? [SSARS 1, par. 43 (AR 100.43)]

9. If an audit engagement is changed to a review or compilation, does the report omit reference to:
   a. The original engagement? [SSARS 1, par. 49 (AR 100.49)]
   b. Any auditing or review procedures that may have been performed? [SSARS 1, par. 49 (AR 100.49)]
   c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]

10. If comparative financial statements are presented, does the accountant’s report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]

11. If compiled financial statements that omit substantially all of the disclosures required by GAAP are included among the comparative financial statements, do all the periods presented also omit such disclosures? [SSARS 2, par. 5 (AR 200.05)]
a. If the prior-period financial statements do not omit the required disclosures, and the accountant is requested to compile statements for the same period that do omit those disclosures, does the accountant's compilation report include an additional paragraph that indicates:

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(1) The nature of the previous service rendered (compilation, review, or audit)?

(2) Date of the previous report?

[SSARS 2, pars. 29 and 30 (AR 200.29 and .30)]

12. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant's report on the prior period updated?

[SSARS 2, par. 8 (AR 200.08)]

13. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period?

[SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11, and .12)]

14. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language?

[SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]

15. If the current-period financial statements were compiled and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language?

[SSARS 2, par. 28 (AR 200.28)]

Predecessor’s Compilation Report

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:

a. Make appropriate reference in the report to the predecessor’s report in accordance with paragraphs 17–19 of SSARS 2?

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or

b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly?

[SSARS 2, pars. 16–19 (AR 200.16–19)]

17. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated?

[SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]

Part II—If the Accountant Submits Financial Statements To a Client that Are Not Reasonably Expected To Be Used by a Third Party

18. Has one of the following two options been performed:

a. Issue a compilation report in accordance with the reporting requirements discussed in AR section 100.11–19 and therefore comply with the requirements of Part I of this checklist?
b. Document an understanding with the entity through the use of an engagement letter, preferably signed by management, regarding the services to be performed and the limitations on the use of those financial statements?
[SSARS No. 8, par. 20]

19. If the option to document an understanding is followed, does the documentation of the understanding include the following descriptions or statements:

   a. The nature and limitations of the services to be performed?
   b. A compilation is limited to presenting in the form of financial statements information that is the representation of management?
   c. The financial statements will not be audited or reviewed?
   d. No opinion or any other form of assurance on the financial statements will be provided?
   e. Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements.
   f. Acknowledgement of management's representation and agreement that the financial statements are not to be used by third parties.
   g. The engagement cannot be relied upon to disclose errors, fraud, or illegal acts.
   [SSARS No. 8, par. 21]

20. If applicable, does the documentation of the understanding address the following matters:

   a. Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed?
   b. Substantially all disclosures (and statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted?
   c. Lack of independence?
   d. Refer to supplementary information?
   [SSARS No. 8, par. 21]

21. Is a reference included on each page of the financial statements restricting their use such as "Restricted for Management's Use Only," or "Solely for the information and use by the management of [name of entity] and not intended to be and should not be used by any other party."
[SSARS No. 8, par. 22]

Part III—For Review Engagements

Note: An accountant is precluded from issuing a review report on the financial statements of an entity with respect to which he or she is not independent.

1. Is the review report appropriately worded?
[SSARS 1, par. 32 (AR 100.32)]
2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement? [SSARS 1, par. 32 (AR 100.32)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. For reviewed financial statements that contain departures from GAAP or, where applicable, OCBOA (including the omission of required disclosures), is the report modified to disclose the departure in a separate paragraph? [SSARS 1, pars. 39 and 40 (AR 100.39 and .40)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. If the financial statements do not appropriately disclose an uncertainty, including an uncertainty about an entity’s ability to continue as a going concern, or an inconsistency in the application of accounting principles, has consideration been given to including a separate paragraph that discloses such matters? [SSARS 1, par. 40, fn. 18 (AR 100.40, fn. 18)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Is the report properly dated? [SSARS 1, par. 33 (AR 100.33)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Does each page of the financial statements include a reference such as “See Accountant’s Review Report”? [SSARS 1, par. 34 (AR 100.34)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. When accompanying information is presented with the financial statements, does the report clearly indicate degree of responsibility the accountant has taken with respect to such information? [SSARS 1, par. 43 (AR 100.43)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. If the client does not provide a representation letter, does the accountant consider whether it is appropriate to issue a compilation report? [SSARS, pars. 44–49 (AR 100.44–49)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. If an audit engagement is changed to a review, does the report omit reference to:

   a. The original engagement?

   b. Any auditing or review procedures that may have been performed?

   c. Any scope limitation that resulted in the changed engagement? [SSARS 1, par. 49 (AR 100.49)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. If comparative financial statements are presented, does the accountant’s report cover each period presented? [SSARS 2, par. 2 (AR 200.02)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. If the level of service performed by a continuing accountant on the current-period financial statements is the same as, or higher than, that performed on the financial statements of the prior period presented, is the continuing accountant’s report on the prior period updated? [SSARS 2, pars. 8–10 (AR 200.08–.10)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. If the level of service performed by a continuing accountant on the current-period financial statements is lower than that performed on the financial statements of the prior period presented, is the current report modified appropriately or combined with a reissued report from the prior period? [SSARS 2, pars. 8, 11, and 12 (AR 200.08, .11 and .12)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
13. If the report requires a changed reference to a departure from GAAP regarding the prior period presented, does the explanatory paragraph include the appropriate language? [SSARS 2, pars. 14 and 15 (AR 200.14 and .15)]

Yes  No  N/A

14. If the financial statements of the prior period presented are changed, does the predecessor or successor accountant report on them as restated? [SSARS 2, pars. 25 and 26 (AR 200.25 and .26)]

Yes  No  N/A

15. If the current-period financial statements were reviewed and the financial statements of the prior period presented were audited and the audit report was not reissued, does the current-period report include a separate paragraph that contains the appropriate language? [SSARS 2, par. 28 (AR 200.28)]

Yes  No  N/A

Predecessor's Review Report

16. If a predecessor accountant does not reissue his or her compilation or review report on the prior-period financial statements, does the successor accountant:

   a. Make appropriate reference in the report to the predecessor's report in accordance with paragraphs 17–19 of SSARS 2? [SSARS 2, pars. 16–19 (AR 200.16–19)]

   Yes  No  N/A

   or

   b. Perform a compilation, review, or audit of the statements of the prior period and report on them accordingly? [SSARS 2, pars. 16–19 (AR 200.16–19)]

   Yes  No  N/A
FSP Section 6400

Illustrative Financial Statement Formats

.01 Generally accepted accounting principles (GAAP) do not require that specific formats be used in the presentation of financial statements. Nonetheless, several formats have come to represent common practice among financial statement preparers. The model illustrative financial statement formats included in this section do not represent comprehensive formats for all situations, but rather are general guidelines that may be tailored to fit the requirements of a wide variety of individual circumstances and situations.

Basic Financial Statements

.02 The minimum financial statement presentation required to present fairly a company’s financial position, results of operations, and cash flows in conformity with GAAP is outlined in Statement on Auditing Standards (SAS) No. 29, Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents. According to SAS No. 29, the basic financial statements that are generally covered by an auditor’s report include:

- a balance sheet
- a statement of income
- a statement of retained earnings or changes in stockholders’ equity
- a statement of cash flows
- description of accounting policies
- notes to financial statements
- schedules and explanatory material that are identified as being part of the basic financial statements. (Schedules and explanatory material may be considered either as part of the basic financial statements or as supplementary information.)

The Balance Sheet

.03 Title. The companies surveyed in the AICPA’s Accounting Trends & Techniques generally use the title “balance sheet” for the statement showing assets, liabilities, and stockholder’s equity. Other titles frequently used by those companies include “statement of financial position” and “statement of financial condition.”

.04 Balance Sheet Format. Commonly used balance sheet formats include the account form, the report form, and the financial position form. The account form shows total assets on the left-hand side equal to the sum of liabilities and equity on the right-hand side. The report form shows a downward sequence of either total assets minus total liabilities equal to equity or total assets equal to total liabilities plus equity. The financial position form, a variation of the report form, shows noncurrent assets added to and noncurrent liabilities deducted from working capital to arrive at a balance equal to equity.

.05 The following table summarizes the balance sheet format used by 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.
Balance Sheet Format

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Report form</td>
<td>477</td>
<td>465</td>
<td>461</td>
<td>450</td>
<td>436</td>
</tr>
<tr>
<td>Account form</td>
<td>122</td>
<td>134</td>
<td>138</td>
<td>149</td>
<td>166</td>
</tr>
<tr>
<td>Financial position form</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total Companies</strong></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

.06 Examples of the account form and financial position form of balance sheet are included as Exhibits 1 and 2 of this section.

Statement of Income

.07 Title. The companies surveyed for Accounting Trends & Techniques generally use the term “income” in the title of their presentations of the results of operations. Another term used by companies is “earnings.” The Securities and Exchange Commission (SEC) requires the word “operations” in the title when there is a loss in the current period.

.08 Income Statement Format. Commonly used income statement formats include the single-step form and the multi-step form. The single-step format groups the components of net income into two categories: (1) revenues and gains and (2) expenses and losses. The difference between the two subtotals is net income or loss for the period. The multi-step format shows various intermediate components of net income. Generally, operating results are presented separately from nonoperating results (e.g., costs and expenses are deducted from sales followed by nonoperating revenues, gains, expenses, and losses, and are grouped by type or function). Intermediate components of net income that are frequently presented in multiple-step statements are gross profit, income from operations, and other income and expenses.

.09 The following table summarizes the income statement format used by 600 public companies surveyed by the AICPA. Reprinted from the AICPA’s Accounting Trends & Techniques, 2000, Fifty-fourth Edition.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Step Form:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income tax shown as separate</td>
<td>166</td>
<td>156</td>
<td>164</td>
<td>185</td>
<td>187</td>
</tr>
<tr>
<td>last item</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income tax listed among</td>
<td>—</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>operating items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-Step Form:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs and expenses deducted from sales</td>
<td>216</td>
<td>220</td>
<td>224</td>
<td>206</td>
<td>223</td>
</tr>
<tr>
<td>to show operating income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs deducted from sales to show</td>
<td>218</td>
<td>223</td>
<td>208</td>
<td>206</td>
<td>188</td>
</tr>
<tr>
<td>gross margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Companies</strong></td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
</tbody>
</table>

.10 Examples of the single-step and multiple-step income statement formats are included as Exhibits 3 and 4 of this section.

.11 Comprehensive Income. Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, requires that reporting entities report comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 does not require a specific format for the statement that presents comprehensive, but provides examples of
three different formats. Two such formats—one for a combined statement of income and comprehensive income and another for a separate statement of comprehensive income—are included as Exhibits 5 and 6 of this section.

**Statements of Retained Earnings or Stockholder’s Equity**

.12 Although separate statements of retained earnings and statements of stockholder’s equity are common presentations for public companies, their use by nonpublic companies is much less frequent. Because of the less-complex capital structure of most nonpublic entities and the fact that their securities are not frequently transferred, many have found that the required disclosures can often be made without presenting separate statements. In most cases the only change in stockholder’s equity of a nonpublic company is the change in retained earnings resulting from net income (or loss). That change can usually be adequately disclosed in the statement of income or in the balance sheet.

.13 When nonpublic companies do experience changes in other components of stockholder’s equity (e.g., issuance of stock, purchase of treasury stock, and stock splits) disclosure is often made in the notes to the financial statements or in a separate statement of changes in stockholder’s equity.

.14 An example of a combined statement of income and retained earnings is included as Exhibit 7 of this section.

.15 SFAS No. 130 provides examples of presentations of comprehensive income and its components in the statement of changes in equity.

**Statement of Cash Flows**

.16 SFAS No. 95, *Statement of Cash Flows*, requires that a statement of cash flows be included as part of a full set of financial statements for all business enterprises that report both financial position and results of operations. The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period.

.17 A statement of cash flows classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities. Entities may report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method) or by reporting net cash flows from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities (the indirect or reconciliation method). If the direct method is used, a reconciliation of net income and net cash flow from operating activities is required to be provided in a separate schedule.

.18 Examples of the statements of cash flow prepared using the indirect method and the direct method are included as Exhibits 8 and 9 of this section.

**Notes to Financial Statements**

.19 Authoritative pronouncements mandate many types of disclosures but do not mandate the manner of presentation. Some disclosures are best presented in separate notes rather than in the basic financial statements. Descriptions of accounting policies and notes to financial statements are recognized in SAS No. 29 as components of the “basic financial statements” necessary for a fair presentation in accordance with generally accepted accounting principles. Thus, notes are an integral part of financial statements. They should be used to present material disclosures required by generally accepted accounting principles that are not otherwise presented on the face of the statements.
Exhibit 1
Account Form

ABC COMPANY
Consolidated Balance Sheets
December 31, 20__ and 20__

<table>
<thead>
<tr>
<th>Assets</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Marketable securities (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Notes and accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes receivable, less unearned finance charges (20__—$XXX,XXX; 20__—$XXX,XXX)</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Less: Allowance for doubtful accounts</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Inventories, at lower of average cost or market:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Work in process</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Investment in affiliated company at cost plus equity in undistributed earnings since acquisition</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Cash surrender value of life insurance</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Property, plant, and equipment, at cost:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Buildings</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Machinery, equipment, and furniture and fixtures</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Less: Accumulated depreciation (Note )</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Goodwill, at cost less accumulated amortization (20__—$XXX,XXX; 20__—$XXX,XXX)</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Patents, at cost less accumulated amortization (20__—$XXX,XXX; 20__—$XXX,XXX)</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Other assets and deferred charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>

(continued)
### Liabilities and Shareholders' Equity

#### Current Liabilities:
- Notes payable (Note ) $XXX,XXX $XXX,XXX
- Current portion of mortgage loan payable XXX,XXX XXX,XXX
- Current portion of obligations under capital leases XXX,XXX XXX,XXX
- Accounts payable—trade XXX,XXX XXX,XXX
- Dividends payable XXX,XXX XXX,XXX
- Income taxes payable (Notes ) XXX,XXX XXX,XXX
- Other accounts payable and accrued expenses XXX,XXX XXX,XXX

  Total current liabilities XXX,XXX XXX,XXX

- Mortgage payable (Note ) XXX,XXX XXX,XXX
- Obligation under capital leases (Note ) XXX,XXX XXX,XXX
- Deferred income tax credits (Note ) XXX,XXX XXX,XXX
- Minority interest XXX,XXX XXX,XXX
- Redeemable preferred stock (Note ): __% cumulative, no par value—XXX shares authorized; XXX shares issued and outstanding XXX,XXX XXX,XXX
- Common stock, no par value—XXX shares authorized; XXX shares issued at stated value of $XX a share XXX,XXX XXX,XXX
- Capital in excess of stated value XXX,XXX XXX,XXX
- Retained earnings XXX,XXX XXX,XXX
- Accumulated other comprehensive income XXX,XXX XXX,XXX

  Less: XXX shares of common stock in treasury, at cost XXX,XXX XXX,XXX

Commitments and contingent liabilities (Note ) $XXX,XXX $XXX,XXX
Exhibit 2
Financial Position Format

ABC COMPANY
Statement of Financial Position
December 31, 20__ and 20__

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Marketable debt and equity securities (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Notes and accounts receivable, less estimated</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>doubtful accounts (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Inventories (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

Less: Current liabilities:

| Notes and accounts payable and accrued expenses (Note ) | XXX,XXX  | XXX,XXX  |
| Income taxes (Note )                                   | XXX,XXX  | XXX,XXX  |
| **Total current liabilities**                          | XXX,XXX  | XXX,XXX  |

| Working capital                                      | XXX,XXX  | XXX,XXX  |
| Marketable equity securities (Note )                 | XXX,XXX  | XXX,XXX  |
| Equity in affiliated companies (Note )                | XXX,XXX  | XXX,XXX  |
| Property, plant, and equipment, at cost less accumulated depreciation (Note ) | XXX,XXX  | XXX,XXX  |
| Deferred charges and other assets                     | XXX,XXX  | XXX,XXX  |
| **Working capital and other assets**                  | XXX,XXX  | XXX,XXX  |

Deductions:

| Long-term debt (Note )                                | XXX,XXX  | XXX,XXX  |
| Minority interest in consolidated subsidiary companies | XXX,XXX  | XXX,XXX  |
| **Total deductions**                                  | XXX,XXX  | XXX,XXX  |

| Excess of assets over liabilities                     | $XXX,XXX  | $XXX,XXX  |

Shareholders' equity:

| Common stock, $XX par value—authorized XXX shares;    | $XXX,XXX  | $XXX,XXX  |
|   issued and outstanding XXX shares                   | $XXX,XXX  | $XXX,XXX  |
| Capital in excess of par value                        | XXX,XXX  | XXX,XXX  |
| Retained earnings                                    | XXX,XXX  | XXX,XXX  |
| Accumulated other comprehensive income                | XXX,XXX  | XXX,XXX  |
| Commitments and contingent liabilities (Note )        | $XXX,XXX  | $XXX,XXX  |
### Exhibit 3

**Single-Step Income Statement**

ABC COMPANY  
Consolidated Statements of Income

<table>
<thead>
<tr>
<th>Sales and other revenue:</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other income</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Equity in net earnings of affiliate</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost and expenses:</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Interest expense</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

Net income:  
$XXX,XXX $XXX,XXX |

Net income per share data:  
Basic:  
$X.XX $X.XX |

Diluted:  
$X.XX $X.XX |
## Exhibit 4  
**Multi-Step Income Statement**

**ABC COMPANY**  
**Statements of Income**

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>20___</th>
<th>20___</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Selling and administrative expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Other costs and operating expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Income from operations</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Miscellaneous other income</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Other deductions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest cost incurred and commitment fee on loans</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Interest cost capitalized</td>
<td>(XXX,XXX)</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Provision for income taxes (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Net income</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Earnings per common share (Note )</td>
<td>$ XXX</td>
<td>$ XXX</td>
</tr>
</tbody>
</table>
Exhibit 5
Combined Statement of Income and Comprehensive Income

ABC COMPANY
Statement of Income and Comprehensive Income
Year Ended December 31, 20__

Sales and other revenue:
Net sales $XXX,XXX
Other income XXX,XXX

Cost and expenses:
Cost of goods sold XXX,XXX
Selling, general and administrative expenses XXX,XXX
Depreciation and amortization XXX,XXX
Interest expense XXX,XXX

Income from operations before tax XXX,XXX
Provision for income taxes (XXX,XXX)

Income before extraordinary item and cumulative effect of accounting change XXX,XXX
Extraordinary item, net of tax (XXX,XXX)
Income before cumulative effect of accounting change, net of tax XXX,XXX
Net income XXX,XXX

Other comprehensive income, net of tax:
Foreign currency translation adjustments XXX,XXX
Unrealized gains on securities
Unrealized holding gains arising during period $XX,XXX
Less: reclassification adjustment for gains included in net income (X,XXX) XX,XXX
Minimum pension liability adjustment (X,XXX)
Other comprehensive income XX,XXX
Comprehensive income $ XX,XXX

The components of other comprehensive income may be displayed before income taxes with one aggregate amount presented for the income tax expense (or benefit) relating to all a items of comprehensive income. In that case, the comprehensive income section (the portion of the statement following “net income”) might appear as follows:

Other comprehensive income, before tax:
Foreign currency translation adjustments $XX,XXX
Unrealized gains on securities
Unrealized holding gains arising during period $XX,XXX
Less: reclassification adjustment for gains included in net income (X,XXX) XX,XXX
Minimum pension liability adjustment (X,XXX)
Other comprehensive income, before tax XX,XXX
Provision for income taxes related to items of other comprehensive income (X,XXX)
Other comprehensive income, net of tax $XX,XXX
Exhibit 6
Separate Statement of Comprehensive Income

ABC COMPANY

Statement of Comprehensive Income
Year Ended December 31, 20__

<table>
<thead>
<tr>
<th>Net income</th>
<th>$XXX,XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Minimum pension liability adjustment</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>

Note: As in Exhibit 5, the components of other comprehensive income may be displayed in the separate statement of comprehensive income before income taxes with one aggregate amount presented for the income tax expense (or benefit) relating to all items of comprehensive income. In that case, the statement would appear as follows:

<table>
<thead>
<tr>
<th>Net income</th>
<th>$XXX,XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other comprehensive income, before tax</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Minimum pension liability adjustment</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Other comprehensive income, before tax</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Provision for income taxes related to items of other comprehensive income</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>
# Exhibit 7

## Statement Income and Retained Earnings

**ABC COMPANY**

**Statements of Income and Retained Earnings**

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20_</td>
</tr>
<tr>
<td></td>
<td>20_</td>
</tr>
<tr>
<td>Net sales</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other income</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Selling and administrative expenses</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Interest expense (Note  )</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Provision for income taxes (Note  )</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Income before equity in net earnings of affiliate</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Equity in net earnings of affiliated companies (Note  )</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Net income</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Retained earnings at beginning of year</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Dividends declared:</td>
<td></td>
</tr>
<tr>
<td>Convertible preferred stock ($.XX per share)</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Common stock (20__—$.XX per share; 20__—$.XX per share)</td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td></td>
<td>(XXX,XXX)</td>
</tr>
<tr>
<td>Retained earnings at end of year</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Net income per common share—basic (Note  )</td>
<td>$ X.XX</td>
</tr>
<tr>
<td>Net income per common share—diluted (Note  )</td>
<td>$ X.XX</td>
</tr>
</tbody>
</table>
Exhibit 8
Statement of Cash Flows—Direct Method

ABC COMPANY
Statement of Cash Flows
for the Year Ended December 31, 20__

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received from customers</td>
</tr>
<tr>
<td>Cash paid to suppliers and employees</td>
</tr>
<tr>
<td>Dividend received from investee</td>
</tr>
<tr>
<td>Interest received</td>
</tr>
<tr>
<td>Interest paid (net of amount capitalized)</td>
</tr>
<tr>
<td>Income taxes paid</td>
</tr>
<tr>
<td>Insurance proceeds received</td>
</tr>
<tr>
<td>Cash paid to settle lawsuit</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of plant and equipment</td>
</tr>
<tr>
<td>Payment received on note receivable</td>
</tr>
<tr>
<td>Capital expenditures</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from financing activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net borrowings under loan agreements</td>
</tr>
<tr>
<td>Principle payments under capital lease obligation</td>
</tr>
<tr>
<td>Proceeds from issuance of long-term debt</td>
</tr>
<tr>
<td>Proceeds from issuance of common stock</td>
</tr>
<tr>
<td>Dividends paid</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reconciliation of net income to net cash provided by operating activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
</tr>
<tr>
<td>Provision for losses on trade accounts receivable</td>
</tr>
<tr>
<td>Gain on sale of plant and equipment</td>
</tr>
<tr>
<td>Undistributed earnings of investee</td>
</tr>
<tr>
<td>Payment received on installment note receivable for sale of inventory</td>
</tr>
<tr>
<td>Increase in interest and income taxes payable</td>
</tr>
<tr>
<td>Increase in deferred taxes</td>
</tr>
<tr>
<td>Increase in other liabilities</td>
</tr>
<tr>
<td><strong>Total adjustments</strong></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
</tr>
</tbody>
</table>

Non-cash financing activities:
- Equipment capital leases: XXX,XXX
- Conversion of preferred stock to common stock: XXX,XXX

Net increase in cash and cash equivalents: XXX,XXX
Cash and cash equivalents at beginning of year: XXX,XXX
Cash and cash equivalents at end of year: $ XXX,XXX
Exhibit 9
Statement of Cash Flows—Indirect Method

ABC COMPANY
Statement of Cash Flows
For the Year Ended December 31, 20__

Cash flows from operating activities:
Net income $ XXX,XXX

Adjustments to reconcile net income to net cash provided by operating activities:
- Depreciation and amortization $ XXX,XXX
- Provision for losses on trade accounts receivable XXX,XXX
- Gain on sale of plant and equipment (XXX,XXX)
- Undistributed earnings of investee (XXX,XXX)
- Payment received on note receivable XXX,XXX
- Increase in interest and income taxes payable XXX,XXX
- Increase in deferred taxes XXX,XXX
- Increase in other liabilities XXX,XXX

Total adjustments XXX,XXX

Net cash provided by operating activities XXX,XXX

Cash flows from investing activities:
- Proceeds from sale of plant and equipment XXX,XXX
- Payment received on note receivable XXX,XXX
- Capital expenditures (XXX,XXX)

Net cash used in investing activities (XXX,XXX)

Cash flows from financing activities:
- Net borrowings under loan agreements XXX,XXX
- Principal payments under capital lease obligation (XXX,XXX)
- Proceeds from issuance of long-term debt XXX,XXX
- Proceeds from issuance of common stock XXX,XXX
- Dividends paid (XXX,XXX)

Net cash provided by financing activities XXX,XXX

Net increase in cash and cash equivalents XXX,XXX
Cash and cash equivalents at beginning of year XXX,XXX
Cash and cash equivalents at end of year $ XXX,XXX

Supplemental Disclosures:
- Cash paid during the year for:
  - Interest (net of amounts capitalized) $ XXX,XXX
  - Income taxes XXX,XXX

Noncash activities:
- Capital lease obligations for equipment $ XXX,XXX
- Stock issued for employee stock plans $ XXX,XXX
FSP Section 6500

Illustrative Financial Statements, Notes, and Auditor’s Report

.01 Since the effective date of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, is for all fiscal quarters of all fiscal years beginning after June 15, 2000, the provisions of FASB Statement No. 133 have not been reflected in these financial statements. These financial statements will be updated during 2001 to reflect the provisions of FASB Statement No. 133.

.02 As 2001 begins, many entities will be recording the effect of adopting FASB Statement No. 133 in their financial statements. Preparers and auditors of financial statements are reminded of the provisions of AICPA Professional Standards AU Section 560, Subsequent Events, which states:

560.02 Two types of subsequent events require consideration by management and evaluation by the independent auditor.

560.05 The second type consists of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet being reported on but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that disclosure of them is required to keep the financial statements from being misleading.

Readers should refer to the full text of AU Section 560 for complete guidance.

.03 Also, preparers and auditors of SEC-registrant financial statements are reminded that as discussed in SAB Topic 11M (SAB No. 74), and AU section 9410, Item 3, The Impact on an Auditor’s Report of an FASB Statement Prior to the Statement’s Effective Date, filings with the SEC that include financial statements for a period ending after the issuance of an accounting standard but before the required date of adoption of that accounting standard should include disclosure of the impact that the recently issued accounting standard will have on the financial position and results of operations of the registrant when such standard is adopted in a future period. The following disclosures should be considered by registrants:

- A brief description of the new standard, the date that adoption is required and the date that the registrant plans to adopt, if earlier;
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined;
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless unknown or not reasonably estimable. In that case, a statement to that effect may be made;

Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the new standard (such as technical violations of debt covenant agreements, planned or intended changes in business practices, etc.).
Sample Auditor's Report

Independent Auditor's Report

To the stockholders of ABC Company:

We have audited the accompanying consolidated balance sheets of ABC Company as of December 31, 20X2 and 20X1, and the related consolidated statements of income, comprehensive income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABC Company as of December 31, 20X2 and 20X1, and the consolidated results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]
### Sample Financial Statements

**ABC COMPANY AND SUBSIDIARIES**

Consolidated Balance Sheets  
December 31, 20X2 and 20X1

#### Assets (In thousands)

<table>
<thead>
<tr>
<th>Description</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 663</td>
<td>$ 590</td>
</tr>
<tr>
<td>Marketable debt and equity securities (Note 3)</td>
<td>6,283</td>
<td>4,632</td>
</tr>
<tr>
<td>Accounts receivable (Note 4)</td>
<td>24,138</td>
<td>23,211</td>
</tr>
<tr>
<td>Inventories (Note 5)</td>
<td>20,152</td>
<td>21,825</td>
</tr>
<tr>
<td>Current deferred tax assets (Note 14)</td>
<td>503</td>
<td>449</td>
</tr>
<tr>
<td>Other current assets</td>
<td>416</td>
<td>333</td>
</tr>
<tr>
<td>Property held for resale (Note 6)</td>
<td></td>
<td>492</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>52,647</td>
<td>51,040</td>
</tr>
<tr>
<td>Property, Plant, and Equipment, at cost (Note 7)</td>
<td>11,302</td>
<td>11,683</td>
</tr>
<tr>
<td>Property Held for Resale (Note 6)</td>
<td>2,273</td>
<td>1,230</td>
</tr>
<tr>
<td>Deferred Tax Assets (Note 14)</td>
<td>1,009</td>
<td>714</td>
</tr>
<tr>
<td>Other Assets (Note 8)</td>
<td>1,264</td>
<td>1,258</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$68,495</td>
<td>$65,925</td>
</tr>
</tbody>
</table>

#### Liabilities and Stockholders’ Equity

*(In thousands, except share data)*

<table>
<thead>
<tr>
<th>Description</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term borrowings (Note 9)</td>
<td>$ 4,875</td>
<td>$ 6,960</td>
</tr>
<tr>
<td>Current maturities of long-term debt (Note 10)</td>
<td>633</td>
<td>399</td>
</tr>
<tr>
<td>Accounts payable—trade</td>
<td>9,033</td>
<td>9,888</td>
</tr>
<tr>
<td>Accrued payroll and employee benefits</td>
<td>1,341</td>
<td>1,262</td>
</tr>
<tr>
<td>Other accrued liabilities</td>
<td>1,552</td>
<td>1,639</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>17,434</td>
<td>20,148</td>
</tr>
<tr>
<td>Long-Term Debt (Note 10)</td>
<td>12,517</td>
<td>11,189</td>
</tr>
<tr>
<td>Other Long-Term Liabilities</td>
<td>675</td>
<td>797</td>
</tr>
<tr>
<td>Commitments and Contingent Liabilities (Note 17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>34,626</td>
<td>35,265</td>
</tr>
</tbody>
</table>

#### Stockholders’ Equity *(Notes 9, 11 and 12)*:

- Class A Common stock, issued 5,094,370 shares in 20X2 and 5,089,370 shares in 20X1 — 51 51
- Paid-in capital                                                           | 17,574 | 17,559 |
- Retained earnings                                                         | 14,240 | 11,828 |
- Accumulated other comprehensive income                                    | 2,283  | 1,501  |
- Treasury stock—at cost, Class A Common stock, 128,000 shares              | (279)   | (279)  |
| **Total Stockholders’ Equity**                                            | 33,869 | 30,660 |
| **Total Liabilities and Stockholders’ Equity**                            | $68,495| $65,925|

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES  
Consolidated Statements of Income  
For the Two Years Ended December 31, 20X2

(In thousands, except per share)           20X2       20X1

| Net Sales                        | $132,426 | $117,131 |
| Costs of goods sold              | 117,885  | 103,333  |
| Selling, general, and administrative expenses | 11,223   | 10,707   |
| Interest expense                 | 1,420    | 1,033    |
| Other (income) expense           | (278)    | (138)    |
| **Total Costs and Expenses**     | 130,250  | 114,935  |
| Income Before Income Taxes       | 2,176    | 2,196    |
| Income Tax Benefit (Note 14)     | (236)    | (524)    |
| **Net Income**                   | **$ 2,412** | **$ 2,720** |
| **Earnings Per Common Share** (Note 13) | **$ 0.49** | **$ 0.55** |

See Notes to Consolidated Financial Statements.
### ABC COMPANY AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income**

**For the Two Years Ended December 31, 20X2**

#### 20X2

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$2,412</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td></td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td></td>
</tr>
<tr>
<td>Unrealized holding gains arising during period (net of income taxes of $317)</td>
<td>$952</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income (net of income taxes of $57)</td>
<td>(170) 782</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$3,194</td>
</tr>
</tbody>
</table>

#### 20X1

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$2,720</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td></td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td></td>
</tr>
<tr>
<td>Unrealized holding gains arising during period (net of income taxes of $41)</td>
<td>$164</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income (net of income taxes of $31)</td>
<td>(122) 42</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$2,762</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
<table>
<thead>
<tr>
<th>Cash Flows From Operating Activities:</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$2,412</td>
<td>$2,720</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided (used) by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(433)</td>
<td>(614)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>1,387</td>
<td>1,466</td>
</tr>
<tr>
<td>Gain (loss) on sales of marketable securities</td>
<td>(156)</td>
<td>(76)</td>
</tr>
<tr>
<td>Gain on sale of property, plant, and equipment</td>
<td>(266)</td>
<td>(318)</td>
</tr>
<tr>
<td>Change in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(927)</td>
<td>(5,280)</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,440</td>
<td>(2,120)</td>
</tr>
<tr>
<td>Other current assets</td>
<td>(83)</td>
<td>25</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>(86)</td>
<td>154</td>
</tr>
<tr>
<td>Accounts payable—trade</td>
<td>(855)</td>
<td>1,263</td>
</tr>
<tr>
<td>Accrued payroll and employee benefits</td>
<td>79</td>
<td>177</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>(87)</td>
<td>(119)</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(123)</td>
<td>(192)</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) by Operating Activities</strong></td>
<td><strong>2,302</strong></td>
<td><strong>(2,914)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows From Investing Activities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales of marketable securities</td>
<td>983</td>
<td>587</td>
</tr>
<tr>
<td>Purchases of marketable securities</td>
<td>(1,436)</td>
<td>(491)</td>
</tr>
<tr>
<td>Proceeds from sale of property, plant, and equipment</td>
<td>1,940</td>
<td>1,054</td>
</tr>
<tr>
<td>Capital expenditures on property, plant, and equipment</td>
<td>(2,037)</td>
<td>(1,400)</td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) by Investing Activities</strong></td>
<td><strong>(550)</strong></td>
<td><strong>(270)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows From Financing Activities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Repayments) proceeds of revolving agreement borrowings</td>
<td>(2,085)</td>
<td>3,710</td>
</tr>
<tr>
<td>Exercise of stock options</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(478)</td>
<td>(543)</td>
</tr>
<tr>
<td>Proceeds from issuance of long-term debt</td>
<td>869</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Provided (Used) by Financing Activities</strong></td>
<td><strong>(1,679)</strong></td>
<td><strong>3,167</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Supplemental Disclosures of Cash Flow Information:</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Paid</td>
<td>$1,453</td>
<td>$967</td>
</tr>
<tr>
<td>Income Taxes Paid</td>
<td>$94</td>
<td>$39</td>
</tr>
</tbody>
</table>

During 20X2 and 20X1, the Company financed certain capital expenditures and related maintenance agreements totaling $2,040,500 and $207,500, respectively, through the issuance of capital leases.

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES  
Consolidated Statements of Stockholders’ Equity  
For the Two Years Ended December 31, 20X2

<table>
<thead>
<tr>
<th>(In thousands)</th>
<th>Class A Common Stock</th>
<th>Paid-in Capital</th>
<th>Retained Earnings</th>
<th>Accumulated Other Comprehensive Income</th>
<th>Treasury Stock</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, January 1, 20X1</td>
<td>$51</td>
<td>$17,559</td>
<td>$9,108</td>
<td>$1,459</td>
<td>$(279)</td>
<td>$27,898</td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td>2,720</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 20X1</td>
<td>51</td>
<td>17,559</td>
<td>11,828</td>
<td>1,501</td>
<td>(279)</td>
<td>30,660</td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td>2,412</td>
<td></td>
<td></td>
<td></td>
<td>2,412</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exercise of option to purchase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,000 shares of Class A Common</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stock (Note 11)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, December 31, 20X2</td>
<td>$51</td>
<td>$17,574</td>
<td>$14,240</td>
<td>$2,283</td>
<td>$(279)</td>
<td>$33,869</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
Note 1: Summary of Significant Accounting Policies

Nature of Operations. ABC Company is engaged in the manufacture, fabrication, and distribution of rail, construction, and tubular products.

The Company's rail business provides a full line of new and used rail, trackwork, and accessories to railroads, mines, and industry. The Company also designs and produces bonded rail joints, power rail, track fasteners, catenary systems, coverboards, and special accessories for mass transit and other rail systems.

The Company's construction business sells and rents steel sheet piling and H-bearing pile for foundation and earth retention requirements and pile driving equipment and accessories for driving piling. In addition, the Company sells bridge decking, expansion joints, sign structures, and other products for highway construction and repair.

The Company's tubular business supplies pipe and pipe coatings for pipelines and utilities. Additionally, the Company manufactures spiralweld pipe for water transmission lines, foundation piling, slurry lines, and many other applications. The Company also produces pipe-related products for special markets, including water wells and irrigation.

The Company markets its products directly in all major industrial areas of the United States through a national sales force.

Basis of Financial Statement Presentation. The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and accounts have been eliminated.

Cash Equivalents. Holdings of highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Inventories. Inventories are valued at the lower of the last-in, first-out (LIFO) cost or market except for other inventories which are valued at average cost or market, whichever is lower and represented 11% of total inventory in 20X2 and 20X1.

Property, Plant, and Equipment. Property, plant, and equipment are recorded at cost less depreciation and amortization. Depreciation and amortization are primarily accounted for on the straight-line method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterments and large renewals which extend the life of the asset are capitalized whereas maintenance and repairs and small renewals are expensed as incurred.

Environmental Remediation. The Company accrues environmental remediation costs if it is probable that an asset has been impaired or a liability incurred at the financial statement date and the amount can be reasonably estimated. Environmental compliance costs are expensed as incurred. Certain environmental costs are capitalized based on estimates and depreciated over their useful lives.

Sales. Revenue is recognized in the financial statements (and the customer billed) either when materials are shipped from stock or when the vendor bills the Company for the order. Net sales are arrived at by deducting discounts, freight, and sales taxes from gross sales.

Income Taxes. The Company uses the asset and liability method as identified in SFAS 109, Accounting for Income Taxes.
Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation. In accordance with the provisions of SFAS 123, the Company follows the intrinsic value based method of accounting as prescribed by APB 25, Accounting for Stock Issued to Employees, for its stock-based compensation. Accordingly, no compensation cost is recognized.

Note 2: Related-Party Transactions

The Company has an agreement with DEF Company whereby DEF will provide certain management services to the Company through 2007 in return for an annual fee plus agreed-upon allocated and out-of-pocket expenses. The Company’s chairman and chief executive officer is also the chairman and principal shareholder of DEF. The services provided include consultation and direct management assistance with respect to operations, strategic planning, and other aspects of the business of the Company. Fees and expenses paid to DEF for these services under the agreement amounted to $146 and $169 for the years ended December 31, 20X2 and 20X1, respectively.

During the years ended December 31, 20X2 and 20X1, the Company paid approximately $84 and $76, respectively, in fees to charter an aircraft owned by a company in which the chairman and chief executive officer is the principal shareholder.

A member of the Company’s Board of Directors served as a consultant to the Company on various strategic and business issues. Fees paid for such services by the Company during the years ended December 31, 20X2 and 20X1 were $43 and $56, respectively.

Note 3: Marketable Debt and Equity Securities

Cost and fair value of marketable debt and equity securities at December 31, 20X2 and 20X1, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amortized Cost</th>
<th>Gross Unrealized Gain</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 20X2:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury notes</td>
<td>$4,163</td>
<td>$—</td>
<td>$—</td>
<td>$4,163</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>961</td>
<td>253</td>
<td>58</td>
<td>1,156</td>
</tr>
<tr>
<td>Equity securities</td>
<td>302</td>
<td>729</td>
<td>67</td>
<td>964</td>
</tr>
<tr>
<td>Total</td>
<td>$5,426</td>
<td>$982</td>
<td>$125</td>
<td>$6,283</td>
</tr>
<tr>
<td>December 31, 20X1:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury notes</td>
<td>$2,767</td>
<td>$—</td>
<td>$—</td>
<td>$2,767</td>
</tr>
<tr>
<td>Corporate debt securities</td>
<td>1,219</td>
<td>64</td>
<td>57</td>
<td>1,226</td>
</tr>
<tr>
<td>Equity securities</td>
<td>831</td>
<td>117</td>
<td>309</td>
<td>639</td>
</tr>
<tr>
<td>Total</td>
<td>$4,817</td>
<td>$181</td>
<td>$366</td>
<td>$4,632</td>
</tr>
</tbody>
</table>

U.S. Treasury notes mature in 20X2. The change in net unrealized holding gains on securities available for sale in the amount of $1,042 and $52 have been charged to other comprehensive income for the years ended December 31, 20X2 and 20X1, respectively. The cost of securities sold is based on the specific identification method.
Note 4: Accounts Receivable

At 20X2 and 20X1, accounts receivable is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>$24,983</td>
<td>$23,936</td>
</tr>
<tr>
<td>Less: Allowance for doubtful accounts</td>
<td>900</td>
<td>808</td>
</tr>
<tr>
<td>Plus: other receivables</td>
<td>55</td>
<td>83</td>
</tr>
<tr>
<td>Total</td>
<td>$24,138</td>
<td>$23,211</td>
</tr>
</tbody>
</table>

Credit is extended to customers only after an evaluation of the customer’s financial condition and generally collateral is not required.

Note 5: Inventories

At 20X2 and 20X1, inventories are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>$16,785</td>
<td>$14,248</td>
</tr>
<tr>
<td>Work in process</td>
<td>3,343</td>
<td>7,121</td>
</tr>
<tr>
<td>Raw materials</td>
<td>1,330</td>
<td>1,485</td>
</tr>
<tr>
<td>Total current cost</td>
<td>21,458</td>
<td>22,854</td>
</tr>
<tr>
<td>Less: Reserve for decline to market value</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Reduction of costs to LIFO stated values</td>
<td>1,006</td>
<td>729</td>
</tr>
<tr>
<td>Total</td>
<td>$20,152</td>
<td>$21,825</td>
</tr>
</tbody>
</table>

Note 6: Property Held for Resale

Property held for resale consists of 5 properties and machinery and equipment. These are itemized as follows:

<table>
<thead>
<tr>
<th>Property Location</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colton, PA</td>
<td>$1,460</td>
<td>$</td>
</tr>
<tr>
<td>Princeton, NJ</td>
<td>493</td>
<td>626</td>
</tr>
<tr>
<td>Columbus, MS</td>
<td>307</td>
<td>307</td>
</tr>
<tr>
<td>Houston, TX</td>
<td>131</td>
<td>131</td>
</tr>
<tr>
<td>Springfield, IL</td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>196</td>
<td>166</td>
</tr>
<tr>
<td>Total property held for resale</td>
<td>2,765</td>
<td>1,230</td>
</tr>
<tr>
<td>Less: Property with sales commitments within one year</td>
<td>492</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$2,273</td>
<td>$1,230</td>
</tr>
</tbody>
</table>

The Colton, Pennsylvania, location produces spiralweld pipe used for water transmission and other applications. During 20X2, the Company decided that this product did not meet the Company’s long-term strategic goals. The assets of this operation include machinery and equipment, buildings and leasehold improvements. During 20X2, the location generated net sales and operating profit of approximately $5,150,000 and $150,000, respectively, which are included in the Company’s tubular segment. The Company is currently negotiating with several buyers. However, the outcome of these discussions is uncertain at this time.

The Princeton, New Jersey, location formerly produced pipe and was used for yard storage. Assets of the location consist of land and land improvements no longer used in the Company’s business. The Company anticipates disposing of these assets during 20X3.
The Columbus, Mississippi, location was formerly used for yard storage. Assets of the location consist of land no longer used in the Company’s business. The land is currently being leased to a third party. The Company does not anticipate disposing of the land during 20X3.

The Houston, Texas, location was formerly a pipe coal tar coating facility. Assets of the location consist of land no longer used in the Company’s business. The land has been listed for sale, although no assurances can be given that the land will be sold during 20X3.

The Springfield, Illinois, location produces couplings used in the Company’s threaded products business and is included in the tubular products business segment. The assets of this operation include machinery and equipment, buildings and land. During 20X2, the Company received an offer from a third party to buy the facility and to produce couplings for use in the Company’s operations. The Company has entered into an operating lease agreement with the third party for six months with an option to buy. If the third party does not purchase the property, the operating lease converts to a capital lease for five years based on a market value of $400,000, with an option to buy. Separate net sales and operating profits for this location cannot be identified.

Other consists of various machinery and equipment.

Note 7: Property, Plant, and Equipment

At 20X2 and 20X1, property, plant, and equipment is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$3,350</td>
<td>$3,350</td>
</tr>
<tr>
<td>Land improvements and leaseholds</td>
<td>1,934</td>
<td>2,546</td>
</tr>
<tr>
<td>Buildings</td>
<td>1,282</td>
<td>2,404</td>
</tr>
<tr>
<td>Machinery and equipment (including $3,864 and $2,057 of equipment under capitalized leases in 20X2 and 20X1, respectively)</td>
<td>11,931</td>
<td>15,712</td>
</tr>
<tr>
<td>Rental pile driving equipment</td>
<td>3,126</td>
<td>3,436</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>158</td>
<td>111</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21,781</td>
<td>27,559</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>9,647</td>
<td>15,317</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>832</td>
<td>559</td>
</tr>
<tr>
<td><strong>Net property, plant, and equipment</strong></td>
<td><strong>$11,302</strong></td>
<td><strong>$11,683</strong></td>
</tr>
</tbody>
</table>

Property, plant, and equipment include certain capitalized leases. The following is a schedule, by year, of the future minimum payments under these leases, together with the present value of the net minimum payments as of December 31, 20X2:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ending December 31,</td>
<td></td>
</tr>
<tr>
<td>20X3</td>
<td>$ 859</td>
</tr>
<tr>
<td>20X4</td>
<td>832</td>
</tr>
<tr>
<td>20X5</td>
<td>783</td>
</tr>
<tr>
<td>20X6</td>
<td>588</td>
</tr>
<tr>
<td>20X7 and thereafter</td>
<td>747</td>
</tr>
<tr>
<td><strong>Total minimum lease payments</strong></td>
<td>3,809</td>
</tr>
<tr>
<td>Less amount representing interest</td>
<td>659</td>
</tr>
<tr>
<td><strong>Total present value of minimum payments</strong></td>
<td>3,150</td>
</tr>
<tr>
<td>Less current portion of such obligations</td>
<td>633</td>
</tr>
<tr>
<td><strong>Long-term obligations with interest rates ranging from 6.92% to 11.42%</strong></td>
<td><strong>$2,517</strong></td>
</tr>
</tbody>
</table>

111
Note 8:  Other Assets

At December 31, 20X2 and 20X1, other assets include notes receivable and accrued interest totaling $948,000 and $786,500, respectively, from investors in a private corporation. The notes, which are recorded at face value, are due if there is a change in ownership of the private corporation or March 31, 20X7, whichever occurs earlier. Additionally, the Company owns stock in the private corporation which is recorded at historical cost of $96,500.

Note 9:  Short-Term Borrowings

Effective November 1, 20X2, the Company renegotiated its $22,500,000 revolving credit agreement. The interest rate is, at the Company's option, based on the prime rate, the domestic certificate of deposit rate (CD rate) or the Euro-bank rate. The interest rates are adjusted quarterly based on the fixed charge coverage ratio defined in the agreement. The ranges are prime to prime plus 0.25 percent, the CD rate plus 0.45 percent to the CD rate plus 1.125 percent, and the Euro-bank rate plus 0.45 percent to the Euro-bank rate plus 1.125 percent. Borrowings under the agreement, which expires July 1, 20X9, are secured by accounts receivable and inventory.

This agreement includes financial covenants requiring a minimum net worth, a fixed charge coverage ratio, a leverage ratio and a current ratio. The agreement also places restrictions on dividends, investments, capital expenditures, indebtedness, and sales of certain assets. As of December 31, 20X2, the Company was in compliance with all of the agreement’s covenants. At December 31, 20X2, the Company had borrowed $14,875,000 under the agreement of which $10,000,000 was classified as long-term (see Note 10). Under the agreement, the Company had approximately $7,061,000 in unused borrowing commitment at December 31, 20X2. At December 31, 20X2, $12,485,000 was available for future dividend payments.

Note 10:  Long-Term Debt and Related Matters

Long-term debt at December 31, 20X2 and 20X1, consists of the following:

\[
\begin{array}{lcc}
\text{(In thousands)} & \text{20X2} & \text{20X1} \\
\text{Revolving Credit Agreement with} & \\
\text{weighted average interest rate of} & \\
\text{6.57% at December 31, 20X2, and} & \\
\text{7.33% at December 31, 20X1,} & \\
\text{expiring July 1, 20X9} & \text{10,000} & \text{10,000} \\
\text{Lease obligations payable in installments} & \\
\text{through 20Y2 with a weighted average} & \\
\text{interest rate of 8.0% at December 31,} & \\
\text{20X2, and 9.45% at December 31, 20X1} & \text{3,150} & \text{1,588} \\
\text{Subtotal} & \text{13,150} & \text{11,588} \\
\text{Less current maturities} & \text{633} & \text{399} \\
\text{Total} & \text{12,517} & \text{11,189} \\
\end{array}
\]

The $10,000,000 revolving credit borrowings included in long-term debt were obtained under the revolving loan agreement discussed in Note 9 and are subject to the same terms and conditions. This portion of the borrowings is classified as long-term because the Company does not anticipate reducing the borrowings below $10,000,000 during 20X3.

The maturities of long-term debt for each of the succeeding five years subsequent to December 31, 20X2, are as follows: 20X3—$633,000; 20X4—$656,000; 20X5—$661,000; 20X6—$10,515,000; and 20X7 and beyond—$1,085,000.
Note 11: Stockholders’ Equity

At December 31, 20X2 and 20X1, the number of authorized and issued Class A and Class B shares and the related par value and dividends paid are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A common stock, authorized</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Class B common stock, authorized</td>
<td>696</td>
<td>696</td>
</tr>
<tr>
<td>Class A common stock, issued</td>
<td>5,094</td>
<td>5,089</td>
</tr>
<tr>
<td>Class B common stock, issued</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Class A common stock, outstanding</td>
<td>4,966</td>
<td>4,961</td>
</tr>
<tr>
<td>Class B common stock, outstanding</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Class A common stock, per share par value</td>
<td>$0.01</td>
<td>$0.01</td>
</tr>
<tr>
<td>Class B common stock, per share par value</td>
<td>$0.01</td>
<td>$0.01</td>
</tr>
<tr>
<td>Cash dividends paid on common stock</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

The Class A and B stock are identical except the Class B stock does not have stockholder voting rights and such stockholders are entitled to one vote per share on issues such as consolidation or merger of the Company. Class B is convertible on demand into Class A stock on a share-for-share basis.

Note 12: Stock Option Plans

Executives and other key employees have been granted options to purchase common shares of the Company’s stock under the Long-Term Incentive Plan (Plan) of the Company which was adopted in the 20XX. In accordance with the terms of the Plan, the option’s maximum term is ten years. Options granted vest ratably over a three-year period. The options include limited stock appreciation rights under which holders have the right, in the event common shares are purchased pursuant to a third party tender offer or in the event a merger or similar transaction in which the Company shall not survive as a publicly held corporation is approved by the Company’s shareholders, to relinquish the option and to receive from the Company an amount per share equal to the excess of the price payable for a common share in such offer or transaction over the option price per share.

In accordance with the provisions of SFAS 123, the Company applies APB 25 and related interpretations in accounting for its stock option plans and, accordingly, does not recognize compensation cost. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below (in thousands except per share amounts):

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income—as reported</td>
<td>$2,412</td>
<td>$2,720</td>
</tr>
<tr>
<td>Net income—pro forma</td>
<td>$1,953</td>
<td>$2,359</td>
</tr>
<tr>
<td>Earnings per share—as reported</td>
<td>$0.49</td>
<td>$0.55</td>
</tr>
<tr>
<td>Earnings per share—pro forma</td>
<td>$0.39</td>
<td>$0.48</td>
</tr>
</tbody>
</table>

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

- Expected dividend yield: 2.50%
- Expected stock price volatility: 45.0%
- Risk-free interest rate: 6.00%

The weighted average fair value of options granted during 20X2 is $19.29 per share.

The Plan provides that, unless otherwise set forth in the option agreement, options are exercisable in installments of up to 25% annually beginning one year from date of grant. Stock to be offered
under the Plan may be authorized but unissued Common stock or previously issued shares which have been reacquired by the Company and held as Treasury shares. At December 31, 20X2 and 20X1, Common stock options outstanding under the Plan had option prices ranging from $22.63 to $36.00, with a weighted average price of $23.35 and $33.33 per share, respectively.

The Option Committee of the Board of Directors which administers the Plan may, at its discretion, grant stock appreciation rights at any time prior to six months before an option's expiration date. Upon exercise of such rights, the participant surrenders the exercisable portion of the option in exchange for payment (in cash and/or Common stock valued at its fair market value) of an amount not greater than the spread, if any, by which the average of the high and low sales prices quoted in the Over-the-Counter Exchange on the trading day immediately preceding the date of exercise of the stock appreciation right exceeds the option price. No stock appreciation rights were issued or outstanding during 20X2 or 20X1.

Options exercised during 20X2 totaled 5,000 shares at an exercise price of $3.00 per share. There were no options exercised during 20X1.

Certain information for the two years ended December 31, 20X2, relative to employee stock options is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares under Incentive Plan option:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding at beginning of year</td>
<td>487,500</td>
<td>362,500</td>
</tr>
<tr>
<td>Granted</td>
<td>12,500</td>
<td>128,000</td>
</tr>
<tr>
<td>Canceled</td>
<td>(12,500)</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Exercised</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Outstanding at end of year</td>
<td>482,500</td>
<td>487,500</td>
</tr>
<tr>
<td>Exercisable at end of year</td>
<td>374,000</td>
<td>306,250</td>
</tr>
<tr>
<td>Number of shares available for future grant:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>158,125</td>
<td>33,125</td>
</tr>
<tr>
<td>End of year</td>
<td>158,125</td>
<td>158,125</td>
</tr>
</tbody>
</table>

Note 13: Earnings Per Common Share

Earnings per common share are computed by dividing net income by the average number of Class A Common shares and common stock equivalents outstanding during the year. The weighted average number of Class A Common shares outstanding during the year ended December 31, 20X2, were approximately 4,963,500 and approximately 4,961,500 during the year ended 20X1.

Common stock equivalents are the net additional number of shares which would be issuable upon the exercise of the outstanding common stock options (see Note 11), assuming that the Company reinvested the proceeds to purchase additional shares at market value. Common stock equivalents had no material effect on the computation of earnings per share for the two years ended December 31, 20X2.

Note 14: Income Taxes

At December 31, 20X2, the Company has available net operating loss carryforwards of approximately $3,900,000 for federal income tax purposes that expire 20XX. The federal carryforwards resulted from losses generated in 20XX. The tax benefit of net operating loss carryforwards available for state income tax purposes was approximately $400,000 as of December 31, 20X2. The Company also has alternative minimum federal tax credit carryforwards at December 31, 20X2, of approximately $500,000. For financial purposes, a valuation allowance of $100,000 has been recognized to offset the deferred tax assets related to the state income carryforwards. Deferred
income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax liabilities and assets as of December 31, 20X2 and 20X1, are as follows:

(\textit{\textit{In thousands}}) \hfill \text{20X2} \quad \text{20X1}

\begin{tabular}{lcc}
\hline
Deferred tax liabilities: & & \\
Depreciation & $614 & $301 \\
Other—net & ($31) & 34 \\
Total deferred tax liabilities & 583 & 335 \\
\hline
Deferred tax assets: & & \\
Net operating loss carryforwards & 1,709 & 2,248 \\
Tax credit carryforwards & 486 & 443 \\
Other—net & & 157 \\
Total deferred tax assets & 2,195 & 2,848 \\
Valuation allowance for deferred tax assets & 100 & 1,350 \\
Deferred tax assets & 2,095 & 1,497 \\
Valuation allowance for deferred tax assets & 100 & 1,350 \\
Net deferred tax assets & $1,512 & $1,163 \\
\hline
\end{tabular}

The valuation allowance for deferred tax assets was reduced by $1,249,550 and $1,187,000 during 20X2 and 20X1, respectively.

Significant components of the provision for income taxes are as follows:

(\textit{\textit{In thousands}}) \hfill \text{20X2} \quad \text{20X1}

\begin{tabular}{lcc}
\hline
Current: & & \\
Federal & $51 & $41 \\
State & 63 & 49 \\
Total current & 114 & 90 \\
\hline
Deferred: & & \\
Federal & (170) & (591) \\
State & (180) & (23) \\
Total deferred & (350) & (614) \\
\hline
Total income tax benefit & $(236) & $(524) \\
\hline
\end{tabular}

The reconciliation of income tax computed at statutory rates of income tax benefit is as follows:

\begin{tabular}{lcc}
\hline
Statutory rate & 34.0\% & 34.0\% \\
State income tax & (3.0) & 0.7 \\
Nondeductible expenses & 3.0 & 3.1 \\
Net operating loss & (22.9) & (28.6) \\
Change in valuation reserve & (30.2) & (25.5) \\
Prior period tax & 13.2 & (11.5) \\
Other & (1.3) & 3.9 \\
\hline
\textit{\textit{Note 15: Rental and Lease Information}} \hfill \\
\end{tabular}

The Company leases certain plant facilities, office facilities, and equipment. Rental expense for the years ended December 31, 20X2 and 20X1, amounted to $933,500 and $846,500, respectively.
At December 31, 20X2, the Company is committed to total minimal rental payments under all noncancellable operating leases of $708,500. Generally, these leases include escalation clauses.

The minimum future rental commitments are payable as follows: 20X3—$431,500; 20X4—$188,500; 20X5—$43,500; 20X6—$35,000; and 20X7—$10,000.

Note 16: Pension and Other Postretirement Benefit Plans

The company has a defined benefit pension plan covering substantially all of its employees. The plan benefits are based on years of service and the employees’ compensation during the last five years of covered employment. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the changes in benefit obligations, changes in plan assets and components of net periodic benefit cost for both the pension plan and the other postretirement benefit plans:

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th>Other Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
<td>20X1</td>
</tr>
<tr>
<td>Change in benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$126</td>
<td>$120</td>
</tr>
<tr>
<td>Service cost</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Interest cost</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(25)</td>
<td>(24)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(12)</td>
<td>(11)</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>109</td>
<td>126</td>
</tr>
<tr>
<td>Change in plan assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>106</td>
<td>88</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>29</td>
<td>18</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>75</td>
<td>11</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(12)</td>
<td>(11)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>198</td>
<td>106</td>
</tr>
<tr>
<td>Funded status:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrecognized net actuarial loss</td>
<td>83</td>
<td>38</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td>Prepaid (accrued) benefit cost</td>
<td>$82</td>
<td>$35</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th>Other Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X2</td>
<td>20X1</td>
</tr>
<tr>
<td>Weighted-average assumptions as of December 31:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>8.00</td>
<td>8.00</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>6.00</td>
<td>6.00</td>
</tr>
</tbody>
</table>

For measurement purposes, a 7 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 5 percent over the next five years.
Components of net periodic benefit cost:

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
<th>20X1</th>
<th>20X2</th>
<th>20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$ 6</td>
<td>$ 7</td>
<td>$ 6</td>
<td>$ 3</td>
</tr>
<tr>
<td>Interest cost</td>
<td>14</td>
<td>10</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(10)</td>
<td>(18)</td>
<td>(24)</td>
<td>(9)</td>
</tr>
<tr>
<td>Amortization of prior service cost</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Recognized net actuarial loss</td>
<td>6</td>
<td>6</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$18</td>
<td>$25</td>
<td>$11</td>
<td>$7</td>
</tr>
</tbody>
</table>

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<table>
<thead>
<tr>
<th>Effect on total of service and interest cost components</th>
<th>1-Percentage-Point Increase</th>
<th>1-Percentage-Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on postretirement benefit obligation</td>
<td>$4</td>
<td>$(3)</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>(1)</td>
</tr>
</tbody>
</table>

Note 17: Commitments and Contingent Liabilities

The Company is subject to laws and regulations relating to the protection of the environment. While it is not possible to quantify with certainty the potential impact of actions regarding environmental matters, particularly any future remediation and other compliance efforts, in the opinion of management, compliance with the present environmental protection laws will not have a material adverse effect on the financial condition, competitive position or capital expenditures of the Company. However, the Company’s efforts to comply with increasingly stringent environmental regulations may have an adverse effect on the Company’s future earnings.

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

At December 31, 20X2, the Company had outstanding letters of credit of approximately $564,000.

Note 18: Risks and Uncertainties

The Company’s future operating results may be affected by a number of factors. The Company is dependent upon a number of major suppliers. If a critical supplier had operational problems or ceased making material available to the Company, operations could be adversely affected. In particular, approximately 70% of the materials sold by the construction products segment are purchased from one supplier. The Company’s operations are in part dependent on governmental funding of infrastructure projects. Significant changes in the level of government funding of these projects could have a favorable or unfavorable impact on the operating results of the Company. The Company’s operations results may also be affected by the weather.

Note 19: Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

Cash and Cash Equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
Accounts Receivable and Accounts Payable. The carrying amount of accounts receivable and accounts payable in the balance sheet approximates fair value.

Short-Term and Long-Term Debt. The carrying amount of the revolving credit facility approximates fair value.

The carrying amounts of the Company’s financial instruments at December 31, 20X2, approximate fair value.
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