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Lori West

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CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR CORPORATIONS

A Financial Accounting and Reporting Practice Aid

Edited By
Lori West, CPA
Technical Manager, Accounting and Auditing Publications
Checklists and Illustrative Financial Statements for Corporations

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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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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.
The financial statements and notes checklist has been updated to include relevant disclosure guidance in accounting pronouncements issued through the following pronouncements:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans— an amendment of FASB Statements No. 87, 88, 106, and 132(R), and revised FASB Statements issued through November 30, 2006, including:
  - FASB Statement No. 123 (revised 2004), Share-Based Payment
  - FASB Interpretation (FASBI) No. 48, Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109
  - FASB Emerging Issues Task Force (EITF) consensuses adopted through the September 2006 meeting
  - FASB Staff Positions (FSP) issued through September 30, 2006
  - AICPA Statement on Auditing Standards (SAS) No. 112, Communicating Internal Control Related Matters Identified in an Audit
  - Auditing Interpretation No. 1 in AU section 328, titled “Auditing Interests in Trusts Held by a Third-Party Trustee and Reported at Fair Value,” and Auditing Interpretation No. 1 in AU section 332, titled “Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist”
  - AICPA Statement of Position (SOP) 06-1, Reporting Pursuant to the Global Investment Performance Standards
  - AICPA Practice Bulletin (PB) No. 15, Accounting by the Issuer of Surplus Notes
  - AICPA Statement on Standards for Accounting and Review Services (SSARS) No. 14, Compilation of Pro Forma Financial Information
  - Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 4, Reporting on Whether a Previously Reported Material Weakness Continues to Exist

The checklists and illustrative financial statements should be modified, as appropriate, for pronouncements issued subsequent to the above. In determining the applicability of a pronouncement, its effective date should also be considered.

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

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FSP §6000.04
Checklists and Illustrative Financial Statements for Corporations

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

.05 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.

.06 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.

.07 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.

.08 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.

.09 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.

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Note: This publication was extracted from sections 6000 through 6500 of the AICPA Financial Statement Preparation Manual (FSP).
### Financial Statements and Notes Checklist

#### FSP Section 6100

**Financial Statements and Notes Checklist**

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CC. Real Estate Time-Sharing Transactions
DD. Fair Value Measurements

Yes  No  N/A

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?
   b. Statement of income (operations)?
   c. Statement of retained earnings or changes in shareholders’ equity?
   d. Statement of cash flows?
   e. Description of accounting policies?
   f. Notes to the financial statements?
      [Generally Accepted]

2. Is each financial statement suitably titled?
   [Generally Accepted]

3. Does each statement include a reference to the notes, which are an integral part of the financial statements?
   [Generally Accepted]
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](#)

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)]
   ![Yes](#)  ![No](#)  ![N/A](#)

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)]
   ![Yes](#)  ![No](#)  ![N/A](#)

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)]
   ![Yes](#)  ![No](#)  ![N/A](#)

4. Are material intercompany transactions and accounts, and any profits or losses on assets that are eliminated disclosed?
   [ARB 51, par. 6 (AC C51.109)]
   ![Yes](#)  ![No](#)  ![N/A](#)

---

**Consolidation of Variable Interest Entities**

**Important:** FASB 46 (revised December 2003), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51*, contains different effective dates based on the nature of the entity applying its provisions. Also, FASB 46(R) contains scope exceptions that should be considered in determining whether its provisions apply to a particular entity. Financial statement preparers and auditors should familiarize themselves with the effective date guidance and scope exceptions contained in FASB 46(R), which can be obtained on the FASB Web site at www.fasb.org. Note that FASB 46(R) replaces the original FASB 46 that was issued in January 2003.

5. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):
   - The nature, purpose, size, and activities of the variable interest entity?
   - The carrying amount and classification of consolidated assets that are collateral for the variable interest entity’s obligations?
   - Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary?
   ![Yes](#)  ![No](#)  ![N/A](#)

---

**FSP §6100**
6. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:
   a. The nature of its involvement with the variable interest entity and when that involvement began?
   b. The nature, purpose, size, and activities of the variable interest entity?
   c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity?
   [FASBI 46(R), par. 24 (AC C54.124)]

   Note: For entities to which FASBI 46(R) has been applied, the guidance in FSP FIN 46(R)-5 should be applied in the first reporting period beginning after March 3, 2005 in accordance with the transition provisions of FASBI 46(R). Restatement to the date of the initial application of FASBI 46(R) is permitted but not required. Early application is permitted for periods for which financial statements have not yet been issued. For entities to which FASBI 46(R) has not been applied, the guidance in FSP FIN 46(R)-5 should be applied in accordance with the effective date and transition provisions of FASBI 46(R).

7. Does a reporting enterprise that is not the primary beneficiary but holds a significant implicit variable interest in a VIE disclose the information in Question 5 above?
   [FSP FIN 46(R)-5, par. 6 (AC C54.818-.826)]

8. Are disclosures required by SFAS 140 about a variable interest entity included in the same note to the financial statements as the information required by FASBI 46(R)?
   [FASBI 46(R), par. 25 (AC C54.125)]

9. If an entity does not apply FASBI 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FASBI 46(R), is the following information disclosed:
   a. The number of entities to which this Interpretation is not being applied and the reason why the information required to apply this Interpretation is not available?
   b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)?
   c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)?
   d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.)
   [FASBI 46(R), par. 26 (AC C54.126)]

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; FSP SOP 94-6-1, 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; FSP SOP 94-6-1, 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, 2006, Sixtieth Edition.

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<tr>
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<td>600</td>
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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); FASBI 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

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.

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 180.118)]

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?  
   b. Gross unrecognized holding gains or losses?  
   c. Net carrying amount?  
   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 180.118)]

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)?  
   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 180.119)]

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?  
   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)?  
   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 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?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

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. 21 (AC 180.120)]

---

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

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?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

   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?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

   c. Related realized or unrealized gain or loss?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

   d. The circumstances leading to the decision to sell or transfer the security?

[SFAS 115, par. 22 (AC 180.121)]

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

7. Is the accounting policy for the premium paid (time value) to acquire an option that is classified as held-to-maturity or available for sale disclosed?

[SFAS 115, par. 22 (AC 180.121)]

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

Note: The disclosure requirements in Questions 8–10 below are effective for reporting periods beginning after December 15, 2005. Earlier application is permitted.

---

8. For all investments in an unrealized loss position, including those that fall within the scope of EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets, for which other-than-temporary impairments have not been recognized, does an investor disclose the following in its annual financial statements:

   a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each category of investment that the investor discloses in accordance with SFAS 115 and SFAS 124 (refer to paragraph 4(b) in FSP FAS 115-1 and FAS 124-1) and cost-method investments—in tabular form:

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

(1) The aggregate related fair value of investments with unrealized losses?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

(2) The aggregate amount of unrealized losses (that is, the amount by which cost exceeds fair value)?

\[ \text{Yes} \quad \text{No} \quad \text{N/A} \]

---

FSP §6100
Notes: The disclosures in (1) and (2) above should be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.

The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point would be the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon either (a) the recognition of an other-than-temporary impairment or (b) the investor becoming aware of a recovery of fair value up to (or beyond) the cost of the investment during the period.

b. As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the investor considered (both positive and negative) in reaching the conclusion that the impairment(s) are not other than temporary? These disclosures could include:

(1) The nature of the investment(s)?
(2) The cause(s) of the impairment(s)?
(3) The number of investment positions that are in an unrealized loss position?
(4) The severity and duration of the impairment(s)?
(5) Other evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired, including, for example, industry analyst reports, sector credit ratings, volatility of the security’s fair value, and/or any other information that the investor considers relevant?

[FSP FAS 115-1 and FAS 124-1, par. 17]

9. Are individually significant unrealized losses generally not aggregated?

[FSP FAS 115-1 and FAS 124-1, par. 17]

10. For cost-method investments, does an investor disclose the following additional information, if applicable, as of each date for which a statement of financial position is presented in its annual financial statements:

a. The aggregate carrying amount of all cost-method investments?

b. The aggregate carrying amount of cost-method investments that the investor did not evaluate for impairment?

c. The fact that the fair value of a cost-method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment, and:
(1) The investor determined, in accordance with paragraphs 14
and 15 of SFAS 107, Disclosures about Fair Value of Financial
Instruments, that it is not practicable to estimate the fair value
of the investment, or?

(2) The investor is exempt from estimating fair value under SFAS
126, Exemption from Certain Required Disclosures about Financial
Instruments for Certain Nonpublic Entities?
[FSP FAS 115-1 and FAS 124-1, par. 18]

Note: FSP FAS 115-1 and FAS 124-1 includes a tabular example of the
quantitative disclosures (see Appendix A of the FSP) as referred to in
Question 8a above.

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)]

Note: Regarding SOP 01-6, Accounting by Certain Entities (Including Enti-
ties With Trade Receivables) That Lend or Finance the Activities of Others,
Questions 6-14 below apply to entities that lend to or finance the activities
of others (including trade receivables). Refer to paragraphs 3-6 of SOP 01-6
to determine whether your entity falls within the scope of the SOP. This
checklist includes only the disclosure requirements for the more common
activities within the scope of SOP 01-6. If the entity is a financial institu-
tion, or purchases or sells loans or servicing rights, forecloses on a loan,
or engages in other more complex lending activities, the additional dis-
closure requirements of SOP 01-6, SFAS 140, Accounting for Transfers and
Servicing of Financial Assets and Extinguishments of Liabilities, and SFAS 156,
Accounting for the Servicing of Financial Assets, not included herein, also
should be considered.
6. Does the accounting policy note include the following:
   a. The basis of accounting for loans, trade receivables, and lease financings, including those classified as held for sale? 
   b. The method used in determining the lower of cost or fair value of nonmortgage loans held for sale (that is aggregate or individual asset basis)?
   c. The method for recognizing interest income on loan and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs?
   d. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its recorded investment?
   e. A description of the accounting policies and methodology the entity used to estimate its allowance for loan losses, allowance for doubtful accounts, and any liability for off-balance sheet credit losses, and related charges for loan, trade receivable or other credit losses, including a description of the factors that influenced management's judgment?
   f. The policy for placing loans (and trade receivables if applicable) on nonaccrual status (or discontinuing accrual of interest) and recording payments received on nonaccrual loans (and trade receivables if applicable), and the policy for resuming accrual of interest?
   g. The policy for charging off uncollectible loans and trade receivables?
   h. The policy for determining past due or delinquency status (that is, whether past due status is based on how recently payments have been received or contractual terms)?

[SOP 01-6, par. 13a–c]

7. Is the aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of cost or fair value) presented separately in the financial statements or disclosed in the notes to the financial statements? 
[SOP 01-6, par. 13d]

8. Loans or trade receivables may be presented on the balance sheet as aggregated amounts. However,
   a. Are loans or trade receivables held for sale presented on the balance sheet in a separate category?
   b. Are major categories of loans or trade receivables presented separately either in the balance sheet or in the notes to the financial statements?
   c. Are the allowance for credit losses, the allowance for doubtful accounts, and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, disclosed in the financial statements? 
[SOP 01-6, par. 13e]

9. Are foreclosed and repossessed assets classified as a separate balance-sheet amount or included in other assets on the balance sheet with separate disclosures in the notes to the financial statements? 
[SOP 01-6, par. 13f]
10. Are certain returned or repossessed assets, such as inventory, subsequently to be utilized by the entity in operations, not classified separately? [SOP 01-6, par. 13f]

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

11. Is the valuation allowance for loans prior to foreclosure not carried over as a separate element of the cost basis in the foreclosed asset for purposes of applying SFAS 144? [FSP FAS 144-1]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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12. Is the recorded investment in loans (and trade receivables if applicable) on nonaccrual status as of each balance sheet date disclosed in the notes to the financial statements? [SOP 01-6, par. 13g]

<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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13. Is the recorded investment in loans (and trade receivables if applicable) past due ninety days or more and still accruing disclosed? [SOP 01-6, par. 13g]

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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14. Insurance subsidiaries may be required to deposit securities with state regulatory authorities. If so, is the carrying amount of securities deposited disclosed? [SOP 01-6, par. 13h]

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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15. Is the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings disclosed pursuant to paragraphs 18 and 19 of SFAS 5, Accounting for Contingencies? [SOP 01-6, par. 13i]

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<tr>
<th>Yes</th>
<th>No</th>
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Note: SOP 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor’s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality.

16. Do the notes to financial statements describe how prepayments are considered in the determination of contractual cash flows and cash flows expected to be collected? [SOP 03-3, par. 14]

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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17. Is information about loans meeting the scope criteria of paragraph 3 of SOP 03-3 included in the disclosures required by paragraphs 20(a) and 20(b) of SFAS 114, if the condition in paragraph 16 of SFAS 115 or paragraph 8(a) of SFAS 5 (as discussed in paragraphs 7(a) and 8(a) of SOP 03-3) is met? [SOP 03-3, par. 15]

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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18. In addition to disclosures required by other generally accepted accounting principles, for each balance sheet presented, does an investor disclose the following information about loans within the scope of SOP 03-3:

a. Separately for both those loans that are accounted for as debt securities and those loans that are not accounted for as debt securities:

   (1) The outstanding balance and related carrying amount at the beginning and end of the period?
(2) The amount of accretable yield at the beginning and end of the period, reconciled for additions, accretion, disposals of loans, and reclassifications to or from nonaccretable difference during the period?

(3) For loans acquired during the period, the contractually required payments receivable, cash flows expected to be collected, and fair value at the acquisition date?

(4) For those loans within the scope of SOP 03-3 for which the income recognition model in SOP 03-3 is not applied in accordance with paragraph 6, the carrying amount at the acquisition date for loans acquired during the period and the carrying amount of all loans at the end of the period?

b. Further, for those loans that are not accounted for as debt securities, does an investor disclose:

1. The amount of (a) any expense recognized pursuant to paragraph 8(a) of SOP 03-3 and (b) any reductions of the allowance recognized pursuant to paragraph 8(b)(1) of SOP 03-3 for each period for which an income statement is presented?

2. The amount of the allowance for uncollectible accounts at the beginning and end of the period?
[SOP 03-3, par. 16]

Practice Tip

Practice Note: Public Company Disclosures of Asset-Backed Securities. The SEC adopted new rules and forms surrounding asset-backed securities, including mortgage-backed securities (Regulation AB). The guidance in Regulation AB codifies requirements for registration, disclosure, and reporting for all publicly registered asset-backed securities, and is effective for most publicly registered transactions beginning January 1, 2006. Among other matters, Regulation AB changes the required disclosures associated with the securities registration process, changes the reporting requirements for asset backed securities, and requires a new annual servicing assertion. Requirements of Regulation AB affect an institution from both an issuer and investor perspective. For information regarding disclosures see www.sec.gov/rules/final/33-8518.htm and the related amendment at www.sec.gov/rules/final/33-8518a.pdf.

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 178.120)]

3. Is the basis for stating inventory disclosed (e.g., lower of cost or market)?
   [ARB 43, Ch. 4, as amended by SFAS 151, par. 14 (AC 178.120); 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, as amended by SFAS 151, par. 17 (AC 178.121 and .122)]

FSP §6100
### 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

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 I82.109c)]

2. Are the following disclosures made for investments in common stock accounted for by the equity method:

   a. The name of each investee and their percentage of ownership of common stock?

   b. The accounting policies of the investor with respect to investments in common stock?

   c. The difference between the amount at which an investment is carried and the amount of underlying equity in net assets?

   d. The accounting treatment of the difference described in c?

   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.)

   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?

   g. Material effects of conversions of outstanding convertible securities, exercises or contingent issuances?

   [APB 18, par. 20 (AC I82.110)]

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:

   a. The name of such investee?

   [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]

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:

   a. The name of such investee?

   b. The reasons why the equity method is considered appropriate?

   [APB 18, par. 20, fn. 13 (AC I82.110 fn. 14)]
5. Upon loss of significant influence, has the investor recorded the proportionate share of an investee's equity adjustments for other comprehensive income (OCI) as offset against the carrying value of the investment at the time significant influence is lost? [FSP APB 18-1, par. 4]  

6. To the extent that the offset results in a carrying value of the investment that is less than zero has the investor (a) reduced the carrying value of the investment to zero and (b) recorded the remaining balance in income? [FSP APB 18-1, par. 4]  

---

Note: FSP APB 18-1 does not provide guidance for entities that have historically not recorded their proportionate share of an investee's equity adjustments for OCI. These entities should refer to paragraph 13 of APB 20, Accounting Changes, for the appropriate guidance. SFAS 154, Accounting Changes and Error Corrections, which replaces APB 20, is effective for fiscal years beginning after December 15, 2005. Upon its effective date, entities should refer to paragraph 25 of that Statement for the appropriate guidance. FSP APB 18-1 also does not provide guidance on the measurement and recognition of a gain or loss on the sale of all or a portion of the underlying investment.

7. Is the selected policy disclosed for determining the amount of equity method losses when previous losses have reduced the common stock investment account to zero? [EITF 99-10]  

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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. Is separate disclosure made of the aggregate carrying amount of mineral rights, if any? [EITF 04-2, par. 9]

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? [SFAS 109, par. 42 (AC I27.141)]
   b. Are all noncurrent deferred tax liabilities and assets offset and presented as a single amount?

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)? [SFAS 109, par. 43 (AC I27.142)]
   b. The total of all deferred tax assets (measured as described in paragraph 17c and d of SFAS 109)?
   c. The total valuation allowance recognized for deferred tax assets (measured as described in paragraph 17e of SFAS 109)?

6. Is the net change during the year in the valuation allowance disclosed? [SFAS 109, par. 43 (AC I27.142)]

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?
   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)]

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)]

FSP §6100

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. 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)]
   - 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)]
   - 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)]

2. 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]

3. Are investments in life insurance reported at amounts that can be realized as of the statement-of-financial-position date?  
   [TB 85-4, par. 2 (AC I50.508)]

### Note:
In March 2006, the FASB staff issued FSP FTB 85-4-1, Accounting for Life Settlement Contracts by Third-party Investors, which provides guidance for investments by third-party investors in life insurance contracts. The guidance shall be applied to fiscal years beginning after June 15, 2006. Earlier application is permitted as of the beginning of an investor's fiscal year, provided that the investor has not yet issued its first quarter financial statements for that fiscal year. An investor shall apply the guidance prospectively for all new life settlement contracts. At the date of adoption, an investor shall make a one-time irrevocable election to account for its currently held life settlement contracts on an instrument-by-instrument basis using either the fair value method or the investment method and recognize a cumulative-effect adjustment to beginning retained earnings. The disclosure requirements of the FSP shall be applied as of the most recent statement of financial position or income statement presented.

4. Are investments in life insurance reported using one of the following measurements:
   - a. Transaction price plus all initial direct external costs, which is then tested for impairment? or  
      [FSP FTB 85-4-1, pars. 6 and 7]
   - b. Fair value?  
      [FSP FTB 85-4-1, par. 8]

5. If the entity chooses to report using measurement a. or b. in Question 4 above, do the financial statements include all of the following disclosures required by FSP FTB 85-4-1 in Questions 6-16 below?  
   [FSP FTB 85-4-1, pars. 9-19]
Presentation on the Statement of Financial Position

6. To accomplish separate reporting, does an investor report its investments that are remeasured at fair value on the face of the statement of financial position separately from those accounted for under the investment method either by:
   a. Displaying separate line items on the statement of financial position for the fair value method and investment method carrying amounts? or
   b. Presenting the aggregate of those fair value method and investment method carrying amounts and parenthetically disclose the amount of those investments accounted for under the fair value method included in the aggregate amount? [FSP FTB 85-4-1, par. 9]

Presentation in the Income Statement

7. To accomplish separate reporting, does an investor report the investment income from its investments in life settlement contracts that are remeasured at fair value on the face of the income statement separately from the investment income from those accounted for under the investment method by either:
   a. Displaying separate line items on the income statement for the investment income from the investments in life settlement contracts that are accounted for under the fair value method and investment method? or
   b. Present the aggregate of the investment income in life settlement contracts and parenthetically disclose the investment income from those investments accounted for under the fair value method that are included in the aggregate amount? [FSP FTB 85-4-1, par. 10]

Presentation in the Statement of Cash Flows

8. Does an investor classify cash receipts and cash payments related to life settlement contracts pursuant to SFAS 95, Statement of Cash Flows (as amended), based on the nature and purpose for which the life settlements were acquired? [FSP FTB 85-4-1, par. 11]

Disclosure Requirements

9. Does an investor disclose its accounting policy for life settlement contracts including the classification of cash receipts and cash disbursements in statement of cash flows? (Note: The disclosure requirements in paragraphs 13–19 of FSP FTB 85-4-1 do not eliminate disclosure requirements included in other U.S. generally accepted accounting principles pronouncements, including other disclosure requirements on the use of fair value.) [FSP FTB 85-4-1, par. 12]

Investment Method

10. Does an investor disclose the following for life settlements contracts accounted for under the investment method based on the remaining life expectancy for each of the first five succeeding years from the date of the statement of financial position and thereafter, as well as in the aggregate:
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<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
<tbody>
<tr>
<td>a. The number of life settlement contracts?</td>
<td></td>
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<td></td>
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<tr>
<td>b. The carrying value of the life settlement contracts?</td>
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<tr>
<td>c. The face value (death benefits) of the life insurance policies underlying the contracts?</td>
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<tr>
<td>[FSP FTB 85-4-1, par. 13]</td>
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<tr>
<td>11. Does an investor disclose the life insurance premiums anticipated to be paid for each of the five succeeding fiscal years to keep the life settlement contracts in force as of the date of the most recent statement of financial position presented?</td>
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<tr>
<td>[FSP FTB 85-4-1, par. 14]</td>
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</tr>
<tr>
<td>12. If the investor becomes aware of new or updated information that causes it to change its expectations on the timing of the realization of proceeds from the investments in life settlement contracts, does the investor disclose the nature of the information and the related effect on the timing of the realization of proceeds from the life settlement contracts, including disclosing significant changes to the amounts disclosed in accordance with paragraph 13 of FSP FTB 85-4-1? (Note: An investor shall not be required to actively seek out new or updated information to update the assumptions used in determining the remaining life expectancy of the life settlement contracts.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FSP FTB 85-4-1, par. 15]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fair Value Method</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Does an investor disclose the method(s) and significant assumptions used to estimate the fair value of investments in life settlement contracts, including any mortality assumptions?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FSP FTB 85-4-1, par. 16]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Does an investor disclose the following for life settlement contracts accounted for under the fair value method based on remaining life expectancy for each of the first five succeeding years from the date of the statement of financial position and thereafter, as well as in the aggregate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The number of life settlement contracts?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The carrying value of the life settlement contracts?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. The face value (death benefits) of the life insurance policies underlying the contracts?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FSP FTB 85-4-1, par. 17]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Does the investor disclose the reasons for changes in its expectation of the timing of the realization of the investments in life settlement contracts, including disclosing significant changes to the amounts disclosed in accordance with paragraph 17 of FSP FTB 85-4-1?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FSP FTB 85-4-1, par. 18]</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Does an investor disclose the following for each reporting period presented in the income statement:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The gains or losses recognized during the period on investments sold during the period?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. The unrealized gains or losses recognized during the period on investments that are still held at the date of the statement of financial position?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[FSP FTB 85-4-1, par. 19]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FSP §6100
### Transition

17. Does an investor disclose the following in the fiscal period of adoption in which a change in accounting principle is made:

   a. The nature of and reason for the change in accounting principle?  
   b. The cumulative effect of the change on retained earnings in the statement of financial position as of the date of adoption?

<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>

**Note:** Financial statements of subsequent periods from the date of adoption need not repeat the disclosures required by paragraph 23 of the FSP.  
[FSP FTB 85-4-1, par. 23]

### J. Intangible Assets and Goodwill

1. At a minimum, are all intangible assets aggregated and presented as a separate line item in the statement of financial position? (This requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.)

   [SFAS 142, par. 42 (AC G40.141)]

2. Are amortization expense and impairment losses for intangible assets presented in income statement line items within continuing operations as deemed appropriate for each entity?

   [SFAS 142, par. 42 (AC G40.141)]

3. Is the aggregate amount of goodwill presented as a separate line item in the statement of financial position?

   [SFAS 142, par. 43 (AC G40.142)]

4. Is the aggregate amount of goodwill impairment losses presented as a separate line item in the income statement before the subtotal income form continuing operations (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation?

   [SFAS 142, par. 43 (AC G40.142)]

5. Is a goodwill impairment loss associated with a discontinued operation included (on a net-of-tax basis) within the results of discontinued operations?

   [SFAS 142, par. 43 (AC G40.142)]

6. For intangible assets acquired either individually or with a group of assets, is the following information disclosed in the notes to the financial statements in the period of acquisition:

   a. For intangible assets subject to amortization:

      (1) The total amount assigned and the amount assigned to any major intangible asset class?

      (2) The amount of any significant residual value, in total and by major intangible asset class?

      (3) The weighted-average amortization period, in total and by major intangible asset class?

   b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class?

<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>
c. The amount of research and development assets acquired and written off in the period and the line item in the income statement in which the amounts written off are aggregated? [SFAS 142, par. 44 (AC G40.143)]

7. Has the following information been disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:
   a. For intangible assets subject to amortization:
      (1) The gross carrying amount and accumulated amortization, in total and by major intangible asset class?
      (2) The aggregate amortization expense for the period?
      (3) The estimated aggregate amortization expense for each of the five succeeding fiscal years?
   b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class?
   c. The changes in the carrying amount of goodwill during the period including:
      (1) The aggregate amount of goodwill acquired?
      (2) The aggregate amount of impairment losses recognized?
      (3) The amount of goodwill included in the gain or loss on disposal of all or a portion of a reporting unit?

8. If the entity reports segment information in accordance with SFAS 131, is the above information about goodwill provided in total and for each reportable segment and are any significant changes in the allocation of goodwill by reportable segment disclosed? [SFAS 142, par. 45 (AC G40.144)]

9. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, is that unallocated amount and the reasons for not allocating that amount disclosed? [SFAS 142, par. 45 (AC G40.144)]

10. For each impairment loss recognized related to an intangible asset, is the following information disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:
    a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment?
    b. The amount of the impairment loss and the method for determining fair value?
    c. The caption in the income statement in which the impairment loss is aggregated?
    d. If applicable, the segment in which the impaired intangible asset is reported under SFAS 131? [SFAS 142, par. 46 (AC G40.145)]

11. For each goodwill impairment loss recognized, is the following information disclosed in the notes to the financial statement that include the period in which the impairment loss is recognized:

FSP §6100
a. A description of the facts and circumstances leading to the impairment? ____ ____ ____

b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses, a present value or other valuation technique, or a combination thereof)? ____ ____ ____

c. If a recognized impairment loss is an estimate that has not yet been finalized (refer to SFAS 142, par. 22), that fact and the reasons therefor and, in subsequent periods, the nature and amount of any significant adjustments made to the initial estimate of the impairment loss?

   [SFAS 142, par. 47 (AC G40.146-.148)] ____ ____ ____

K. 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), including sabbatical leaves described in EITF 06-2, because the amount cannot be reasonably estimated, is that fact disclosed?

   [SFAS 43, par. 6 (AC C44.104); EITF 06-2, par. 5] ____ ____ ____

5. 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] ____ ____ ____

L. 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] ____ ____ ____
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.I20)]

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?
   b. The combined aggregate amount of maturities and sinking fund requirements for all long term borrowings? [SFAS 47, par. 7 (AC C32.105)]

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?
   b. Is the effective interest rate disclosed?
   c. Is the face amount of the note disclosed?
   d. Is amortization of the discount or premium reported as interest in the income statement?
   e. Are issue costs reported as deferred charges? [APB 21, par. 16 (AC I69.109)]

6. Are current portions of debt obligations presented as current liabilities? [ARB 43, Ch. 3A, pars. 7 and 8 (AC B05.108 and .109)]

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?
   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)]

8. Are long-term debt agreements subject to a subjective acceleration clause disclosed unless the likelihood of the acceleration of the due date is remote? [TB 79-3 (AC B05.501–503)]

9. 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?
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)]

10. If an obligation under Question 9 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]

11. 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]

12. 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, 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]

*Note:* SFAS 5 states that it does not discourage disclosure of uninsured risks in appropriate circumstances. AcSEC believes that, though operational criteria have not been developed for such disclosures as stated in SFAS 5, they should be encouraged rather than simply not discouraged.

13. For publicly held entities and entities with public accountability, such as governments, are circumstances disclosed in which:
   a. They are exposed to risks of future material loss related to:
      (1) Torts?  
      (2) Theft of, damage to, expropriation of, or destruction of assets?  
      (3) Business interruption?  
      (4) Errors or omissions?  
      (5) Injuries to employees?  
      (6) Acts of God? and  
   b. Those risks have not been transferred to unrelated third parties through insurance?  
   *(Encouraged, but not required.)*  
   [EITF 03-8]
14. Does each reporting entity decide the matters to be disclosed, depending on its circumstances? The following are some of the matters reporting entities may consider for disclosure:

   a. The actual and potential effects of losses from such risks on the entity’s historical or planned operations, including exposure to losses from claims, curtailment of research and development or manufacturing, or contraction or cessation of other activities, such as discontinuance of a product line?  

   b. Comparison of current insurance coverage by major categories of risk to coverage in prior periods, without necessarily quantifying such coverage or change in coverage?  

   c. Recent claims experience?  

   d. A description of the reporting entity’s risk management programs? *Encouraged, but not required.*  

   [EITF 03-8]

---

**Note:** Disclosure of this kind is experimental. Its location in a financial report therefore depends on the judgment of those preparing the financial report.

**M. 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,* 2006, Sixtieth Edition.

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Shareholders’ Equity</td>
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<td>300</td>
<td>294</td>
<td>299</td>
<td>292</td>
</tr>
<tr>
<td>Stockholders’ Equity</td>
<td>228</td>
<td>236</td>
<td>232</td>
<td>222</td>
<td>226</td>
</tr>
<tr>
<td>Shareowners’ Equity</td>
<td>19</td>
<td>19</td>
<td>21</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Common Stockholders’ Equity</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Shareholders’ Investment</td>
<td>8</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>Common Shareholders’ Equity</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Term Deficit or Deficiency in Title</td>
<td>25</td>
<td>19</td>
<td>23</td>
<td>30</td>
<td>22</td>
</tr>
<tr>
<td>Other or no title</td>
<td>7</td>
<td>11</td>
<td>11</td>
<td>9</td>
<td>14</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>

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)]  

FSP §6100
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?
   b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends? [SFAS 129, par. 7 (AC C24.105)]

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. Do disclosures for contingently convertible securities include the significant quantitative and qualitative terms of the conversion features to enable users of the financial statements to understand the circumstances of the contingency and the potential impact of conversion, including:
   a. Events or changes in circumstances that would cause the contingency to be met and any significant features necessary to understand the conversion rights and the timing of those rights (for example, the periods in which (1) the contingency might be met and (2) the securities may be converted if the contingency is met)?
   b. The conversion price and the number of shares into which the security is potentially convertible?
   c. Events or changes in circumstances, if any, that could adjust or change the contingency, conversion price, or number of shares, including significant terms of those changes?
   d. The manner of settlement upon conversion and any alternative settlement methods (for example, cash, shares, or a combination)? [FSP 129-1, par. 4 (AC C24.804)]

9. Do disclosures indicate whether the shares that would be issued if the contingently convertible securities were converted are included in the calculation of diluted EPS and the reasons why or why not? [FSP 129-1, par. 5 (AC C24.805)]

10. Are appropriations of retained earnings for loss contingencies clearly identified and included in shareholders' equity? [SFAS 5, par. 15 (AC R70.103)]
11. Are restrictions on payment of dividends disclosed?  
   [SFAS 5, pars. 18 and 19 (AC C59.120)]  
   \[ \begin{array}{ccc} 
   \text{Yes} & \text{No} & \text{N/A} \\
   \end{array} \]

12. 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)]  
   \[ \begin{array}{ccc} 
   \end{array} \]

13. Are the carrying basis, cost and number of shares of any treasury stock held by the reporting entity disclosed?  
   [Generally Accepted]  
   \[ \begin{array}{ccc} 
   \end{array} \]

14. 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?  
   b. Accorded the accounting treatment appropriate for retired stock?  
   [APB 6, par. 12b (AC C23.103)]  
   \[ \begin{array}{ccc} 
   \end{array} \]

15. 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 (AC C23.104)]  
   \[ \begin{array}{ccc} 
   \end{array} \]

16. If treasury shares are purchased at a stated price significantly in excess of the current market price of the shares, is the allocation of the amounts paid and the accounting treatment for such amounts disclosed?  
   [TB 85-6, par. 3 (AC C23.501–503)]  
   \[ \begin{array}{ccc} 
   \end{array} \]

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, 2006, Sixtieth Edition.

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Common Stock</strong></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>364</td>
<td>363</td>
<td>370</td>
<td>365</td>
<td>362</td>
</tr>
<tr>
<td>Par or stated value of treasury stock deducted from issued stock of the same class</td>
<td>9</td>
<td>18</td>
<td>14</td>
<td>16</td>
<td>19</td>
</tr>
<tr>
<td>Cost of treasury stock deducted from stock of the same class</td>
<td>9</td>
<td>10</td>
<td>12</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Total Presentations</td>
<td>386</td>
<td>398</td>
<td>398</td>
<td>396</td>
<td>397</td>
</tr>
</tbody>
</table>

| **Preferred Stock**  |      |      |      |      |      |
| Cost of treasury stock shown as stockholders’ equity deduction | 1    | —    | 2    | 1    | 2    |
| Par or stated value of treasury stock deducted from issued stock of the same class | —    | 1    | —    | 2    | 1    |
| Other                | 1    | 1    | 2    | 2    | 2    |
| Total Presentations  | 2    | 2    | 4    | 5    | 5    |

| **Number of Companies** |      |      |      |      |      |
| Disclosing treasury stock | 388  | 398  | 399  | 397  | 396  |
| Not disclosing treasury stock | 212  | 202  | 201  | 203  | 204  |
| Total Companies         | 600  | 600  | 600  | 600  | 600  |
**Notes:** If SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, has not been adopted answer Question 1; if it has been adopted, answer Question 18:

The Statement provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. Also, the effective date of the recognition and disclosure provisions differs for an employer that is an issuer of publicly traded equity securities from one that is not. Readers should refer to the full text of the Statement to understand the various effective dates.

See Part F1, “Employers’ Disclosures for Defined Benefit Pension and Other Postretirement Plans,” of the “Other Financial Statement Disclosures” section of this checklist for additional disclosures and effective dates.

17. 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 and SFAS 109, paragraph 287? ____________ ____________ ____________

[SFAS 87, par. 37 (AC P16.131)]

18. If the asset or liability that is recognized pursuant to SFAS 87, paragraph 35 results in a temporary difference, as defined in SFAS 109, *Accounting for Income Taxes,* is the deferred tax effects of any temporary differences recognized in income tax expense or benefit for the year and allocated to various financial statement components, including other comprehensive income, pursuant to paragraphs 35–39 of SFAS 109? ____________ ____________ ____________

[SFAS 87, par. 37, as amended by SFAS 158 (AC P16.131)]

**N. 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*, 2006, Sixtieth Edition.

**PRESENTATION OF CHANGES IN RETAINED EARNINGS**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of stockholders' equity</td>
<td>586</td>
<td>584</td>
<td>586</td>
<td>581</td>
<td>578</td>
</tr>
<tr>
<td>Separate statement of retained earnings</td>
<td>4</td>
<td>5</td>
<td>7</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Combined statement of income and retained earnings</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Schedule in notes</td>
<td>7</td>
<td>8</td>
<td>5</td>
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</tr>
<tr>
<td><strong>Total Companies</strong></td>
<td><strong>600</strong></td>
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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? ____________ ____________ ____________

FSP §6100
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?

Note: See Part B1, "Accounting Changes and Error Corrections," of the "Other Financial Statement Disclosures" section of this checklist for additional disclosures.

Practice Tip

Disclosure of restatements in annual reports issued subsequent to the first such post-revision disclosure would ordinarily not be required.

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?
   b. Income from continuing operations, net income, and related per share amounts for each prior interim period restated? [SFAS 16, par. 15 (AC A35.111)]

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, 2006, Sixtieth Edition.

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<td>Total Companies</td>
<td>600</td>
<td>600</td>
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Financial Statements and Notes Checklist

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 disclosures included in the financial statements of the total research and development costs charged to expense in each period for which an income statement is presented? [SFAS 2, par. 13 (AC R50.109)] __ __ __

5. If the entity has capitalized costs incurred for a computer software product to be sold, leased, or otherwise marketed, are the following disclosed in the financial statements:
   a. Unamortized computer software costs included in each balance sheet presented? __ __ __
   b. The total amount charged to expense in each income statement presented for amortization of capitalized computer software costs and for amounts written down to net realizable value? [SFAS 86, par. 11 (AC Co2.110)] __ __ __

6. Are research and development costs incurred for a computer software product to be sold, leased, or otherwise marketed disclosed either separately or as part of the total research and development costs for each period presented? [SFAS 86, par. 12 (AC Co2.111)] __ __ __

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

9. If the entity engages in advertising barter transactions for which the fair value is not determinable within the limits of EITF 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]  

10. Is the following information disclosed in the notes to the financial statements in the period(s) in which business interruption insurance recoveries are recognized:  
a. The nature of the event resulting in business interruption losses?  
b. The aggregate amount of business interruption insurance recoveries recognized during the period and the line item(s) in the statement of operations in which those recoveries are classified (including amounts reported as an extraordinary item pursuant to APB 30)?  
[EITF 01-13]  

11. If shipping and handling costs for a seller of goods are significant and are not included in cost of sales (that is, if those costs are accounted for together or separately on other income statement line items), does the company disclose both the amount(s) of such costs and the line item(s) on the income statement that include them?  
[EITF 00-10]  

12. Does a vendor disclose the following in regard to revenue arrangements with multiple deliverables:  
a. Its accounting policy for recognition of revenue from multiple-deliverable arrangements (for example, whether deliverables are separable into units of accounting)?  
b. The description and nature of such arrangements, including performance, cancellation, termination, or refund-type provisions?  
[EITF 00-21]  

13. Is the income statement classification of the expense associated with a “free” product or service delivered at the time of sale of another product or service classified as cost of sales?  
[EITF 01-9]  

Notes: EITF 06-3, How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation), provides guidance on the presentation of taxes in the income statement. The Task Force reached a consensus that the disclosures required under EITF 06-3 should be applied retrospectively to interim and annual financial statements for all periods presented, if those amounts are significant. The disclosure of those taxes described under the consensus can be made on an aggregate basis. The Task Force observed that since EITF 06-3 requires only the presentation of additional disclosures, at the date of adoption an entity would not be required to reevaluate its existing policies related to taxes assessed by a governmental authority that are imposed concurrently on a specific revenue-producing (continued)
transaction between a seller and a customer. An entity that chooses to reevaluate its existing policies and elects to change the presentation of taxes within the scope of EITF 06-3 must follow the requirements of SFAS 154, which provides that an entity may voluntarily change its accounting principles only to adopt a preferable accounting principle.

The consensuses in EITF 06-3 should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. Earlier application is permitted.

**14.** Is the accounting policy decision regarding the presentation of taxes within the scope of EITF 06-3 Issue 1 on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) disclosed pursuant to APB 22? *(Note: An entity is not required to reevaluate its existing policies related to taxes assessed by a governmental authority as a result of this consensus.)*

**[EITF 06-3, par. 4]**

**15.** For any such taxes that are reported on a gross basis, does the entity disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant? *(Note: The disclosure of those taxes can be done on an aggregate basis.)*

**[EITF 06-3, par. 4]**

*Note:* The AICPA has released a series of questions and answers also known as a Technical Practice Aid. TPA 5400.05, “Accounting and Disclosures Guidance for Losses From Natural Disasters-Nongovernmental Entities,” identifies certain issues that may arise in accounting for losses from natural disasters, and lists relevant accounting literature for nongovernmental entities to consider in addressing those financial reporting issues.

**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 127.144a–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? [SFAS 109, par. 49a and b (AC I27.148a and b)]
   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]

9. If an entity is involved in the sale or purchase of tax benefits through tax leases, are the accounting policies or practices followed for those transactions disclosed in accordance with APB 22, *Disclosure of Accounting Policies*? Do the disclosures include the following:
   a. The method of accounting for those transactions?
b. The methods of recognizing revenue?

c. The method of allocating income tax benefits and asset costs to current and future periods?
   [TB 82-1, par. 4 (AC I27.503)]

10. If material and unusual or infrequent to the entity, are the nature and financial effects of transactions involving the sale or purchase of tax benefits through tax leases disclosed on the face of the income statement or, alternatively, in the notes to the financial statements in accordance with APB 30, *Reporting the Results of Operations*?
   [TB 82-1, par. 6 (AC I27.505)]

11. Are disclosures included if significant contingencies exist with respect to the sale or purchase of tax benefits through tax leases in accordance with SFAS 5?
   [TB 82-1, par. 7 (AC I27.506)]

12. Are disclosures included for any change in the method of accounting for sales or purchases of tax benefits through tax leases that significantly affects comparability if comparative financial statements are presented in accordance with paragraph 2 of Chapter 2A of ARB 43?
   [TB 82-1, par. 7 (AC I27.506)]

13. Does an enterprise that previously recognized the qualified production activities deduction, associated with the American Jobs Creation Act of 2004, as a tax rate reduction restate its financial statements in accordance with paragraph 27 of APB 20, *Accounting Changes*, to reflect the deduction as a special deduction as prescribed in paragraphs 231 and 232 of SFAS 109, and provide the disclosures required by paragraph 28 of APB 20 and paragraph 14 of SFAS 3, *Reporting Accounting Changes in Interim Financial Statements*, if applicable?
   [FSP 109-1]

14. Is the following information disclosed for an enterprise that has not yet completed its evaluation of the repatriation provision, associated with the American Jobs Creation Act of 2004 ("Act"), for purposes of applying SFAS 109 for each period for which financial statements covering periods affected by the Act are presented:
   
   a. A summary of the repatriation provision as it applies to the enterprise, including the status of the enterprise's evaluation of the effects of the repatriation provision as well as the evaluation's expected completion date?

   b. If the entity makes decisions in stages, the effect on income tax expense (or benefit) for any amounts that have been recognized under the repatriation provision. For annual financial statements, any effect should be shown separately in the same place (either on the face of the income statement or in the footnotes) that the amounts of current and deferred taxes are disclosed for the period?

   c. The range of reasonably possible amounts of unremitted earnings that is still being considered for repatriation as a result of the repatriation provision and the related potential range of income tax effects of such repatriation. If the related range of income tax effects of such repatriation cannot be reasonably estimated at the time of issuance of its financial statements, an enterprise shall provide a statement to that effect?
d. Pro forma financial data for any effect of the repatriation provision (at a minimum, the effect on income tax expense (or benefit)) if the enterprise decides on a plan for reinvestment or repatriation of foreign earnings (as a result of the repatriation provision) subsequent to the date of its financial statements but prior to the issuance of those financial statements? [FSP 109-2]

15. Is the following information provided in an enterprise's financial statements for the period in which it completes its evaluation of the repatriation provision, associated with the American Jobs Creation Act of 2004:

a. The total effect on income tax expense (or benefit) for amounts that have been recognized under the repatriation provision. For annual financial statements, any effect should be shown separately in the same place (either on the face of the income statement or in the footnotes) that the amounts of current and deferred taxes are disclosed for the period? [FSP 109-2]

16. Does an enterprise disclose its policy on classification of interest and penalties in accordance with paragraph 19 of FASBI 48 in the footnotes to the financial statements? [FASBI 48, par. 20]

17. Does an enterprise disclose the following at the end of each annual reporting period presented:

a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:

(1) The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period?

(2) The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period?

(3) The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities?

(4) Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations?

b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate?

c. The total amounts of interest and penalties recognized in the statement of operations and the total amounts of interest and penalties recognized in the statement of financial position?

d. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:

(1) The nature of the uncertainty?

(2) The nature of the event that could occur in the next 12 months that would cause the change?

(3) An estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made?
e. A description of tax years that remain subject to examination by major tax jurisdictions? [FASBI 48, par. 21]

18. If an enterprise presents a classified statement of financial position, does the entity classify a liability associated with an unrecognized tax benefit as a current liability (or the amount of a net operating loss carryforward or amount refundable is reduced) to the extent the enterprise anticipates payment (or receipt) of cash within one year or the operating cycle, if longer? Furthermore, has the liability for unrecognized tax benefits (or reduction in amounts refundable) not been combined with deferred tax liabilities or assets? [FASBI 48, par. 17]

19. Is a liability that has been recognized as a result of applying FASBI 48, not classified as a deferred tax liability unless it arises from a taxable temporary difference? [FASBI 48, par. 18]

C. 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 components of an entity, 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. 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 I17.119)]

D. Earnings Per Share

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

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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)]

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1 After the effective date of SFAS 154, *Accounting Changes and Error Corrections*, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change. This conclusion amends APB 28 and APB 30, SFAS 128, SFAS 130, SFAS 131, SFAS 141 and SFAS 144, and FASB I 18. See Part B1, "Accounting Changes and Error Corrections," of the "Other Financial Statement Disclosures" section of this checklist for new disclosures.
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)]

7. If the number of common shares outstanding increases as a result of
a stock dividend or stock split or decreases as a result of a reverse stock
split, the computations of basic and diluted EPS should be adjusted
retroactively for all periods presented to reflect that change in capital
structure. If per-share computations reflect such changes in the num­
ber of shares, is that fact disclosed?  
[SFAS 128, par. 54 (AC E11.147)]

8. If changes in common stock resulting from stock dividends, stock
splits, or reverse stock splits occur after the close of the period but
before issuance of the financial statements, the per-share computa­
tions for those and any prior-period financial statements presented
should be based on the new number of shares. If per-share computa­
tions reflect such changes in the number of shares, is that fact dis­
closed?  
[SFAS 128, par. 54 (AC E11.147)]

9. When prior earnings per share amounts have been restated in com­
pliance with an accounting standard requiring restatement, is the
effect of the restatement, expressed in per share terms, disclosed in
the period of restatement?  
[SFAS 128, par. 57 (AC E11.150)]

10. Are prior period earnings per share amounts presented for compara­
tive purposes restated to conform to the consensus guidance in EITF
03-6, Participating Securities and the Two-Class Method under FASB
Statement No. 128, Earnings per Share?  
[EITF 03-6]

**Note:** At the November 17–18, 2004 meeting, the EITF discussed the
effective date of the consensus in EITF 04-8. The consensus would have
been applied to reporting periods ending after the effective date of the
proposed SFAS that amends SFAS 128, which was expected to be December
15, 2004. The FASB staff indicated that it now expects that the proposed
SFAS will be issued in the first quarter of 2006. As of September 21, 2005,
the Board came to a tentative conclusion that the proposed Statement will
be effective for interim and annual periods ending after June 15, 2006. This
effective date may be reconsidered at a later date if the final Statement is
not issued as expected in the first quarter of 2006. The EITF agreed to
change the transition provisions of the consensus to require that the
guidance in EITF 04-8 be applied to reporting periods ending after De­

11. For contingently convertible instruments outstanding at the date of
adoption of EITF 04-8 and whose terms have not been modified since
the date of issuance, are prior-period diluted earnings per share
restated to conform to the guidance in the consensus for comparative
purposes?  
[EITF 04-8]
12. For contingently convertible instruments outstanding at the date of adoption of EITF 04-8 and whose terms have been modified, are prior-period diluted earnings per share restated to conform to the guidance in the consensus for comparative purposes based on the modified terms of the instrument at the date of adoption of EITF 04-8? [EITF 04-8]

13. For contingently convertible instruments that have been stock settled (stock settled would include conversion) prior to the date of adoption of EITF 04-8, are all prior-period diluted earnings per share restated to conform to the guidance in the consensus for comparative purposes? [EITF 04-8]

E. Comprehensive Income


corporations

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)]

Note: If SFAS 158 is not effective, answer Question 4; if it is effective, go to Question 5 below.

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 items included in other comprehensive income classified separately into foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, transition assets or obligations associated with pension or other postretirement benefits, and unrealized gains and losses on certain investments in debt and equity securities? [SFAS 130, par. 17, as amended by SFAS 158 (AC C49.111)]

6. 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, as amended by SFAS 158 (AC C49.114)]
7. 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)]

8. 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)]

9. 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)]

10. 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)]

11. 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)]

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

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

13. 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)]

14. 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)]

Statement of Cash Flows

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?

[SFAS 95, par. 26 (AC C25.124)]
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, 2006, Sixtieth Edition.

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</tr>
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</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 paid and, separately, the cash that would have been paid for income taxes if increases in the value of equity instruments issued under share-based payment arrangements that are not recognizable as a cost of goods or services for accounting purposes also had not been deductible in determining taxable income (paragraph 19(e) of SFAS 95)?  
   g. Other operating cash payments (if any)?  
[SFAS 95, par. 27, as amended by SFAS 123(R) (AC C25.125)]

Practice Tip

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

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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)]

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?  
[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?
[SFAS 95, par. 32 (AC 25.134)]

9. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
   a. Receipts from collections or sales of loans?
   b. Receipts from sales of property, plant, and equipment?
   c. Loans to others?
   d. Payments to acquire property, plant, and equipment?
   e. Receipts from sales of equity instruments of other enterprises exclusive of those carried in the trading account?
   f. Payments to acquire equity instruments of other enterprises, exclusive of those carried in the trading account?
[SFAS 95, pars. 16 and 17 (AC 25.114 and .115)]

10. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:
    a. Proceeds from issuing debt?
    b. Issuance of equity instruments?
    c. Payment of dividends?
    d. Repayments for amounts borrowed?
    e. Purchases of treasury stock?
    f. Other principal payments to creditors who have extended long-term debt?
    g. Proceeds received from derivative instruments and distributions to counterparties of derivative instruments that include financing elements at inception?
[SFAS 95, pars. 19 and 20, as amended by SFAS 149 (AC 25.117 and .118); EITF 95-13]
    h. Cash retained as a result of the tax deductibility of increases in the value of equity instruments issued under share-based payment arrangements that are not included in the cost of goods or services that is recognizable for financial reporting purposes? For this purpose, excess tax benefits shall be determined on an individual award (or a portion thereof) basis. (Note: This item is only effective if the provisions of SFAS 123(R) are effective.)
[SFAS 123(R), par. 68a]

11. Is cash payment made to settle an asset retirement obligation classified in the statement of cash flows as an operating activity?
[EITF 02-6]

12. Are changes in real estate time-sharing notes receivable, including sales of the notes, reported in the statement of cash flows as cash flows from operating activities?
[SOP 04-2, par. 62]

13. 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?
[SFAS 95, pars. 12, 13, and 31 (AC 25.110, .111, and .129)]
Notes: The provisions of SFAS 123(R) are effective (a) for public entities that do not file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after June 15, 2005; (b) for public entities that file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after December 15, 2005; and (c) for nonpublic entities—as of the beginning of the first annual reporting period that begins after December 15, 2005.

Questions 14 and 15 apply only if the provisions of SFAS 123(R) are not effective.

14. 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? [EITF 00-15]

15. 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? [EITF 00-15]

16. If an other-than-insignificant financing element is present at inception, other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (that is, the forward points in an at-the-money forward contract), does the borrower report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 18–20 of SFAS 95? [SFAS 133, par. 45A, as amended by SFAS 149, par. 18 (AC D50.142A)]

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? [APB 22, par. 12 (AC A10.105)]
   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? [APB 22, par. 12 (AC A10.105)]
   c. Are unusual or innovative applications of GAAP?

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; FSP SOP 94-6-1, par. 10]

5. Is the company’s accounting policy with respect to vendor’s sales incentive arrangements disclosed? [EITF 03-10]

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, 2006, Sixtieth Edition.

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<td>526</td>
<td>561</td>
<td>540</td>
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</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; FSP SOP 94-6-1, pars. 10 and 11]  

2. For public entities, additional disclosures may be required by applicable SEC Rules and Regulations (for example, Item 303 of Regulation S-K, Management’s Discussion and Analysis of Financial Conditions and Results of Operations). For banks and bank holding companies subject to the requirements of SEC Regulation S-X, Rule 9-03, and SEC Industry Guide 3, additional disclosures may be required.  
   [FSP SOP 94-6, par. 16]  

Other Financial Statement Disclosures

Practice Tip

Information relating to several relatively minor acquisitions may be combined for disclosure.

A. Business Combinations

1. Do the notes to the financial statements of a combined entity disclose the following information in the period in which a material business combination is completed:
   
a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?  

   
b. The primary reasons for the acquisition, including a description of the factors that contributed to a purchase price that results in recognition of goodwill?  

   
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?  

   
d. The cost of the acquired entity and, if applicable, the number of shares of equity interests (such as common shares, preferred shares, or partnership interests) issued or issuable, the value assigned to those interests, and the basis for determining that value?  

   
e. A condensed balance sheet disclosing the amount assigned to each major asset and liability caption of the acquired entity at the acquisition date?
f. Contingent payments, options, or commitments specified in the acquisition agreement and the accounting treatment that will be followed should any such contingency occur?  

[Yes] [No] [N/A]

---

g. The amount of purchased research and development assets acquired and written off in the period (refer to paragraph 42 of SFAS 141) and the line item in the income statement in which the amounts written off are aggregated?  

[Yes] [No] [N/A]

---

h. For any purchase price allocation that has not been finalized, that fact and the reasons therefore?  

[Yes] [No] [N/A]

---

i. In subsequent periods, the nature and amount of any material adjustment made to the initial allocation of the purchase price?  

[SFAS 141, par. 51 (AC B51.164)]

[Yes] [No] [N/A]

---

2. Is the following information disclosed in the notes to the financial statements in the period in which a material business combination is completed if the amounts assigned to goodwill or to other intangible assets acquired are significant in relation to the total cost of the acquired entity:

a. For intangible assets subject to amortization:

(1) The total amount assigned and the amount assigned to a major intangible asset class?  

[Yes] [No] [N/A]

(2) The amount of any significant residual value, in total and by major intangible asset class?  

[Yes] [No] [N/A]

(3) The weighted-average amortization period, in total and by major intangible asset class?  

[Yes] [No] [N/A]

b. For intangible assets not subject to amortization the total amount assigned and the amount assigned to any major intangible asset class?  

[Yes] [No] [N/A]

c. For goodwill:

(1) The total amount of goodwill and the amount that is expected to be deductible for tax purposes?  

[Yes] [No] [N/A]

(2) The amount of goodwill by reportable segment (if the combined entity is required to disclose segment information in accordance with SFAS 131), unless not practicable?  

[SFAS 141, par. 52 (AC B51.165)]

[Yes] [No] [N/A]

3. If a series of individually immaterial business combinations completed during the period are material in the aggregate, is the following disclosed:

a. The number of entities acquired and a brief description of those entities?  

[Yes] [No] [N/A]

b. The aggregate cost of the acquired entities, the number of equity interests, (such as common shares, preferred shares, or partnership interests) issued or issuable, and the value assigned to those interests?  

[Yes] [No] [N/A]

c. The aggregate amount of any contingent payments, options, or commitments and the accounting treatment that will be followed should any contingency occur (if potentially significant in relation to the aggregate cost of the acquired entities)?  

[Yes] [No] [N/A]

d. The information described in Question 2 above, if the aggregate amount assigned to goodwill or to other intangible assets acquired is significant in relation to the aggregate cost of the acquired entities?  

[SFAS 141, par. 53 (AC B51.166)]

[Yes] [No] [N/A]
Corporations

4. If the combined entity is a public business enterprises, is the following supplemental information on a pro forma basis for the period in which a material business combinations occurs (or for the period in which a series of individually immaterial business combinations occur that are material in the aggregate) disclosed:

   a. Results of operations for the current period as though the business combination or combinations had been completed at the beginning of the period unless the acquisition was at or near the beginning of the period?

   b. Results of operations for the comparable period as though the business combination or combinations had been completed at the beginning of that period if comparative financial statements are presented?

   [SFAS 141, par. 54 (AC B51.167)]

5. Does the supplemental pro forma information display revenue, income before extraordinary items and the cumulative effect of accounting changes, net income, and earnings per share at a minimum?

   (Note: In determining the pro forma amounts, income taxes, interest expense, preferred share dividends, and depreciation and amortization of assets shall be adjusted to the accounting base recognized for each in recording the combination. Pro forma information related to results of operations of periods prior to the combination shall be limited to the results of operations for the immediately preceding period.)

   [SFAS 141, par. 55 (AC B51.168)]

6. Does the supplemental pro forma information disclose the nature and amount of material, nonrecurring items included in the reported pro forma results of operations, if any?

   [SFAS 141, par. 55 (AC B51.168)]

7. In the period in which an extraordinary gain is recognized related to a business combination, do the notes to the financial statements disclose the information required by paragraph 11 of APB 30?

   [SFAS 141, par. 56 (AC B51.169)]

8. If a material business combination is completed after the balance sheet date but before the financial statements are issued, is the information required by Questions 1 and 2 above disclosed if practicable?

   [SFAS 141, par. 57 (AC B51.170)]

Interim Financial Information

9. For summarized interim financial information of a public business enterprise is the following information disclosed if a material business combination is completed during the current year up to the date of the most recent interim statement of financial position presented:

   a. The name and a brief description of the acquired entity and the percentage of voting equity interests acquired?

   b. The primary reasons for the acquisition, including a brief description of the factors that contributed to a purchase price that results in recognition of goodwill?

---

2 After the effective date of SFAS 154, Accounting Changes and Error Corrections, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change. This conclusion amends APB 28 and APB 30, SFAS 128, SFAS 130, SFAS 131, SFAS 141 and SFAS 144, and FASB 18. See Part B1, "Accounting Changes and Error Corrections," of the "Other Financial Statement Disclosures" section of this checklist for new disclosures.
c. The period for which the results of operations of the acquired entity are included in the income statement of the combined entity?

- [ ] Yes  
- [ ] No  
- [ ] N/A

10. 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?

- [ ] Yes  
- [ ] No  
- [ ] N/A

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

- [ ] Yes  
- [ ] No  
- [ ] N/A

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

- [ ] Yes  
- [ ] No  
- [ ] N/A

(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)?

- [ ] Yes  
- [ ] No  
- [ ] N/A

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?

- [ ] Yes  
- [ ] No  
- [ ] N/A

See footnote 2.
(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]

11. Are the following disclosures made for business combinations between parties with a preexisting relationship:
   a. The nature of the preexisting relationship?
   b. The measurement of the settlement amount of the preexisting relationship, if any, and the valuation method used to determine the settlement amount?
   c. The amount of any settlement gain or loss recognized and its classification in the statement of operations? [EITF 04-1]

12. Amounts previously recognized as goodwill should not be reclassified as an identifiable intangible asset, however, previously recognized goodwill should be tested for impairment by applying the consensuses in Step 2 of a goodwill impairment test. As a result of the application of EITF 04-1, is any effect on a goodwill impairment charge reported in operating income? [EITF 04-1]

B. Changes in Accounting

Note: APB 20, Accounting Changes, has been superseded by SFAS 154, Accounting Changes and Error Corrections. If SFAS 154 has been adopted, the questions below that are based on APB 20 do not apply and readers should refer to section B1.

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?
   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”?
   d. Is the tax effect of the cumulative change shown?
   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)]
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)]

<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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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)]

|    |    |    |

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)]

|    |    |    |

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)]

|    |    |    |

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

|    |    |    |

b. The reason for the change?  
|    |    |    |

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

FSP §6100
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)]

8. Is the effect of adopting the consensus in EITF 03-16, Accounting for Investments in Limited Liability Companies, reported as the cumulative effect of a change in accounting principle pursuant to the guidance in SFAS 3 and APB 20? If the determination of the cumulative effect of retroactive application is impracticable, is the cumulative effect determined as the difference between the investor's carrying amount of the investment and the investor's share of the net assets of the LLC as of the date of initial application of the consensus? 
   [EITF 03-16]

   Note: SFAS 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date SFAS 151 was issued, November 2004.

9. Are the disclosures required by paragraph 19(c) of APB 20, Accounting Changes, disclosed if there are significant changes to an entity's inventory accounting as a result of adopting SFAS 151? 
   [SFAS 151, par. 4]

   Note: SOP 04-2, Accounting for Real Estate Time-Sharing Transactions, should be applied to financial statements for fiscal years beginning after June 15, 2005. Earlier application is encouraged as of the beginning of fiscal years for which financial statements or information has not been issued. An entity should not restate previously issued financial statements.

10. Are the effects of changes in estimate in the relative sales value method disclosed in accordance with paragraph 33 of APB 20, as noted in paragraph 41 of SOP 04-2? 
    [SOP 04-2, pars. 41 and 64]

11. Is the initial application of SOP 04-2 reported as the cumulative effect of a change in accounting principle, as described in APB 20? 

12. When adopting SOP 04-2, an entity is not required to report the pro forma effects of retroactive application, however, does an entity disclose the effect of adopting SOP 04-2 on income before extraordinary items and on net income (and on the related per share amounts) of the period of the change? 
    [SOP 04-2, par. 66]
B1. Accounting Changes and Error Corrections

Notes: If SFAS 154, Accounting Changes and Error Corrections, has been adopted, the following section should be completed.

SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after June 1, 2005. SFAS 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the Statement.

Change in Accounting Principle

1. Is the following disclosed in the fiscal period in which a change in accounting principle is made:
   a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable?
   b. The method of applying the change, and:
      (1) A description of the prior-period information that has been retrospectively adjusted, if any?
      (2) The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted? Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.
      (3) The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented?
      (4) If retrospective application to all prior periods (paragraph 7 of SFAS 154) is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 8 and 9 of SFAS 154)?
   c. If indirect effects of a change in accounting principle are recognized:
      (1) A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable?
      (2) Unless impracticable, the amount of the total recognized indirect effects of the accounting change and the related per-share amounts, if applicable, that are attributable to each prior period presented?

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.

[SFAS 154, par. 17 (AC A07.117)]
2. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, are the disclosures required by Question 1a above provided whenever the financial statements of the period of change are presented? [SFAS 154, par. 17 (AC A07.117)]

3. In the fiscal year in which a new accounting principle is adopted, does financial information reported for interim periods after the date of adoption include disclosure of the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those post-change interim periods? [SFAS 154, par. 18 (AC A07.118)]

4. If a public company that regularly reports interim information makes an accounting change during the fourth quarter of its fiscal year and does not report the data specified by paragraph 30 of APB 28, in a separate fourth-quarter report or in its annual report, does the entity include disclosure of the effects of the accounting change on interim-period results, as required by paragraph 17 of SFAS 154, in a note to the annual financial statements for the fiscal year in which the change is made? [SFAS 154, par. 16 (AC A07.116)]

Note: EITF 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43. The Task Force reached a consensus that the Issue should be effective for fiscal years beginning after December 15, 2006. An entity should apply the consensus reached in the Issue through either (a) a change in accounting principle through a cumulative effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position at the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods. Earlier adoption of this guidance is permitted as of the beginning of an entity's fiscal year provided that the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year.

5. If an entity chooses to apply the consensus in EITF 06-2 as a change in accounting principle through a cumulative-effect adjustment to retained earnings, does the entity disclose the cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position? [EITF 06-2, par. 7]

6. If an entity chooses to apply the consensus in EITF 06-2 as a change in accounting principle through retrospective application to all prior periods, does the entity include the recognition of:

a. The cumulative effect of the change to the new accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented? [FSP §6100]

b. The cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position?
c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the new accounting principle?  
[EITF 06-2, par. 8]

7. If an entity chooses to apply the consensus reached in this EITF 06-2 as a change in accounting principle through retrospective application to all prior periods, are the following disclosed:

a. A description of the prior-period information that has been retrospectively adjusted?  

b. The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for any prior periods retrospectively adjusted?  

c. The cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented?  
[EITF 06-2, par. 9]

Change in Accounting Estimate

8. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed?  
[SFAS 154, par. 22 (AC A07.122)]

9. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by Questions 1–3 above made?  
[SFAS 154, par. 22 (AC A07.122)]

10. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is a description of that change in estimate disclosed whenever the financial statements of the period of change are presented?  
[SFAS 154, par. 22 (AC A07.122)]

Change in the Reporting Entity

11. When there has been a change in the reporting entity, do the financial statements of the period of the change describe the nature of the change and the reason for it?  

a. Is the effect of the change on income before extraordinary items, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts disclosed for all periods presented?  
[SFAS 154, par. 24 (AC A07.124)]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.  
[SFAS 154, par. 24 (AC A07.124)]
12. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is the nature of and reason for the change disclosed whenever the financial statements of the period of change are presented?

[SFAS 154, par. 24 (AC A07.124)]

Note: Paragraphs 51–58 of SFAS 141, Business Combinations, describe the manner of reporting and the disclosures required for a business combination.

[SFAS 154, par. 24 (AC A07.124)]

Correction of an Error in Previously Issued Financial Statements

13. When financial statements are restated to correct an error, does the entity disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the entity also disclose the following:

   a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented?

   b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented?

[SFAS 154, par. 26 (AC A07.126)]

14. In addition, does the entity make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9, Reporting the Results of Operations?

   a. The effects, in total and by class, of the correction on change in net assets for each of the periods presented?

   b. For single period financial statements, the effects, in total and by class, of the correction on change in net assets of the preceding year?

[SFAS 154, par. 26 (AC A07.126) and APB 9, par. 26 (AC A35.107)]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change.

[SFAS 154, par. 26 (AC A07.126)]

Note: EITF 05-7, Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues, should be applied to future modifications of debt instruments beginning in the first interim or annual reporting period beginning after December 15, 2005. Early application of this guidance is permitted in periods for which financial statements have not yet been issued. At the September 28, 2005 meeting, the FASB Board ratified the consensus reached by the EITF in this Issue.

15. If the scope of EITF 05-7 applies, are the disclosures required by SFAS 154 made excluding those disclosures that require the effects of retroactive application?

[EITF 05-7, par. 8]
**Note:** EITF 05-8, *Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature*, should be applied to financial statements beginning in the first interim or annual reporting period beginning after December 15, 2005. This Issue should be applied by retrospective application pursuant to SFAS 154 to all instruments with a beneficial conversion feature accounted for under EITF 00-27.

16. For debt instruments that were converted (or extinguished) in prior periods that fall within the scope of EITF 00-27, but are still presented in the financial statements, has the entity retrospectively applied SFAS 154 and recorded SFAS 109 temporary differences as adjustments to paid-in-capital?

   [EITF 05-8, par. 6]

**Investments in Real Estate Ventures**

**Note:** For general partners of all new partnerships formed and for existing partnerships for which the partnership agreements are modified, the guidance in FSP SOP 78-9-1 is effective after June 29, 2005. For general partners in all other partnerships, the guidance in FSP 78-9 is effective no later than the beginning of first reporting period in fiscal years beginning after December 15, 2005, and the application of either Transition Method A or Transition Method B, described in FSP SOP 78-9-1 is permitted.

17. Upon the application of Transition Method A of FSP SOP 78-9-1, does the entity disclose in the year of adoption the effect on the opening balance sheet of adopting the new accounting principle?

   [FSP SOP 78-9-1, par. 8]

18. Upon the application of Transition Method B of FSP SOP 78-9-1, if the entity applies the guidance in FSP SOP 78-9-1 through retrospective application, does it apply the guidance in paragraphs 7–8 and 10 of SFAS 154, *Accounting Changes and Error Corrections*, and the disclosures required by paragraph 17 of SFAS 154?

   [FSP SOP 78-9-1, par. 10]

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*, 2006, Sixtieth Edition.

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<td>44</td>
<td>89</td>
<td>41</td>
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</tbody>
</table>

* N/C = Not Compiled. Line item was not included in table for year shown.
C. Commitments and Contingencies (See also Section J, Guarantees.)

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)]

   Yes  No  N/A

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)]

   Yes  No  N/A

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?  
   [SFAS 5, par. 10 (AC C59.109)]

   Yes  No  N/A

   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)]

   Yes  No  N/A

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); FASBI 45, par. 13 (AC G80.112); EITF 85-20]

   Yes  No  N/A

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

   Yes  No  N/A

6. Is disclosure of the following items made:
   a. Unused letters of credit?  
   [SFAS 5, pars. 18 and 19 (AC C59.120)]

   Yes  No  N/A

   b. Commitments to reduce debts, maintain working capital, or restrict dividends?  
   [SFAS 5, pars. 18 and 19 (AC C59.120)]

   Yes  No  N/A

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?  
   [SFAS 47, par. 7 (AC C32.102)]

   Yes  No  N/A

   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?  

   Yes  No  N/A

   c. Nature of any variable components of the obligation?  

   Yes  No  N/A

   d. Amounts of purchases under the obligations for each year for which an income statement is presented?  

   Yes  No  N/A
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, 2006, Sixtieth Edition.

### CONTINGENCIES

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<td>438</td>
<td>416</td>
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<td>Tax credits and other tax credit carryforwards</td>
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<td>Alternative minimum tax carryforward</td>
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<td>Capital loss carryforward</td>
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<td>Debt covenant restrictions</td>
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<td>Purchase agreements</td>
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<tr>
<td>Capital expenditures</td>
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<td>Additional payments related to acquisitions</td>
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<td>80</td>
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</tr>
</tbody>
</table>

### D. 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; FSP SOP 94-6-1, pars. 10–11]

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 [FSP §6100]
Corporations

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:

a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year? 

b. For operations located outside the reporting entity’s home country, the carrying amounts of net assets and the geographic areas in which they are located?

[SOP 94-6, par. 24; FSP SOP 94-6-1, pars. 10-11]

Notes: The guidance in FSP SOP 94-6-1, Terms of Loan Products That May Give Rise to a Concentration of Credit Risk, is effective for interim and annual periods ending after December 19, 2005. An entity shall provide the disclosures required by FASB Statement No. 107 for products that are determined to represent a concentration of credit risk in accordance with the guidance in Question 1 of the FSP for all periods presented. [FSP SOP 94-6-1, par. 17]

Question 2 of the FSP references only existing effective literature; therefore, no effective date or transition guidance is required. [FSP SOP 94-6-1, par. 18]

The type and extent of information provided shall be determined by whether the entity is the originator, holder, investor, guarantor, or servicer and also by the significance of the loan product(s) to the reporting entity. [FSP SOP 94-6-1, par. 9 (Question 2)]

3. Are major categories of loans, including unusual risk concentrations disclosed, such as:

a. Commercial, financial, and agricultural?

b. Real estate construction?

c. Real estate mortgage?

d. Installment loans to individuals?

e. Lease financing?

f. Foreign?

g. Loans in process?

h. Other?

[FSP SOP 94-6-1, par. 11]

4. Are major concentrations of loan products whose contractual features may increase credit risk disclosed, such as:

a. Negative amortization?

b. Loans with a high loan-to-value ratio?

c. Multiple loans on the same collateral that when combined, result in a high loan-to-value ratio?

d. Option ARMS or similar products that may expose the borrower to future increases in repayments?

e. An initial interest rate that is below the market interest rate for the initial period of a loan term and that may increase significantly when that period ends?
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<tr>
<td>6. Are foreign loans, foreign nonaccrual loans, and foreign operations, if any of these foreign activities exceed a material percentage of activities, disclosed?</td>
<td></td>
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</table>

E. 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. A description of the plan?
   b. The basis for determining contributions?
   c. The employee groups covered?
   d. The nature and effect of significant matters affecting comparability of information for all periods presented?
   e. 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:
   a. The method of measuring compensation?
   b. The classification of dividends on ESOP shares?
   c. 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]
Corporations

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 SOP 76-3 is still being followed for ESOP shares purchased before December 31, 1992, and 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]

F. Employers’ Disclosures About Pensions and Other Postretirement Benefits

In September 2006 the Financial Accounting Standards Board issued SFAS 158, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends SFAS 87, 88, 106, and 132(R). If SFAS 158 has been adopted, Questions 1–19 below do not apply and readers should refer to section F1. The Other Matters Questions 20–23 still apply.

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, separately for pension plans and other postretirement benefit plans:

   * EITF 03-4, Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan, states that cash balance plans should be considered a defined benefit plan.
Financial Statements and Notes Checklist

a. A reconciliation of beginning and ending balances of the benefit obligation\(^4\) showing separately, if applicable, the effects during 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\(^5\) benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits? ____ ____ ____

[SFAS 132(R), par. 5a (AC P16.150 and 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, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements? ____ ____ ____

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

d. Information about plan assets:

1. For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented?
2. A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations?

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

\(^4\) 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.

\(^5\) 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 Translation.

\(^6\) Refer to footnote 5.
(3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined?

(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets?

[e. For defined benefit pension plans, the accumulated benefit obligation?  
[SFAS 132(R), par. 5d (AC P16.150d and P40.169d)]

[f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service?  
[SFAS 132(R), par. 5f (AC P16.150f and P40.169e)]

[g. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions?  
[SFAS 132(R), par. 5g (AC P16.150g and P40.169f)]

[h. 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(R), par. 5h (AC P16.150h and P40.169g)]

[i. 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(R), par. 5i (AC P16.150i)]

[j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost?  
[SFAS 132(R), par. 5j (AC P16.150j and P40.169h)]
k. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations?  
[SFAS 132(R), par. 5k (AC P16.150k and P40.169i)]

l. 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(R), par. 5l (AC P40.169j)]

m. 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(R), par. 5m (AC P40.169k)]

n. 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(R), par. 5n (AC P16.150l and P40.169l)]

o. 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(R), par. 5o (AC P16.150m and P40.169m)]

p. 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(R), par. 5p (AC P16.150n and P40.169n)]

q. 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(R), par. 5q (AC P16.150o and P40.169o)]

r. 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(R), par. 5r (AC P16.150p and P40.169p)]

2. Are amounts related to the employer’s results of operations disclosed for each period for which an income statement is presented?  
[SFAS 132(R), par. 5 (AC P16.150 and P40.169)]

3. Are amounts related to the employer’s statement of financial position disclosed for each balance sheet presented?  
[SFAS 132(R), par. 5 (AC P16.150 and P40.169)]
Employers With Two or More Plans

4. Are the disclosures required by SFAS 132 aggregated for all of an employer’s defined benefit pension plans and for all of an employer’s other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraph 6 of SFAS 132 and paragraph 7 of SFAS 132? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

5. Unless otherwise stated, are disclosures as of the measurement date for each statement of financial position presented? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

6. Does the disclosure of amounts recognized in the statement of financial position present prepaid benefit costs and accrued benefit liabilities separately? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

Note: 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 obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

7. If aggregate disclosures are presented, does the employer disclose:
   a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented?
   b. 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? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

8. If a U.S. reporting entity combines disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans, are the benefit obligations of the plans outside the United States not significant relative to the total benefit obligation and do those plans not use significantly different assumptions? [SFAS 132(R), par. 7 (AC P16.153A and P40.173)]

Note: A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans.

Reduced Disclosure Requirements for Nonpublic Entities

Note: A nonpublic entity is not required to disclose the information required by paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of SFAS 132(R). See the related disclosure questions above.

9. For a nonpublic entity7 that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans...

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7 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).
plans, has the following information been disclosed, separately for pension plans and other postretirement benefit plans:

a. The benefit obligation, fair value of plan assets, and funded status of the plan?
   [SFAS 132(R), par. 8a (AC P16.150Aa and P40.169Aa)]

b. Employer contributions, participant contributions, and benefits paid?
   [SFAS 132(R), par. 8b (AC P16.150Ab and P40.169Ab)]

c. Information about plan assets:
   
   (1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented?
   [SFAS 132(R), par. 8c(1) (AC P16.150Ac(1) and P40.169Ac)]

   (2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations?
   [SFAS 132(R), par. 8c(2) (AC P16.150Ac(2) and P40.169Ac)]

   (3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined?
   [SFAS 132(R), par. 8c(3) (AC P16.150Ac(3) and P40.169Ac)]

Note: Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.
   [SFAS 132(R), par. 8c(4) (AC P16.150Ac(4) and P40.169Ac(4))]

d. For defined benefit pension plans, the accumulated benefit obligation?
   [SFAS 132(R), par. 8d (AC P16.150Ad)]

e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter? (The expected benefits should be estimated based on the same
table:

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<th>Corporations</th>
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<tr>
<td>assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.</td>
</tr>
<tr>
<td>[SFAS 132(R), par. 8c (AC P16.150Ae and P40.169Ad)]</td>
</tr>
<tr>
<td>f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.)</td>
</tr>
<tr>
<td>[SFAS 132(R), par. 8f (AC P16.150Af and P40.169Ae)]</td>
</tr>
<tr>
<td>g. The amounts recognized in the statements of financial position, including 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?</td>
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<tr>
<td>[SFAS 132(R), par. 8g (AC P16.150Ag and P40.169Af)]</td>
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<tr>
<td>h. 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?</td>
</tr>
<tr>
<td>[SFAS 132(R), par. 8h (AC P16.150Ag)]</td>
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<tr>
<td>i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost?</td>
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<td>[SFAS 132(R), par. 8i (AC P16.150Ai and P40.169Ah)]</td>
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<td>j. The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations?</td>
</tr>
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<td>[SFAS 132(R), par. 8j (AC P16.150Aj and P40.169Aj)]</td>
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<tr>
<td>k. 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?</td>
</tr>
<tr>
<td>[SFAS 132(R), par. 8k (AC P40.169Aj)]</td>
</tr>
<tr>
<td>l. 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?</td>
</tr>
<tr>
<td>[SFAS 132(R), par. 8l (AC P16.150Ak and P40.169Ak)]</td>
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FSP §6100
m. The nature and effect of significant non-routine events, such as amendments, combinations, divestitures, curtailments, and settlements?

[SFAS 132(R), par. 8m (AC P16.150Al and P40.169Al)]

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

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

11. Are amounts related to the employer's statement of financial position disclosed as of the measurement date used for each statement of financial position presented?

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

**Disclosures in Interim Financial Reports**

12. If the entity is publicly traded, does it disclose the following information in its interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, 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 or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment?

b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.)

[SFAS 132(R), par. 9]

13. If the entity is nonpublic, does it disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.)

[SFAS 132(R), par. 10 (AC P16.150B and P40.169B)]

**Defined Contribution Plans**

14. Does the employer disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans?

[SFAS 132(R), par. 11 (AC P16.162 and P40.198)]

15. 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(R), par. 11 (AC P16.162 and P40.198)]
Note: The AICPA staff, helped by industry experts, released two questions and answers, commonly referred to as Technical Practice Aids (TPAs), on accounting and disclosures for single employer and multiemployer employee benefit plans related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act):


These TPAs provide accounting and disclosure guidance for both single employer and multiemployer plans relating to the effects of the Medicare Act. Practitioners are encouraged to incorporate this guidance as soon as practicable. These TPAs are available on the AICPA’s web site at www.aicpa.org/members/div/acctstd/general/recent_tpas.asp.

Multiemployer Plans

16. Has the employer disclosed the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented? [SFAS 132(R), par. 12 (AC P16.166 and P40.178)]

17. If the employer chooses to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans, 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(R), par. 12 (AC P16.166 and P40.178)]

18. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. 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 87, paragraph 70)? [SFAS 132(R), par. 13 (AC P16.167 and P40.179)]

19. 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 (SFAS 106, paragraph 83)? [SFAS 132(R), par. 13 (AC P16.167 and P40.179)]

Other Matters

20. If the matters addressed in EITF 03-2, Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities, apply, are the disclosure requirements of that EITF Issue complied with? [EITF 03-2]
Financial Statements and Notes Checklist

Note: In May 2004, the FASB issued FSP 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. This FSP also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. FSP 106-2 is effective for fiscal years beginning after December 15, 2004. Earlier application of FSP 106-2 is encouraged. Readers should refer to the detailed effective date requirements in FSP 106-2.

21. Until an employer is able to determine whether benefits provided by its plan are actuarially equivalent, does it disclose the following in financial statements for interim or annual periods:

a. The existence of the Act?

b. The fact that measures of the accumulated postretirement benefit obligation (APBO) or net periodic postretirement benefit cost do not reflect any amount associated with the subsidy because the employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act?

[FSP 106-2 (AC P40.871)]

22. In interim and annual financial statements for the first period in which an employer includes the effects of the subsidy in measuring the APBO and the first period in which an employer includes the effects of the subsidy in measuring net periodic postretirement benefit cost, does it disclose the following:

a. The reduction in the APBO for the subsidy related to benefits attributed to past service?

b. The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period? That effect includes (1) any amortization of the actuarial experience gain in a as a component of the net amortization called for by paragraph 59 of SFAS 106, (2) the reduction in current period service cost due to the subsidy, and (3) the resulting reduction in interest cost on the APBO as a result of the subsidy.

[FSP 106-2 (AC P40.872)]

c. Any other disclosures required by paragraph 5(r) of SFAS 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits? Paragraph 5(r) of SFAS 132(R) requires disclosure of "an explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement."

[FSP 106-2 (AC P40.872)]

23. For purposes of the disclosures required by paragraphs 5(a) and 5(f) of SFAS 132(R), does an employer disclose gross benefit payments (paid and expected, respectively), including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively)?

[FSP 106-2 (AC P40.873)]
F1. Employers' Disclosures for Defined Benefit Pension and Other Postretirement Plans

Notes: If SFAS 158, has been adopted, the following section should be completed. Also, the Other Matters Questions 20–23 in section F above should be answered.

Effective Dates for Recognition and Related Disclosure Provisions

The required date of adoption of the recognition and disclosure provisions of the Statement differs for an employer that is an issuer of publicly traded equity securities (as defined) and an employer that is not. Readers should refer to the complete FASB Statement for any of the conditions that need to be met for an employer to be deemed to have publicly traded equity securities.

An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan (see paragraph 4 of SFAS 158) and to provide the required disclosures (see paragraph 7 of SFAS 158) as of the end of the fiscal year ending after December 15, 2006.

An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan (see paragraphs 4 and 8 of SFAS 158) and to provide the required disclosures (see paragraphs 7 and 10 of SFAS 158) as of the end of the fiscal year ending after June 15, 2007.

However, an employer without publicly traded equity securities is required to disclose additional information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of the Statement in preparing those financial statements. See Question 2 for those additional disclosure requirements.

The requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position (see paragraphs 5, 6, and 9 of SFAS 158) is effective for fiscal years ending after December 15, 2008. If in the last quarter of the preceding fiscal year an employer enters into a transaction that results in a settlement or experiences an event that causes a curtailment of the plan, the related gain or loss pursuant to SFAS 88 or 106 is required to be recognized in earnings or changes in unrestricted net assets of that quarter. The requirement in paragraphs 5(k) and 8(j) of SFAS 132(R) to disclose the measurement date is eliminated, effective in the year the employer initially adopts the measurement date provisions of this Statement.

Earlier application of the recognition or measurement date provisions is encouraged; however, early application must be for all of an employer’s benefit plans. Retrospective application of the Statement is not permitted.

1. Does a business entity that sponsors one or more benefit plans disclose the following information in the notes to its annual financial statements, separately for pension plans and other postretirement benefit plans:
   a. For each annual statement of income presented, the amounts recognized in other comprehensive income, showing separately
the net gain or loss and net prior service cost or credit. Those amounts shall be separated into amounts arising during the period and reclassification adjustments of other comprehensive income as a result of being recognized as components of net periodic benefit cost for the period?

b. For each annual statement of income presented, the net transition asset or obligation recognized as a reclassification adjustment of other comprehensive income as a result of being recognized as a component of net periodic benefit cost for the period?

c. For each annual statement of financial position presented, the amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?

d. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?

e. The amount and timing of any plan assets expected to be returned to the business entity during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented?

2. Does an employer without publicly traded equity securities disclose the following information in the notes to the financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of the Statement in preparing those financial statements:

a. A brief description of the provisions of the Statement?

b. The date that adoption is required?

c. The date the employer plans to adopt the recognition provisions of the Statement, if earlier?

Disclosures Required in the Year of Application

3. In the year that the recognition provisions of SFAS 158 are initially applied, does the employer disclose, in the notes to the annual financial statements, the incremental effect of applying this Statement on individual line items in the year-end statement of financial position?

4. In the year that the measurement date provisions of SFAS 158 are initially applied, does a business entity disclose the separate adjustments of retained earnings and accumulated other comprehensive income from applying the Statement?

Note: The disclosures specified by paragraphs 17 and 18 of SFAS 154, Accounting Changes and Error Corrections, are not required. [SFAS 158, par. 22]
5. 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, separately for pension plans and other
postretirement benefit plans:

a. A reconciliation of beginning and ending balances of the benefit
obligation\(^8\) showing separately, if applicable, the effects during
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\(^9\) benefits paid, plan
amendments, business combinations, divestitures, curtailments,
settlements, and special termination benefits? ____ ____ ____

[SFAS 132(R), par. 5a (AC P16.150 and 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,\(^10\) contributions
by the employer, contributions by plan participants, benefits
paid, business combinations, divestitures, and settlements?
[SFAS 132(R), par. 5b (AC P16.150 and P40.169)]

c. The funded status of the plans and the amounts recognized in the
statement of financial position showing separately the assets and
current and noncurrent liabilities recognized? ____ ____ ____

[SFAS 132(R), par. 5c, as amended by SFAS 158 (AC P16.150 and
P40.169)]

d. Information about plan assets:

(1) For each major category of plan assets, which shall include,
but is not limited to, equity securities, debt securities, real
estate, and all other assets, the percentage of the fair value of
total plan assets held as of the measurement date used for
each statement of financial position presented?

(2) A narrative description of investment policies and strategies,
including target allocation percentages or range of percent-
ages for each major category of plan assets presented on a
weighted-average basis as of the measurement date(s) of the
latest statement of financial position presented, if applicable,
and other factors that are pertinent to an understanding of the
policies or strategies such as investment goals, risk manage-
ment practices, permitted and prohibited investments in-
cluding the use of derivatives, diversification, and the
relationship between plan assets and benefit obligations?

(3) A narrative description of the basis used to determine the
overall expected long-term rate-of-return-on-assets assump-
tion, such as the general approach used, the extent to which
the overall rate-of-return-on-assets assumption was based on
historical returns, the extent to which adjustments were made
to those historical returns in order to reflect expectations of
future returns, and how those adjustments were determined?

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\(^8\) 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.

\(^9\) 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 Translation.

\(^10\) Refer to footnote 9.
(4) Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets?

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

e. For defined benefit pension plans, the accumulated benefit obligation?

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

f. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company’s benefit obligation at the end of the year and should include benefits attributable to estimated future employee service?

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

g. The employer’s best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions?

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

h. 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 gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to settlements or curtailments?

[SFAS 132(R), par. 5h, as amended by SFAS 158 (AC P16.150h and P40.169h)]

i. Separately the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of SFAS 87 and paragraphs 52 and 56 of SFAS 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost?

[SFAS 132(R), par. 5i, as amended by SFAS 158 (AC P16.150i)]

ii. The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?

[SFAS 132(R), par. 5ii, as amended by SFAS 158]

j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost?

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

k. Deleted by SFAS 158.
   [SFAS 132(R), par. 5k, as amended by SFAS 158 (AC P16.150k and P40.169j)]

l. 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(R), par. 5l (AC P40.169j)]

m. 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 post-retirement 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(R), par. 5m (AC P40.169k)]

n. 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(R), par. 5n (AC P16.150j and P40.169l)]

o. If applicable, any alternative method used to amortize prior service amounts or net gains and losses pursuant to paragraphs 26 and 33 of SFAS 87 or paragraphs 53 and 60 of SFAS 106?
   [SFAS 132(R), par. 5o, as amended by SFAS 158 (AC P16.150m and P40.169m)]

p. 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(R), par. 5p (AC P16.150n and P40.169n)]

q. 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(R), par. 5q (AC P16.150o and P40.169o)]

r. 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(R), par. 5r (AC P16.150p and P40.169p)]

s. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?
   [SFAS 132(R), par. 5s, as amended by SFAS 158]
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<th>t.</th>
<th>The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented? [SFAS 132(R), par. 5t, as amended by SFAS 158]</th>
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<td>Yes</td>
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6. Are amounts related to the employer’s results of operations disclosed for each period for which an income statement is presented? [SFAS 132(R), par. 5 (AC P16.150 and P40.169)]

7. Are amounts related to the employer’s statement of financial position disclosed as of the date of each statement of financial position presented? [SFAS 132(R), par. 5, as amended by SFAS 158 (AC P16.150 and P40.169)]

### Employers With Two or More Plans

8. Are the disclosures required by SFAS 132 aggregated for all of an employer’s defined benefit pension plans and for all of an employer’s other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by paragraph 6 of SFAS 132 and paragraph 7 of SFAS 132? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

9. Are disclosures as of the date of each statement of financial position presented? [SFAS 132(R), par. 6, as amended by SFAS 158 (AC P16.153 and P40.172)]

**Note:** 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 obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

10. If aggregate disclosures are presented, does the employer disclose:

a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented?

b. 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? [SFAS 132(R), par. 6 (AC P16.153 and P40.172)]

11. If a U.S. reporting entity combines disclosures about pension plans or other postretirement benefit plans outside the United States with those for U.S. plans, are the benefit obligations of the plans outside the United States not significant relative to the total benefit obligation and do those plans not use significantly different assumptions? [SFAS 132(R), par. 7 (AC P16.153A and P40.173)]

**Note:** A foreign reporting entity that prepares financial statements in conformity with U.S. generally accepted accounting principles (GAAP) shall apply the preceding guidance to its domestic and foreign plans.
Reduced Disclosure Requirements for Nonpublic Entities

Note: A nonpublic entity is not required to disclose the information required by paragraphs 5(a)-(c), 5(h), 5(m), and 5(o)-(r) of SFAS 132(R). See the related disclosure questions above.

12. For a nonpublic entity\(^{11}\) that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans, has the following information been disclosed, separately for pension plans and other postretirement benefit plans:

a. The benefit obligation, fair value of plan assets, and funded status of the plan?
   [SFAS 132(R), par. 8a (AC P16.150Aa and P40.169Aa)]

b. Employer contributions, participant contributions, and benefits paid?
   [SFAS 132(R), par. 8b (AC P16.150Ab and P40.169Ab)]

c. Information about plan assets:
   (1) For each major category of plan assets which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented?
   [SFAS 132(R), par. 8c(1) (AC P16.150Ac(1) and P40.169Ac)]

   (2) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations?
   [SFAS 132(R), par. 8c(2) (AC P16.150Ac(2) and P40.169Ac)]

   (3) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined?
   [SFAS 132(R), par. 8c(3) (AC P16.150Ac(3) and P40.169Ac)]

Note: Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.

[SFAS 132(R), par. 8c(4) (AC P16.150Ac(4) and P40.169Ac(4))]

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\(^{11}\) 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).
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<td><strong>d.</strong> For defined benefit pension plans, the accumulated benefit obligation?</td>
<td>[SFAS 132(R), par. 8d (AC P16.150Ad)]</td>
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<tr>
<td><strong>e.</strong> The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter? (The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.)</td>
<td>[SFAS 132(R), par. 8e (AC P16.150Ae and P40.169Ad)]</td>
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<td><strong>f.</strong> The employer’s best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented? (Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.)</td>
<td>[SFAS 132(R), par. 8f (AC P16.150Af and P40.169Ae)]</td>
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<td><strong>g.</strong> The amounts recognized in the statements of financial position, showing separately the postretirement benefit assets and current and noncurrent postretirement benefit liabilities?</td>
<td>[SFAS 132(R), par. 8g, as amended by SFAS 158 (AC P16.150Ag and P40.169Af)]</td>
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<td><strong>h.</strong> Separately, the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of SFAS 87 and paragraphs 52 and 56 of SFAS 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost?</td>
<td>[SFAS 132(R), par. 8h, as amended by SFAS 158 (AC P16.150Ag)]</td>
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<td><strong>hh.</strong> The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?</td>
<td>[SFAS 132(R), par. 8hh, as amended by SFAS 158]</td>
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<td><strong>i.</strong> On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost?</td>
<td>[SFAS 132(R), par. 8i (AC P16.150Ai and P40.169Ah)]</td>
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<td><strong>j.</strong> Deleted by SFAS 158.</td>
<td>[SFAS 132(R), par. 8j, as amended by SFAS 158 (AC P16.150Aj and P40.169Ai)]</td>
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<tr>
<td><strong>k.</strong> 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?</td>
<td>[SFAS 132(R), par. 8k (AC P40.169Aj)]</td>
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_FSP §6100_
l. 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(R), par. 81 (AC P16.150A and P40.169A)]

m. The nature and effect of significant non-routine events, such as amendments, combinations, divestitures, curtailments, and settlements?

[SFAS 132(R), par. 8m (AC P16.150A1 and P40.169A1)]

n. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation?

[SFAS 132(R), par. 8n, as amended by SFAS 158]

o. The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented?

[SFAS 132(R), par. 8o, as amended by SFAS 158]

13. Are amounts related to the employer’s results of operations disclosed for each period for which a statement of income is presented?

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

14. Are amounts related to the employer’s statement of financial position disclosed as of the date of each statement of financial position presented?

[SFAS 132(R), par. 8, as amended by SFAS 158 (AC P16.150A and P40.169A)]

Disclosures in Interim Financial Reports

15. If the entity is publicly traded, does it disclose the following information in its interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment?

[SFAS 132(R), par. 9, as amended by SFAS 158]
16. If the entity is nonpublic, does it disclose in interim periods, for which a complete set of financial statements is presented, the total amount of the employer’s contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 8(f) of SFAS 132? (Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.)

[SFAS 132(R), par. 10 (AC P16.150B and P40.169B)]

Yes No N/A

17. Did the entity comply with the following instructions? For employers that do not report other comprehensive income in accordance with SFAS 130, Reporting Comprehensive Income, the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in other comprehensive income in paragraphs 5(i) and 8(h) of SFAS 132 shall instead be to such amounts recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet included in net periodic benefit cost.

[SFAS 132(R), par. 10A, as amended by SFAS 158]

Yes No N/A

18. Did the entity comply with the following instructions? For those employers, the references to reclassification adjustments of other comprehensive income in paragraphs 5(i) and 8(h) of SFAS 132 shall instead be to reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets arising from a defined benefit plan but not included in net periodic benefit cost when they arose.

[SFAS 132(R), par. 10B, as amended by SFAS 158]

Yes No N/A

19. Did the entity comply with the following instructions? For those employers, the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in accumulated other comprehensive income in paragraphs 5(ii), 5(s), 8(hh), and 8(n) of SFAS 132 shall instead be to such amounts that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

[SFAS 132(R), par. 10C, as amended by SFAS 158]

Yes No N/A

20. Did the entity comply with the following instructions? For those employers, the references to results of operations (including items of other comprehensive income) in paragraphs 5 and 8 of SFAS 132 shall instead be to changes in unrestricted net assets and the references to a statement of income in those paragraphs shall instead be to a statement of activities.

[SFAS 132(R), par. 10D, as amended by SFAS 158]

Yes No N/A

21. Does the employer disclose the amount of cost recognized for defined contribution pension plans and for other defined contribution postretirement benefit plans for all periods presented separately from the amount of cost recognized for defined benefit plans?

[SFAS 132(R), par. 11 (AC P16.162 and P40.198)]

Yes No N/A

22. Do the disclosures include a description of the nature and effect of any significant changes during the period affecting comparability, such as

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a change in the rate of employer contributions, a business combination, or a divestiture?

[SFAS 132(R), par. 11 (AC P16.162 and P40.198)]

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Note: The AICPA staff, helped by industry experts, released two questions and answers, commonly referred to as Technical Practice Aids (TPAs), on accounting and disclosures for single employer and multi-employer employee benefit plans related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act):


These TPAs provide accounting and disclosure guidance for both single employer and multiemployer plans relating to the effects of the Medicare Act. Practitioners are encouraged to incorporate this guidance as soon as practicable. These TPAs are available on the AICPA’s Web site at www.aicpa.org/members/div/acctstd/general/recent_tpas.asp.

Multiemployer Plans

23. Has the employer disclosed the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented?

[SFAS 132(R), par. 12 (AC P16.166 and P40.178)]

24. If the employer chooses to disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans, 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(R), par. 12 (AC P16.166 and P40.178)]

25. In some situations, withdrawal from a multiemployer plan may result in an employer having an obligation to the plan for a portion of the unfunded benefit obligation of the pension plans and other postretirement benefit plans. 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 87, paragraph 70)?

[SFAS 132(R), par. 13 (AC P16.167 and P40.179)]

26. 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 (SFAS 106, paragraph 83)?

[SFAS 132(R), par. 13 (AC P16.167 and P40.179)]

G. 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?

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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.)*

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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)*

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**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)*

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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)*

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**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)*

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**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)*

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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)*

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H. Extinguishments of Debt

1. 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 140, par. 17b (AC L35.109a)]

2. 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 140, par. 17c (AC L35.109b)]

3. 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]

I. Financial Instruments

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 risk management profile. If appropriate, an entity is encouraged, but not required, to provide such additional qualitative disclosures. Have such disclosures been made?
   [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)]

FSP §6100
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)]

8. If the entity measures hybrid instruments (financial instruments containing embedded derivatives) at fair value in accordance with the election in SFAS 155 or the practicability exception in SFAS 133, is the aggregate fair value of those instruments reported separately on the face of the statement of financial position from the aggregate carrying amounts of assets and liabilities measured using another measurement attribute?

[SFAS 133, par. 44A, as amended by SFAS 155, par. 4E (AC D50.141A)]

9. Has the entity provided information that will allow users to understand the effect of changes in the fair value of hybrid financial instruments measured at fair value?

[SFAS 133, par. 44B, as amended by SFAS 155, par. 4E (AC D50.141B)]

Disclosures About Fair Value of Financial Instruments

10. 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, as amended by SFAS 157 (AC F25)]

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12 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.
11. 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, as amended by SFAS 157 (AC F25)]

12. 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 carrying amounts in the statement of financial position is permitted under the general principle in paragraphs 5 and 6 of FASB 39, Offsetting of Amounts Related to Certain Contracts, or the exceptions for master netting arrangements in paragraph 10 of FASB 39 and for amounts related to certain repurchase and reverse repurchase agreements in paragraphs 3 and 4 of FASB 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements? [SFAS 107, par. 14 (AC F25)]

13. 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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**Practice Tip**

SFAS 126, Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities, as amended, 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 SFAS 133, Accounting for Derivative Instruments and Hedging Activities, other than commitments related to the origination of mortgage loans to be held for sale during the reporting period.

**Disclosure About Concentrations of Credit Risk of All Financial Instruments**

14. Except as indicated in paragraph 15B\(^{13}\) 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

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\(^{13}\) SFAS 107, paragraph 15B, provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

a. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87 (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, Accounting and Reporting by Defined Benefit Pension Plans, are subject to the reporting of paragraph 15A).

b. The financial instruments described in paragraphs 8(a), 8(c), 8(e), and 8(f) of SFAS 107, as amended by SFAS 112, Employers' Accounting for Postemployment Benefits, SFAS 123, Accounting for Stock-Based Compensation, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

**FSP §6100**
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? [SFAS 107, par. 15A (AC F25); FSP SOP 94-6-1, par. 7]

15. 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? Possible shared characteristics on which significant concentrations may be determined include, but are not limited to:

   (1) Borrowers subject to significant payment increases.
   (2) Loans with terms that permit negative amortization.
   (3) Loans with high loan-to-value ratios.

   Judgment is required to determine whether loan products have terms that give rise to a concentration of credit risk.

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); FSP SOP 94-6-1, par. 7 (Question 1)]

16. Has the entity disclosed quantitative information\(^\text{14}\) 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); FSP SOP 94-6-1, par. 8 (Question 1)]

17. Are gains and losses (realized and unrealized) on all derivative instruments within the scope of SFAS 133 shown net when recognized in the income statement, whether or not settled physically, if the derivative instruments are held for trading purposes? [EITF 02-3]

\(^{14}\) 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.
Note: SFAS 155 amended SFAS 133 in February 2006. SFAS 155 provides a fair value measurement election for certain hybrid financial instruments with embedded derivatives that otherwise would require bifurcation. Hybrid financial instruments that are elected to be accounted for in their entirety at fair value cannot be used as a hedge instrument in a SFAS 133 hedge.

[SFAS 155, App. B]

18. If derivative transactions are entered into in connection with the issuance of contingently convertible securities, do disclosures of the potential impact of the contingently convertible securities include the terms of those derivative transactions (including the terms of settlement), how those transactions relate to the contingently convertible securities and the number of shares underlying the derivatives?

[FSP 129-1, par. 5 (AC C24.806)]

Disclosures About Certain Financial Instruments With Characteristics of Both Liabilities and Equity

Important: Depending upon whether an entity is a nonpublic entity, a public entity, or an SEC registrant, FASB Staff Position (FSP) 150-3 defers the effective date for applying the provisions of SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Readers should read FSP 150-3 to understand the various effective dates of SFAS 150. FSP 150-3 is available at the FASB Web site at www.fasb.org.

Early adoption of the provisions of SFAS 150 for instruments within the scope of the indefinite deferrals established by FSP 150-3 is precluded during the deferral period.

During the deferral period, all public entities as well as nonpublic entities that are SEC registrants are required to follow the disclosure requirements in paragraphs 26 and 27 of SFAS 150 (Questions 20 and 21 below) as well as disclosures required by other applicable guidance.

19. For items within the scope of SFAS 150, are they presented as liabilities (or assets in some circumstances), and are those items not presented between the liabilities section and the equity section of the statement of financial position?

[SFAS 150, par. 18 (AC F41.116)]

20. If the entity has no equity instruments outstanding but has financial instruments in the form of shares, all of which are mandatorily redeemable financial instruments:

a. Are they classified as liabilities?

b. Are they described in the statement of financial position as “shares subject to mandatory redemption?”

c. Are payments to holders of such instruments and related accruals presented separately from payments to and interest due to other creditors in statements of cash flows and income?

[SFAS 150, pars. 19 and 28 (AC F41.117 and F41.126)]

21. Do the entities referred to in Question 18 above disclose the components of the liability that would otherwise be related to shareholders’ interest and other comprehensive income, if any, subject to the redemption feature (for example, par value and other paid-in amounts
of mandatorily redeemable instruments should be disclosed separately from the amount of retained earnings or accumulated deficit? [SFAS 150, par. 28 (AC F41.126)]

22. For issuers of financial instruments with the scope of SFAS 150:
   a. Are the nature and terms of the financial instruments and the rights and obligations embodied in those instruments disclosed? [SFAS 150, par. 26 (AC F41.124)]
   b. Does that disclosure include information about settlement alternatives, if any, in the contract and identify the entity that controls the settlement alternatives?

23. For all outstanding financial instruments within the scope of SFAS 150 and for each settlement alternative, do issuers disclose:
   a. The amount that would be paid, or the number of shares that would be issued and their fair value, determined under the conditions specified in the contract if the settlement were to occur at the reporting date?
   b. How changes in the fair value of the issuer's equity shares would affect those settlement amounts (for example, "the issuer is obligated to issue an additional x shares or pay an additional y dollars in cash for each $1 decrease in the fair value of one share")?
   c. The maximum amount that the issuer could be required to pay to redeem the instrument by physical settlement, if applicable?
   d. The maximum number of shares that could be required to be issued, if applicable?
   e. That a contract does not limit the amount that the issuer could be required to pay or the number of shares that the issuer could be required to issue, if applicable?
   f. For a forward contract or and option indexed to the issuer's equity shares, the forward price or option strike price, the number of issuer's shares to which the contract is indexed, and the settlement date or dates of the contract, as applicable? [SFAS 150, par. 27 (AC F41.125)]

24. Are mandatorily redeemable financial instruments classified as liabilities unless the redemption is required to occur only upon the liquidation or termination of the reporting entity? [SFAS 150, par. 9 (AC F41.107)]

25. Are financial instruments, other than an outstanding share, that, at inception, (a) embodies an obligation to repurchase the issuer's equity shares or is indexed to such an obligation, and (b) requires or may require the issuer to settle the obligation by transferring assets, classified as liabilities (or assets in some circumstances)? [SFAS 150, par. 11 (AC F41.109)]

26. Are financial instruments that embody an unconditional obligation, or financial instruments other than an outstanding share that embodies a conditional obligation, that the issuer must or may settle by issuing a variable number of its equity shares, classified as liabilities (or assets in some circumstances) if, at inception, the monetary value of the obligation is based solely or predominantly on any one of the items indicated in paragraph 12 of SFAS 150? [SFAS 150, par. 12 (AC F41.110)]
Related to the Adoption of SFAS 150

27. Is the cumulative transition adjustment and any subsequent adjustments reported as an excess of liabilities over assets (a deficit) and changes thereto even though the mandatorily redeemable shares are reported as a liability? 
[FSP FAS 150-2 (AC C41.809-810)]

28. Is the resulting change in the amount of the mandatorily redeemable shares, depending on the settlement terms, either measured at the present value of the amount to be paid at settlement or the amount of cash that would be paid under the conditions specified in the contract if settlement occurred at the reporting date recognized as interest cost (change in redemption amount)? 
[FSP FAS 150-2 (AC C41.809-810)]

29. Although the disclosure requirements SFAS 150 do not apply for those mandatorily redeemable instruments of certain nonpublic companies while application of the provisions of SFAS 150 to those instruments is deferred, are the disclosure requirements regarding “Capital Structure: Disclosures” in SFAS 129, paragraph 4, in particular information about the pertinent rights and privileges of the various securities outstanding, including mandatory redemption requirements still disclosed? 
[FSP FAS 150-3]

30. Although the disclosure requirements SFAS 150 do not apply for those mandatorily redeemable instruments of certain nonpublic companies while application of the provisions of SFAS 150 to those instruments is deferred, are the disclosure requirements regarding “Capital Structure: Disclosures” in paragraph 8 of SFAS 129 which requires disclosure of the amount of redemption requirements for all issues of stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the next five years still disclosed? 
[FSP FAS 150-3]

31. During the deferral period, if the entity is a public entity or a nonpublic entity that is an SEC registrant, are the disclosure requirements in paragraphs 26 and 27 of SFAS 150 as well as disclosures required by other applicable guidance complied with? 
[FSP FAS 150-3]

32. Are the disclosures required by EITF 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock, made? 
[EITF 00-19]

Note: SFAS 155 amended SFAS 133 in February 2006. SFAS 155 provides a fair value measurement election for certain hybrid financial instruments with embedded derivatives that otherwise would require bifurcation. Hybrid financial instruments that are elected to be accounted for in their entirety at fair value cannot be used as a hedge instrument in a SFAS 133 hedge. 
[SFAS 155, App. B]

33. For instruments that are within the scope of EITF 05-2, are the applicable disclosures required by SFAS 129 included by the entity? 
[EITF 05-2, par. 10]
34. Weather derivative contracts within the scope of EITF 99-2 are financial instruments, therefore, are the existing GAAP disclosures for financial instruments such as those required in SFAS 107 included? [EITF 99-2]

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, 2006, Sixtieth Edition.

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* N/C = Not Compiled. Line item was not included in table for year shown.

J. Guarantees

1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:

   a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?

   b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?

   c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?

   d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?

   e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5, paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?

FSP §6100
f. The nature of—
   (1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee? and 
   (2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?  

   g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee?  

   [FASBI 45, par. 13 (AC G80.112)]

2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FASBI 45 pursuant to paragraph 7(b) of FASBI 45 (collectively referred to as product warranties), is the following information disclosed:
   a. The guarantor’s accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?  
   b. A tabular reconciliation of the changes in the guarantor’s aggregate product warranty liability for the reporting period?  
   c. Does the tabular reconciliation present—
      (1) The beginning balance of the aggregate product warranty liability?  
      (2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?  
      (3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?  
      (4) The ending balance of the aggregate product warranty liability?  
   [FASBI 45, par. 14 (AC G80.113)]

3. Are the disclosure requirements in paragraphs 13 and 14 of FASBI 45 complied with for intellectual property infringement indemnifications as described in FSP 45-1?  
   [FSP 45-1]

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Note: FSP FIN 45-3, Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners, is effective for new minimum revenue guarantees issued or modified on or after the beginning of the first fiscal quarter following November 10, 2005, the date that the final FSP was posted to the FASB Web site. Earlier application of the provisions of the FSP is permitted. The guarantor’s previous accounting for minimum revenue guarantees issued prior to the date of FSP FIN 45-3’s initial application should not be revised or restated to reflect the effect of the recognition and measurement provisions of FASBI 45, Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.
4. Are the disclosure requirements in paragraphs 13–16 of FASB 45 applied to all minimum revenue guarantees in financial statements of interim or annual periods ending after the beginning of the first fiscal quarter following November 10, 2005, the date that the final FSP was posted to the FASB website? Thus, the disclosure requirements in paragraphs 13–16 should be applied to any minimum revenue guarantees issued prior to the initial application of the FSP, regardless of whether those guarantees were recognized and measured under FASB 45.

[FSP FIN 45-3, par. 7]

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K. 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.\(^1\))

[SFAS 52, par. 30 (AC F60.140)]

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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 J.)
   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)]

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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)]

---

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; FASB 39]

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\(^1\) If SFAS 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."
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]  

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

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]  

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

L. Long-Lived Assets and Disposal Groups to Be Disposed Of  

**Reporting Discontinued Operations**

1. Are the results of operations of a component of an entity (as that phrase is defined in SFAS 144) that either has been disposed of or is classified as held for sale reported in discontinued operations in accordance with paragraph 43 of SFAS 144 (Questions 2, 3, 4, and 5 below) if both of the following conditions are met:  
   a. The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction?  
   b. The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction? [SFAS 144, par. 42 (AC 114.102)]  

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

2. In a period in which a component of an entity either has been disposed of or is classified as held for sale, does the income statement for current and prior periods report the results of operations of the component, including any gain or loss recognized in accordance with paragraph 37 of SFAS 144, in discontinued operations? [SFAS 144, par. 43 (AC 114.103)]  

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

3. Are the results of operations of a component classified as held for sale reported in discontinued operations in the period(s) in which they occur? [SFAS 144, par. 43 (AC 114.103)]  

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

4. Are the results of discontinued operations, less applicable income taxes (benefit), reported as a separate component of income before extraordinary items and the cumulative effect of accounting changes16 (if applicable)? [SFAS 144, par. 43 (AC 114.103)]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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5. Is the gain or loss recognized on the disposal disclosed either on the face of the income statement or in the notes to the financial statements? [SFAS 144, par. 43 (AC 114.103)]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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6. Are adjustments to amounts previously reported in discontinued operations that are directly related to the disposal of a component of an entity in a prior period classified separately in the current period in discontinued operations? [SFAS 144, par. 44 (AC 114.104)]  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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16 After the effective date of SFAS 154, Accounting Changes and Error Corrections, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.
7. Are the nature and amount of such adjustments (as discussed in Question 6 above) disclosed? [SFAS 144, par. 44 (AC I14.104)]

8. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement? [SFAS 144, par. 45 (AC D60.118)]

9. If a subtotal such as “income from operations” is presented, does it include the amounts of those gains or losses considered in Question 8 above? [SFAS 144, par. 45 (AC D60.118)]

---

7. Are the nature and amount of such adjustments (as discussed in Question 6 above) disclosed? [SFAS 144, par. 44 (AC I14.104)]

8. Is a gain or loss, that is recognized on the sale of a long-lived asset (disposal group) that is not a component of an entity, included in income from continuing operations before income taxes in the income statement? [SFAS 144, par. 45 (AC D60.118)]

9. If a subtotal such as “income from operations” is presented, does it include the amounts of those gains or losses considered in Question 8 above? [SFAS 144, par. 45 (AC D60.118)]

---

10. If the criteria of paragraph 30 of SFAS 144 are met (and thus a long-lived asset is classified as held for sale) after the balance sheet date but before issuance of the financial statements, does the long-lived asset continue to be classified as held and used in those financial statements when issued and is the information required by paragraph 47a of SFAS 144 (Question 15a below) disclosed in the notes to the financial statements? [SFAS 144, par. 33 (AC D60.110)]

11. Is a long-lived asset that is classified as held for sale presented separately in the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]

12. Are the assets and liabilities of a disposal group that is classified as held for sale presented separately in the asset and liability sections, respectively, of the statement of financial position? [SFAS 144, par. 46 (AC D60.119)]

13. Are those assets and liabilities considered in Question 12 above, not offset and presented as a single amount? [SFAS 144, par. 46 (AC D60.119)]

14. Are the major classes of assets and liabilities that are classified as held for sale separately disclosed either on the face of the statement of financial position or in the notes to financial statements? [SFAS 144, par. 46 (AC D60.119)]

15. Is the following information disclosed in the notes to the financial statements that cover the period in which a long-lived asset (disposal group) either has been sold or is classified as held for sale:

   a. A description of the facts and circumstances leading to the expected disposal, the expected manner and timing of that disposal, and, if not separately presented on the face of the statement, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group?

   b. The gain or loss recognized in accordance with paragraph 37 of SFAS 144 and FSP FAS 144-1, Determination of Cost Basis for Foreclosed Assets under FASB Statement No. 15, and the Measurement of Cumulative Losses Previously Recognized under Paragraph 37 of FASB Statement No. 144, and if not separately presented on the face of the
income statement, the caption in the income statement that include that gain or loss?

c. If applicable, amounts of revenue and pretax profit or loss reported in discontinued operations?

d. If applicable, the segment in which the long-lived asset (disposal group) is reported under SFAS 131?
[SFAS 144, par. 47 (AC D60.120 and I14.105); FSP FAS 144-1 (AC D60.804)]

16. If either paragraph 38 or 40 of SFAS 144 applies, is a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effect on the results of operations for the period and any prior periods presented disclosed in the notes to the financial statements that include the period of that decision?
[SFAS 144, par. 48 (AC D60.121 and I14.106)]

17. If a long-lived asset is to be disposed of other than by sale, does it continue to be classified as held and used until it is disposed of?
[SFAS 144, par. 27, as amended by SFAS 153 (AC D60.104)]

M. 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)]

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 I08.118c)]
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 20a and 20c of SFAS 114 as amended by SFAS 118 (Questions 1 and 3a–c above)?

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?

N. Impairment of Long-Lived Assets to Be Held and Used

1. Is an impairment loss recognized for a long-lived asset (asset group) to be held and used included in income from continuing operations before income taxes in the income statement of a business enterprise?

2. Is the following information disclosed in the notes to the financial statements that include the period in which an impairment loss is recognized:
   a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment?
   b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement that includes the loss?
   c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)?
   d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under SFAS 131, Disclosures about Segments of an Enterprise and Related Information?

3. If the occurrence of a significant event or circumstance at any time during the assessment period results in an expectation that the criteria in paragraph 42 of EITF 03-13 will be met by the end of the assessment period, is the component’s operations presented as discontinued operations?

4. Is the following information disclosed in the notes to the financial statements for each discontinued operation that generates continuing cash flows:
   a. The nature of the activities that give rise to continuing cash flows?
   b. The period of time continuing cash flows are expected to be generated?
c. The principal factors used to conclude that the expected continuing cash flows are not direct cash flows of the disposed component? [EITF 03-13, par. 17]

5. Additionally, for each discontinued operation in which the ongoing entity will engage in a “continuation of activities” with the disposed component after its disposal and for which the amounts presented in continuing operations after the disposal transaction include a continuation of revenues and expenses that were intercompany transactions (eliminated in consolidated financial statements) before the disposal transaction, are the intercompany amounts before the disposal transaction disclosed for all periods presented? [EITF 03-13, par. 17]

6. Are the types of continuing involvement, if any, that the entity will have after the disposal transaction disclosed? Also is that information disclosed in the period in which operations are initially classified as discontinued? [EITF 03-13, par. 17]

O. Leases—Lessors

1. Do disclosures include a general description of the lessor’s leasing arrangements? [SFAS 13, par. 23 (AC L10.119c)]

2. 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)]

3. 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)]
4. 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 L10.149)]

5. For leasing transactions with related parties, are the nature and extent of the transaction disclosed? __ __ __

   [SFAS 13, par. 29 (AC L10.125)]

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]

7. Is the effect on the balance sheet and the income statement resulting from a change in lease classification under item (b) of paragraph 6 of EITF 00-11, disclosed for leases that at inception would have been classified differently had the guidance in EITF 00-11 been in effect at the inception of the original lease? __ __ __

   [EITF 00-11]

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**Note:** In July 2006 the Financial Accounting Standards Board issued FSP FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction*. The guidance in the FSP shall be applied to fiscal years beginning after December 15, 2006. Earlier application is permitted as of the beginning of an entity’s fiscal year, provided that the entity has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. Only tax positions that meet the more-likely-than-not recognition threshold at the date of adoption of the FSP shall be reflected in the financial statements. In addition, all recognized tax positions in a leveraged lease must be measured in accordance with FASB 48 at the date of adoption of the FSP. If, at the date of adoption, the application of FASB 48 causes a change in the recognition or measurement of the tax position, that change shall be considered a change of an important assumption as of the date of adoption of the FSP. The cumulative effect of applying the provisions of the FSP shall be reported as an adjustment to the beginning balance of retained earnings as of the beginning of the period in which this FSP is adopted. The disclosure requirements of the FSP shall be applied as of the most recent statement of financial position or income statement presented.

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**FSP §6100**
8. Is the following disclosed by the lessor in the fiscal year of adoption:
   a. The nature of the change in accounting principle?
   b. The cumulative effect of the change on retained earnings in the statement of financial position as of the date of adoption?
   [FSP FAS 13-2, par. 14]

   Note: Financial statements of subsequent periods from the date of adoption need not repeat these disclosures.

P. 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 L10.112a(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 L10.112a(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 L10.112a(3))]

   d. Total contingent rentals actually incurred for each period for which an income statement is presented?
   [SFAS 13, par. 16a (AC L10.112a(4))]

   e. Are the following separately identified in the balance sheet or in the notes to the financial statements:
      (1) Assets recorded under capital leases and the accumulated amortization thereon 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)]

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

7. Do the financial statements of a seller-lessee include a description of the terms of the sale-leaseback transaction including future commitments, obligations, provisions, or circumstances that require or result in the seller-lessee’s continuing involvement? [SFAS 98, par. 17 (AC L10.130K)]

8. If a sale-leaseback transaction is accounted for using the deposit method or as a financing arrangement, are the following disclosures made:
   a. The obligation for future minimum lease payments as of the date of the latest balance sheet presented in the aggregate and for each of the five succeeding fiscal years?
   b. The total of minimum sublease rentals, if any, to be received in the future under noncancelable subleases in the aggregate and for each of the five succeeding fiscal years? [SFAS 98, par. 18 (AC L10.130L)]

Note: The guidance in FSP FAS 13-1, Accounting for Rental Costs Incurred during a Construction Period, should be applied to the first reporting period beginning after December 15, 2005. Early adoption is permitted for financial statements or interim financial statements that have not yet been issued. A lessee should cease capitalizing rental costs as of the effective date of this FSP for operating lease arrangements entered into prior to the effective date of this FSP. Retrospective application in accordance with SFAS 154, Accounting Changes and Error Corrections, is permitted but not required.
9. When rental costs incurred during and after a construction period are
for the right to control the use of a leased asset during and after
construction of a lessee asset, are the rental costs included in income
from continuing operations?
[FSP FAS 13-1, par. 6]

Yes  No  N/A

Note: On June 29, 2005, the FASB ratified EITF 05-6, Determining the
Amortization Period for Leasehold Improvements. As neither SFAS 13,
Accounting for Leases, nor FASB 21, Accounting for Leases in a Business Combination,
addressed leasehold improvements under an ongoing operating lease or in a business combination, this EITF Issue addresses the determination of the amortization period for leasehold improvements in operating leases that are either (1) purchased subsequent to the inception of the lease or (2) acquired in a business combination. The EITF is effective for periods beginning after June 30, 2005. Early application of the consensus is permitted in periods for which financial statements have not been issued.

Q. 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 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 00-8]

Note: EITF 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty, was ratified by the FASB Board on September 28, 2005. This EITF Issue discusses issues that develop when an entity sells inventory to another entity from which it also purchases inventory to be sold in the same line of business. The inventory purchase and sales transactions may be pursuant to a single arrangement or separate arrangements, and the inventory purchased or sold may be in the form of raw materials, work-in-process (WIP), or finished goods. The Task Force agreed that this Issue should be applied to new arrangements entered into, and modifications or renewals of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The carrying amount of the inventory that was acquired under these types of arrangements prior to the initial application of this Issue and that still remains in an entity’s statement of financial position at the date of initial application of this Issue should not be adjusted for this Issue. Early application is permitted in periods for which financial statements have not been issued.

3. If nonmonetary exchanges of inventory within the same line of business are recognized at fair value, is the classification of inventory as raw materials, WIP, and finished goods for purposes of EITF 04-13 the same classification that an entity uses for external financial reporting purposes?
   [EITF 04-13, par. 8]
4. If nonmonetary exchanges of inventory within the same line of business are recognized at fair value, does an entity disclose the amount of revenue and costs (or gains and losses) associated with those inventory exchanges recognized at fair value? [EITF 04-13, par. 8]

Note: That Exhibit 04-13A provides illustrative examples of the application of the consensus on EITF 04-13 for additional guidance.

R. 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)]

S. Related-Party Transactions and Economic Dependency

1. For related-party transactions, do disclosures include:
   a. The nature of the relationships involved? [SFAS 57, pars. 2-4 (AC R36.102-104)]
   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, par. 3 (AC R36.103)]

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)]
T. 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)]

U. Exit or Disposal Activities

Notes: SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 nullifies EITF 94-3. For the purposes of SFAS 146, an exit or disposal activity is initiated when management, having the authority to approve the action, commits to an exit or disposal plan or otherwise disposes of a long-lived asset (disposal group) and, if the activity involves the termination of employees, the criteria for a plan of termination in paragraph 8 of SFAS 146 are met. The provisions of EITF 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF 94-3 prior to SFAS 146’s initial application.

If SFAS 146 is not effective, consider Questions 1–3 below. If SFAS 146 is effective, consider Questions 4–8 below instead.

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]

4. Is the following information disclosed in notes to the financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:
   a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date?
   b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):
      (1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date?
      (2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor?
   c. The line item(s) in the income statement in which the costs in b above are aggregated?
   d. For each reportable segment:
      (1) The total amount of costs expected to be incurred in connection with the activity?
      (2) The amount incurred in the period?
      (3) The cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor?
   e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor?
   [SFAS 146, par. 20 (AC L32.120)]

Yes  No  N/A
   ___  ___  ___
5. Are costs associated with an exit or disposal activity that does not involve a discontinued operation included in income from continuing operations before income taxes, for example, in a subtotal such as "income from operations"?
   [SFAS 146, par. 18 (AC L32.118)]

6. Are costs associated with an exit or disposal activity that involves a discontinued operation included in the results of discontinued operations?
   [SFAS 146, par. 18 (AC L32.118)]

7. If an event or circumstance occurs that discharges or removes an entity’s responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, is the liability reversed?
   [SFAS 146, par. 19 (AC L32.119)]

8. Are the related costs reversed through the same line item(s) in the income statement used when those costs were recognized initially?
   [SFAS 146, par. 19 (AC L32.119)]

V. 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?
Financial Statements and Notes Checklist

(10) Significant noncash items other than depreciation, depletion, and amortization expense?
[SFAS 131, par. 27 (AC F30.126)]

Yes  No  N/A

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?17

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

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?

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

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)]

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)]

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,

17 After the effective date of SFAS 154, Accounting Changes and Error Corrections, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change. This conclusion amends APB 28 and APB 30, SFAS 128, SFAS 130, SFAS 131, SFAS 141 and SFAS 144, and FASB 18. See Part B1 “Accounting Changes and Error Corrections” of the “Other Financial Statement Disclosures” section of this checklist for new disclosures.

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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)]

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)]

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?

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

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

(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?

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

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)]

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)]

W. Stock Compensation Plans

Note: If the provisions of SFAS 123(R) are effective, refer to Questions 12–17 and ignore Questions 1–11 below.

1. Has the entity disclosed the following information in the "Summary of Significant Accounting Policies" or its equivalent:

a. The method used—either the intrinsic value method or the fair value based method—to account for stock-based employee compensation in each period presented?
Financial Statements and Notes Checklist

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tr>
<td>b. For an entity that adopts the fair value recognition provisions of SFAS 123, for all financial statements in which the period of adoption is presented, is there a description of the method of reporting the change in accounting principle?</td>
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</table>
| c. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of APB 25 for any period for which an income statement is presented, is there a tabular presentation of the following information for all periods presented:
(1) Net income and basic and diluted earnings per share as reported? |   |   |   |
| (2) The stock-based employee compensation cost, net of related tax effects, included in the determination of net income as reported? |   |   |   |
| (3) The stock-based employee compensation cost, net of related tax effects, that would have been included in the determination of net income if the fair value based method had been applied to all awards? |   |   |   |
| (4) Pro forma net income as if the fair value based method had been applied to all awards? |   |   |   |
| (5) Pro forma basic and diluted earnings per share as if the fair value based method had been applied to all awards? [SFAS 148, par. 2(e) (AC C36.144)] |   |   |   |
| 2. Does the required pro forma amounts reflect the difference in stock-based employee compensation cost, if any, included in net income and the total cost measured by the fair value based method, as well as additional tax effects, if any, that would have been recognized in the income statement if the fair value based method had been applied to all awards? [SFAS 148, par. 2(e) (AC C36.144)] |   |   |   |
| 3. Does the required pro forma per share amounts reflect the change in the denominator of the diluted earnings per share calculation as if the assumed proceeds under the treasury stock method, including measured but unrecognized compensation cost and the excess tax benefits credited to additional paid-in capital, were determined under the fair value based method? [SFAS 148, par. 2(e) (AC C36.144)] |   |   |   |
| 4. 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)] |   |   |   |
| 5. Are the following disclosed for each year for which an income statement 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? |   |   |   |
 (2) Those outstanding at the end of the year? |   |   |   |
 (3) Those exercisable at the end of the year? |   |   |   |
 (4) Those granted during the year? |   |   |   |
 (5) Those exercised during the year? |   |   |   |

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<table>
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<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
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<td>(6) Those forfeited during the year?</td>
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<td>(7) Those expired during the year?</td>
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<td>b. The weighted-average grant-date fair value of options granted during the year? <em>(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 separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.)</em></td>
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<td>c. The number and weighted-average grant date-fair value of equity instruments other than options granted during the year?</td>
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<td>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?</td>
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<td>e. Total compensation cost recognized in income for stock-based employee compensation awards?</td>
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<td>f. The terms of significant modifications of outstanding awards?</td>
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<td>[SFAS 123, par. 47a–f (AC C36.146)]</td>
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<td>6. 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)]</td>
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<td>7. For options outstanding at the date of the latest balance sheet presented, are the following disclosed:</td>
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<td>a. The range of exercise prices?</td>
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<td>b. The weighted-average exercise price?</td>
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<td>c. The weighted-average remaining contractual life?</td>
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<tr>
<td>[SFAS 123, par. 48 (AC C36.147)]</td>
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<td>8. 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:</td>
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<tr>
<td>a. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding?</td>
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<tr>
<td>b. The number and weighted-average exercise price of options currently exercisable? [SFAS 123, par. 48 (AC C36.147)]</td>
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<td>9. 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]</td>
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10. Is the accounting policy for recognizing compensation cost related to fixed stock awards with pro rata vesting disclosed? [EITF 00-23]

11. Are changes in fair value of an option award granted to employees, in unrestricted, publicly traded shares of an unrelated entity prior to vesting characterized as compensation expense in the employer’s income statement? [EITF 02-8]

Notes: The provisions of SFAS 123(R) are effective (a) for public entities that do not file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after June 15, 2005; (b) for public entities that file as small business issuers—as of the beginning of the first interim or annual reporting period that begins after December 15, 2005; and (c) for nonpublic entities—as of the beginning of the first annual reporting period that begins after December 15, 2005.

These questions apply only if the provisions of SFAS 123(R) are effective.

12. If the entity has one or more share-based payment arrangements, does it disclose information that enables users of the financial statements to understand:

   a. The nature and terms of such arrangements that existed during the period and the potential effects of those arrangements on shareholders?

   b. The effect of compensation cost arising from share-based payment arrangements on the income statement?

   c. The method of estimating the fair value of the goods or services received, or the fair value of the equity instruments granted (or offered to grant), during the period?

   d. The cash flow effects resulting from share-based payment arrangements? [SFAS 123(R), par. 64 (AC C35.164)]

Notes: Paragraphs A240 and A241 of SFAS 123(R) indicate the minimum information needed to achieve those objectives and illustrate how the disclosure requirements might be satisfied. In some circumstances, an entity may need to disclose information beyond that listed in paragraph A240 to achieve the disclosure objectives.

On October 20, 2006, FSP FAS 123 (R)-6, Technical Corrections of FASB Statement No. 123(R), which addresses certain technical corrections of SFAS 123 (revised 2004), Share-Based Payment. Specifically, it amends paragraph A240(d)(1) to exempt nonpublic entities from disclosing the aggregate intrinsic value of outstanding fully vested share options (or share units), among other matters. Readers should refer to the FSP for the effective date and transitional guidance.

13. If the entity acquires goods or services other than employee services in share-based payment transactions, does it provide disclosures
similar to those in Question 11 above required by paragraph 64 of SFAS 123(R) to the extent that those disclosures are important to an understanding of the effects of those transactions on the financial statements?

[SFAS 123(R), par. 65 (AC C35.165)]

14. If the entity has multiple share-based payment arrangements with employees, does it disclose information separately for different types of awards under those arrangements to the extent that differences in the characteristics of the awards make separate disclosure important to an understanding of the entity's use of share-based compensation? (See paragraph A240 of SFAS 123(R).)

[SFAS 123(R), par. 65 (AC C35.165)]

**Required Disclosures in the Period SFAS 123(R) Is Adopted**

15. In the period that SFAS 123(R) is adopted, does an entity disclose the effect of the change from applying the original provisions of SFAS 123 on income from continuing operations, income before income taxes, net income, cash flow from operations, cash flow from financing activities, and basic and diluted earnings per share?

[SFAS 123(R), par. 84]

16. If awards under share-based payment arrangements with employees are accounted for under the intrinsic value method of APB 25 for any reporting period for which an income statement is presented, and if the entity is a public entity, does it continue to provide the tabular presentation of the following information that was required by paragraph 45 of SFAS 123 for all those periods:

a. Net income and basic and diluted earnings per share as reported?

b. The share-based employee compensation cost, net of related tax effects, included in net income as reported?

c. The share-based employee compensation cost, net of related tax effects, that would have been included in net income if the fair-value-based method had been applied to all awards?

d. Pro forma net income as if the fair-value-based method had been applied to all awards?

e. Pro forma basic and diluted earnings per share as if the fair-value-based method had been applied to all awards?

[SFAS 123(R), par. 84 (AC C35.712)]

17. If a nonpublic entity used the minimum value method for pro forma disclosure purposes under the original provisions of SFAS 123, has the nonpublic entity not continued to provide those pro forma disclosures for outstanding awards accounted for under the intrinsic value method of APB 25?

[SFAS 123(R), par. 85 (AC C35.713)]

18. Are changes in fair value of an option award granted to employees, in unrestricted, publicly traded shares of an unrelated entity prior to vesting characterized as compensation expense in the employer's income statement?

[EITF 02-8]
Note: FSP FAS 123(R)-1, Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R), was issued to defer at this time the requirement of SFAS 123 (revised 2004), Share-Based Payment, that a freestanding financial instrument originally subject to SFAS 123(R) becomes subject to the recognition and measurement requirements of other applicable GAAP when the rights conveyed by the instrument to the holder are no longer dependent on the holder being an employee of the entity. The guidance in this FSP supersedes FSP EITF 00-19-1, "Application of EITF Issue No. 00-19 to Freestanding Financial Instruments Originally Issued as Employee Compensation," and amends paragraph 11(b) of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and Statement 133 Implementation Issue No. C3, "Scope Exceptions: Exception Related to Share-Based Payment Arrangements." The guidance in the FSP shall be applied upon initial adoption of SFAS 123(R). An entity that adopted SFAS 123(R) prior to the issuance of the FSP shall apply the guidance in the FSP in either (a) the first reporting period beginning after August 31, 2005 or (b) an earlier period, if the financial statements for that period have not been issued.

19. Has the entity used either of the following methods to account for the adoption of SFAS 123(R)-1:

   a. Retrospective application to financial statements of prior periods for which paragraph A231 of SFAS 123(R) was applied?

   b. In a manner similar to a cumulative effect of a change in accounting principle as described in paragraphs 19(a)–19(c) of APB 20, Accounting Changes, except that the effect on retained earnings shall be determined as of the beginning of the reporting period in which the FSP is adopted rather than the beginning of the fiscal year:

      (1) Are the financial statements of prior periods for which paragraph A231 of SFAS 123(R) was applied presented as previously reported?

      (2) Is the cumulative effect of adopting this FSP on the amount of retained earnings at the beginning of the reporting period in which this guidance is first applied included in the net income of the period of the change?

[FSP FAS 123-1, par. 7]

Note: Disclosure of the pro forma effects of the application of the guidance in this FSP to prior periods is not required.

X. 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); SAS 1, secs. 560.05–.07, .09, and 561.01–.10 (AU 560.05–.07, .09, and 561.01–.10)]

Y. Transfers and Servicing of Financial Assets and Securitizations

SFAS 156, Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140, among other matters, amends the disclosure

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requirements of SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The Statement is effective as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted under certain conditions. If SFAS 156 has been adopted, the practitioner should refer to section Y1.

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 140, par. 17a (AC F39.110a)]

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 140, par. 17d (AC F39.110b)]

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 63 of SFAS 140?  
   
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 140, par. 17e (AC F35.102A)]

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)?  

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If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

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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 from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?

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<th>Yes</th>
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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?

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<th>Yes</th>
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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)?

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<th>Yes</th>
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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?

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<th>Yes</th>
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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?

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<th>Yes</th>
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   (2) Delinquencies at the end of the period?

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<th>Yes</th>
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   (3) Credit losses, net of recoveries, during the period?

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<th>Yes</th>
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Disclosure of average balances during the period is encouraged, but not required.

[SFAS 140, par.17f–g (AC F39.110c–d)]

**Collateral**

6. a. 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?

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<th>Yes</th>
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[SFAS 140, par. 17a(2) (AC F39.110a)]

b. 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?

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[SFAS 140, par. 17a(3) (AC F39.110a)]

‡ Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
c. 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) (AC F39.110a)]

Y1. Accounting for Servicing of Financial Assets

1. 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 140, par. 17d (AC F39.110b)]

2. For all servicing assets and servicing liabilities are the following disclosures made:
   a. Management’s basis for determining its classes of servicing assets and servicing liabilities per SFAS 140 paragraph 13A, as amended?
   b. A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities? (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.)
   c. The amount of contractually specified servicing fees (as defined in the glossary of SFAS 156), late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income?  
[SFAS 140, par. 17e, as amended by SFAS 156]

3. For servicing assets and servicing liabilities measured at fair value, are the following disclosures made:
   a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:
      (1) The beginning and ending balances?
      (2) Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)?
      (3) Disposals?
      (4) Changes in the fair value during the period resulting from changes in valuation inputs or assumptions used in the valuation model?
      (5) Changes in the fair value during the period resulting from other changes in fair value and a description of those changes?
      (6) Other changes that affect the balance and a description of those changes?
b. A description of the valuation techniques or other methods used to estimate the fair value of servicing assets and servicing liabilities. If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2), is also encouraged, but not required, to disclose a description of the valuation techniques, as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)

[SFAS 140, par. 17f, as amended by SFAS 156]

4. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:

a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

   (1) The beginning and ending balances?

   (2) Additions (through purchases of servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)?

   (3) Disposals?

   (4) Amortization?

   (5) Application of valuation allowance to adjust carrying value of servicing assets?

   (6) Other-than-temporary impairments?

   (7) Other changes that affect the balance and a description of those changes?

b. For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period if it is practicable to estimate the value?

c. A description of the valuation techniques or other methods used to estimate fair value of the servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instrument used to manage the risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2), is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)
Corporations

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td><strong>d.</strong> The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140, as amended?</td>
<td></td>
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<tr>
<td><strong>e.</strong> The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented? [SFAS 140, par. 17g, as amended by SFAS 156]</td>
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<tr>
<td>5. 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 (for example, mortgage loans, credit card receivables, and automobile loans):</td>
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<tr>
<td><strong>a.</strong> Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, 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 (per paragraphs 68–70)?</td>
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<tr>
<td><strong>b.</strong> 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 interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations?</td>
<td></td>
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<tr>
<td><strong>c.</strong> The key assumptions(^1) used in measuring the fair value of interest that continue to be held by the transferor and servicing assets or servicing liabilities, if any, 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)?</td>
<td></td>
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<tr>
<td><strong>d.</strong> 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 from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests that continue to be held by the transferor)? [SFAS 140, par. 17h, as amended by SFAS 156]</td>
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<tr>
<td>6. If the entity has interest that continue to be held by the transferor in financial assets that it has securitized or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type (for example, mortgage loans, credit card receivables, and automobile loans):</td>
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<tr>
<td><strong>a.</strong> Its accounting policies for subsequently measuring those 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?</td>
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</table>

\(^1\) If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.
Financial Statements and Notes Checklist

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)?

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<th>Yes</th>
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c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) 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?

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<th>Yes</th>
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d. For the securitized assets and any other financial assets that it manages together with them:1

(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?

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<tr>
<th>Yes</th>
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(2) Delinquencies at the end of the period?

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<tr>
<th>Yes</th>
<th>No</th>
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(3) Credit losses, net of recoveries, during the period?

[SFAS 140, par. 17h, as amended by SFAS 156]

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<th>Yes</th>
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Note: Disclosure of average balances during the period is encouraged, but not required.

Z. 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)]

<table>
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<th>Yes</th>
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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?

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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?

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<th>Yes</th>
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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)]

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<th>Yes</th>
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(See the Financial Instruments and Impaired Loans sections for possible additional disclosure requirements.)

1 Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.
**AA. 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? ___ ___ ___
   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? [SFAS 15, par. 25, as amended by SFAS 145 (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)]

**BB. Asset Retirement Obligations**

1. Does the company disclose the following information about its asset retirement obligations:
   a. A general description of the asset retirement obligations and the associated long-lived assets? ___ ___ ___
   b. The fair value of assets that are legally restricted for purposes of settling asset retirement obligations? ___ ___ ___
   c. A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations showing separately the changes attributable to (1) liabilities incurred in the current period, (2) liabilities settled in the current period, (3) accretion expense, and (4) revisions in estimated cash flows, whenever there is a significant change in one or more of those four components during the reporting period? [SFAS 143, par. 22 (AC A50.122)]

2. If the fair value of an asset retirement obligation cannot be reasonably estimated is that fact and the reasons therefore disclosed? [SFAS 143, par. 22 (AC A50.122)]

3. In addition to the disclosures required by paragraphs 19c, 19d, and 21 of APB 20, is the liability for the asset retirement obligation computed on a pro forma basis disclosed in the footnotes for the beginning of the earliest year presented and at the end of all years presented as if SFAS 143 and FASBI 47 had been applied during all periods affected? [SFAS 143, par. 27 and FASBI 47, par. 11]

**Note:** FASBI 47, Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143, issued in March 2005, clarifies that an entity is required to recognize a liability if the obligation to perform an asset retirement activity is unconditional, even though the timing and (or) method of settlement may be uncertain. FASBI 47 is effective no later than the end of the fiscal year ending after December 15, 2005. Early adoption of the Interpretation is encouraged.

4. If the entity adopted FASBI 47 in the current fiscal year, do the notes to the financial statements include the amount of the liability for asset retirement obligations? ___ ___ ___
retirement obligations computed on a pro forma basis for the begin­ning of the earliest year presented and at the end of all years presented as if the Interpretation had been applied during all periods affected?
[FASBI 47, par. 11]

CC. Real Estate Time-Sharing Transactions

Note: SOP 04-2, Accounting for Real Estate Time-Sharing Transactions, should be applied to financial statements for fiscal years beginning after June 15, 2005. Earlier application is encouraged as of the beginning of fiscal years for which financial statements or information have not been issued. An entity should not restate previously issued financial statements.

1. Does a time-share seller's balance sheet include gross notes receivable from time-sharing sales, a deduction from notes receivable for the allowance for uncollectibles (see paragraphs 36 and 37 of SOP 04-2), and a deduction from notes receivable for any profit deferred under SFAS 66?
[SOP 04-2, par. 63]

2. In addition to the information otherwise required by generally ac­cepted accounting principles (GAAP), do the financial statements of entities with time-sharing transactions disclose the following:
   a. Maturities of notes receivable for each of the five years following the date of the financial statements and in the aggregate for all years thereafter? The total of the notes receivable balances displayed with the various maturity dates should be reconciled to the balance-sheet amount of notes receivable.
   b. The weighted average and range of stated interest rates of notes receivable?
   c. The estimated cost to complete improvements and promised amenities?
   d. The activity in the allowance for uncollectibles, including the balance in the allowance at the beginning and end of each period, additions associated with current-period sales, direct writeoffs charged against the allowance, and changes in estimate associated with prior-period sales. If the developer sells receivables with recourse, the seller should provide the same disclosure of activity on receivables sold?
   e. The seller's policies with respect to meeting the criteria for buyer's commitment and collectibility of sales prices in paragraphs 5(b) and 37(d), respectively, of SFAS 66?
[SOP 04-2, par. 64]

DD. Fair Value Measurements

Notes: In September 2006 the Financial Accounting Standards Board issued SFAS 157, Fair Value Measurements, which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.

The Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied. Certain exceptions apply. Readers should refer to the Statement for those exceptions.
1. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:

   a. The fair value measurements at the reporting date?

   b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)?

   c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:18

      (1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)?

      (2) Purchases, sales, issuances, and settlements (net)?

      (3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)?

   d. The amount of the total gains or losses for the period in subparagraph (c)(1) above included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities)?

   e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period?

   [SFAS 157, par. 32]

2. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:

   a. The fair value measurements recorded during the period and the reasons for the measurements?

---

18 For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)?

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c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs?

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d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets and/or liabilities in prior periods?

[SFAS 157, par. 33]

3. Are the quantitative disclosures required by SFAS 157 presented using a tabular format? (See Appendix A of SFAS 157 for implementation guidance and examples.)

[SFAS 157, par. 34]

4. Is the fair value information disclosed under Statement 157 and the fair value information disclosed under other accounting pronouncements (for example, SFAS 107, Disclosures about Fair Value of Financial Instruments) combined in the periods in which those disclosures are required, if practicable? (Encouraged, but not required.)

[SFAS 157, par. 35]

5. Is information about other similar measurements (for example, inventories measured at market value under ARB 43, Chapter 4) disclosed, if practicable? (Encouraged, but not required.)

[SFAS 157, par. 35]

Transition Guidance

6. At the date this Statement is initially applied to the financial instruments in paragraph 37(a)–(c), is the difference between the carrying amounts and the fair values of those instruments recognized as a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately?

[SFAS 157, par. 38]

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Note: The disclosure requirements of SFAS 154 for a change in accounting principle do not apply.

7. Are the disclosure requirements of this Statement (paragraphs 32–35), including those disclosures that are required in annual periods only, applied in the first interim period of the fiscal year in which this Statement is initially applied?

[SFAS 157, par. 39]

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Note: The disclosure requirements of this Statement need not be applied for financial statements for periods presented prior to initial application of this Statement.

FSP §6100
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, 2006, Sixtieth Edition.

**ADDRESS OF AUDITORS’ REPORTS**

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<tbody>
<tr>
<td>Board of Directors and Stockholders</td>
<td>561</td>
<td>545</td>
<td>509</td>
<td>500</td>
<td>462</td>
</tr>
<tr>
<td>Stockholders</td>
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<td>17</td>
<td>28</td>
<td>31</td>
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</tr>
<tr>
<td>Board of Directors</td>
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<td>1</td>
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<td>6</td>
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<td>Total Companies</td>
<td>600</td>
<td>600</td>
<td>600</td>
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<td>600</td>
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</table>

*Note:* The Public Company Accounting Oversight Board (PCAOB) establishes standards for audits of “issuers,” as that term is defined by the Sarbanes-Oxley Act of 2002 (the Act) or whose audit is prescribed by the rules of the SEC. Other entities are referred to as “nonissuers.” Interpretation 17, “Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards,” of SAS 58, Reports on Audited Financial Statements, as amended (AU 9508.85–88), provides language that may be added to the auditor’s standard report on the financial statements of a nonissuer to clarify differences between a GAAS audit and an audit conducted in accordance with the standards of the PCAOB. Interpretation 18, “References to PCAOB Standards in an Audit Report on a Nonissuer,” of SAS 58, as amended (AU 9508.89–92), explains how the auditor should report if engaged to also follow PCAOB auditing standards in the audit of a nonissuer.
5. Does the auditor's report include appropriate:

<table>
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<th>Yes</th>
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<tbody>
<tr>
<td>a. A title that includes the word &quot;independent&quot;? [SAS 58, par. 8a (AU 508.08a)]</td>
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<tr>
<td>b. A statement that the financial statements identified in the report were audited? [SAS 58, par. 8b (AU 508.08b)]</td>
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<tr>
<td>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)]</td>
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<tr>
<td>d. (Audits of Non-Public Companies Only) A statement that the audit was conducted in accordance with generally accepted auditing standards 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 58, par. 8d as amended by SAS 93 (AU 508.08d)]</td>
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<td>e. (Audits of Public Companies Only) A statement that the audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States)? [PCAOB Auditing Standard 1, App., par. 3]</td>
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<td>f. 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)]</td>
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<td>g. 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)]</td>
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<td>h. 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)]</td>
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<tr>
<td>i. 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? The opinion should include an identification of the United States of America as the country of origin of those accounting principles. [SAS 58, par. 8h as amended by SAS 93 (AU 508.08h)]</td>
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<td>j. The manual or printed signature of the auditor's firm? [SAS 58, par. 8i (AU 508.08i)]</td>
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<td>k. The date of the audit report? [SAS 58, par. 8j (AU 508.08j)]</td>
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</table>

**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.
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, 2006, Sixtieth Edition.

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<tr>
<td>Follows financial statements and notes</td>
<td>193</td>
<td>216</td>
<td>245</td>
<td>250</td>
<td>283</td>
</tr>
<tr>
<td>Precedes financial statements and notes</td>
<td>406</td>
<td>383</td>
<td>354</td>
<td>343</td>
<td>309</td>
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<tr>
<td>Between financial statements and notes</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>4</td>
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<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>4</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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</table>

6. If a subsequent event disclosed in the financial statements occurs after completion of field work but before the issuance of the related financial statements, has the need for dual-dating of the report been considered?  
[SAS 1, sec. 530, as amended by SAS 98 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. 19 and 45 (AR 100.19 and .45)]

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. 11a, 12, and 13 (AU 508.11a, .12, and .13)]

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, pars. 11b and 15 (AU 508.11b and .15)]

10. If there is substantial doubt about the entity's ability to continue as a going concern:
    a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion?  
    [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]
    b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern?  
    [SAS 58, par. 11c (AU 508.11c); SAS 59, as amended by SAS 64, par. 12 (AU 341.12)]

11. For auditors of public companies, prior to the report release date, among other matters, has auditor obtained sufficient evidence to support the representations in the auditor's reports?  
[PCAOB Auditing Standard 3, par. A53]
12. For auditors of nonpublic companies, is the report dated no earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the opinion on the financial statements? [SAS 103 amendment to SAS 1, sec. 530.01 and .05 (AU 530.01 and .05)]

Yes  No  N/A

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 (AU 341.13) for an example.

13. 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, that refers to the change? [SAS 58, as amended by SAS 79, pars. 11d and 16 (AU 508.11d and .16)]

   Yes  No  N/A

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 88, par. 8, AU 420.08]

   Yes  No  N/A

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 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]

   Yes  No  N/A

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

   Yes  No  N/A

b. Does the explanatory paragraph disclose:

   (1) The date of the auditor’s previous report? [SAS 58, as amended by SAS 79, pars. 11e and 69 (AU 508.11e and .69)]

   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 88, par. 8, AU 420.08]

   Yes  No  N/A

15. 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
## Auditors' Reports Checklist

<table>
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<tr>
<th></th>
<th>Yes</th>
<th>No</th>
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<tr>
<td>1.</td>
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<tr>
<td>2.</td>
<td>The date of the predecessor auditor's report?</td>
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<td>3.</td>
<td>The type of report issued by the predecessor auditor?</td>
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<tr>
<td>4.</td>
<td>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?</td>
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<td>b.</td>
<td>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?</td>
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[SAS 58, as amended by SAS 79, pars. 11e and 74 (AU 508.11e and .74)]

16. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if:

a. The auditor wishes to clarify that an audit performed in accordance with generally accepted auditing standards does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Sarbanes-Oxley Act is applicable? (Note: Not required—Interpretation 17 of SAS 58 provides an example report.)

[Interpretation 17 of SAS 58 (AU 9508.85–88)]

b. The audit is conducted in accordance with both generally accepted auditing standards and the PCAOB's auditing standards?

[Interpretation 18 of SAS 58 (AU 9508.89–91)]

17. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations?

[Interpretation 15 of SAS 58 (AU 9508.60-.75)]

18. 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 100, par. 50 (AU 722.50)]

19. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed 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 prescribed guidelines, does the report include an additional paragraph stating that fact?

[SAS 58, par. 11g (AU 508.11g); SAS 52, par. 8, as amended by SAS 98 (AU 558.08)]

20. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if there is a material change between periods in accounting principles or in the method of their application?

[SAS 58, pars. 16–18, as amended by SAS 79 (AU 508.16–.18)]

21. If the audit also was conducted in accordance with International Standards on Auditing, in their entirety, does the auditor’s report indicate that the audit was also conducted in accordance with another set of auditing standards?

[Interpretation 14 of SAS 58 (AU 9508.56–.59)]
22. 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)]

23. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor's report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [SAS 8, par. 7, as amended by SAS 98 (AU 550.07); SAS 52, par. 9, as amended by SAS 98 (AU 558.09)]

24. 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)]

25. 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)]

26. 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. 22–32 (AU 508.22–32); SAS 110, par. 76 (AU 318.76)]
Practice Tips

Scope limitations can be imposed by the client or by circumstances such as the timing of the auditor's work, the inability to obtain sufficient appropriate audit evidence, or an inadequacy in the accounting records. This question also includes situations in which the auditor is unable to obtain sufficient appropriate audit evidence 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, pars. 22 and 31 (AU 508.22 and .31)]

It also includes situations in which the auditor's only evidence of the existence and/or valuation of (a) investments without readily determinable fair value, or (b) interests held in trust by a third-party trustee, is receiving confirmation from a third party for those assets.

[Interpretation 1 of AU 328 (AU 9328.01-.04); Interpretation 1 of AU 332 (AU 9332.01-.04)]

27. Is a qualified opinion or disclaimer of opinion expressed if the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as:

a. Concerns about the integrity of an entity's management cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted? __________

b. Concerns about the condition and reliability of an entity's records cause the auditor to conclude that it is unlikely that sufficient appropriate audit evidence will be available to support an unqualified opinion on the financial statements? __________

[SAS 109, par. 109 (AU 314.109)]

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.

28. If an opinion is disclaimed 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? __________

e. 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)]

29. 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)]

30. 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)]

31. 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.

32. 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)]

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.
33. If the financial statements and reports will be used by parties or distributed by the entity to parties other than the regulatory agencies to whose jurisdiction the entity is subject, has the standard form of report been modified as appropriate because of the departures from generally accepted accounting principles and has an additional paragraph been added to express an opinion on whether the financial statements are presented in conformity with the regulatory basis of accounting? (Note: Interpretation 15 of SAS 62 provides an example report.)

[AU 544.04; Interpretation 15 of SAS 62 (AU 9623.96-.98)]

Yes No N/A

34. If supplementary information is included in a client-prepared document and the auditor has not subjected to the procedures described in SAS 52, is the information either marked "unaudited" or has the auditor included an explanatory paragraph in the report disclaiming an opinion on the information?

[SAS 52, par. 3 (AU 558.03)]

Note: In May 2006, the AICPA's Auditing Standards Board (ASB) issued SAS No. 112, Communicating Internal Control Related Matters Identified in an Audit. The Statement supersedes SAS 60, Communication of Internal Control Related Matters Noted in an Audit, and is effective for audits of financial statements for periods ending on or after December 15, 2006. Earlier implementation is permitted. Question 35 should be answered if SAS 112 is not applicable to the audit. Question 36 should be answered if SAS 112 is applicable to the audit.

35. Is the reporting form and content of SAS 60, paragraphs 9-19, followed when communicating internal control structure related matters noted in an audit?1

[SAS 60, pars. 9–19]

Yes No N/A

36. Is the reporting form, content, and timing of SAS 112, paragraphs 20–30, followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements?2

[SAS 112, pars. 20–30 (AU 325.20-.30)]

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1 Reportable conditions in internal control must be communicated, preferably in writing, to the audit committee.
[SAS 60, par. 1]

2 Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by SAS 112, including significant deficiencies or material weaknesses that were communicated in previous audits and have not yet been remediated. Those control deficiencies must be communicated in writing to management and those charged with governance.

FSP §6200
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. Does the compilation report include the following basic elements:
   a. A statement that the compilation has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants?
   b. A statement that the compilation is limited to presenting in the form of financial statements information that is the representation of management (owners)?
   c. A statement that the financial statements have not been audited or reviewed and, accordingly, the accountant does not express an opinion or any other form of assurance on them?
   d. A signature of the accounting firm or the accountant as appropriate (for example, the signature could be manual, stamped, electronic, or typed)?
   e. The date of the compilation report (the date of completion of the compilation report should be used as the date of the accountant’s report)?

2. Does the report exclude a description of any other procedures that the accountant might have performed before or during the engagement?

3. For compiled financial statements that contain departures¹ 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?
   b. If compiled financial statements that omit substantially all of the disclosures required by GAAP include disclosures about only a

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.
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. 46 and 47 (AR 100.46 and .47)]

(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. 47 (AR 100.47)]

(2) If the effects are not determined, is this fact stated in the accountant’s report?
[SSARS 1, par. 47 (AR 100.47)]

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. Does each page of the financial statements include a reference such as “See Accountant’s Compilation Report”?
[SSARS 1, par. 13, as amended by SSARS 9 (AR 100.13)]

6. 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. 47, fn. 29 (AR 100.47, fn. 29)]

7. If the basic financial statements are accompanied by information presented for supplementary analysis purposes, does the accountant clearly indicate the degree of responsibility, if any, he or she is taking with respect to such information?
[SSARS 1, par. 60 (AR 100.60)]

8. When the accountant compiles both the basic financial statements and other data presented only for supplementary analysis purposes, does the compilation report refer to the other data or is a separate report on the other data issued?
[SSARS 1, par. 60b (AR 100.60b)]
9. If a separate report on the other data is issued, does the report state that:
   a. The other data accompanying the financial statements are presented only for supplementary analysis purposes? ____ ___ ___
   b. The information has been compiled from information that is the representation of management, without audit or review? ____ ___ ___
   c. The accountant does not express an opinion or any other form of assurance on such data? ____ ___ ___

   [SSARS 1, par. 60b, as amended by SSARS 9 (AR 100.60)]

10. If the client does not provide a representation letter, were the matters discussed in paragraphs 63–68 of SSARS 1 considered in deciding whether it is appropriate to issue a compilation report? ____ ___ ___

   [SSARS 7, par. 66 (AR 100.66)]

11. If an audit engagement is changed to a review or compilation, 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. 68 (AR 100.68)]

12. If comparative financial statements are presented, does the accountant’s report cover each period presented? ____ ___ ___

   [SSARS 2, par. 2 (AR 200.02)]

13. 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:

      (1) The nature of the previous service rendered (compilation, review, or audit)? ____ ___ ___
      (2) Date of the previous report? ____ ___ ___

   [SSARS 2, pars. 30 and 31 (AR 200.30 and .31)]

14. 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)]

15. 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)]
16. 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)]

17. 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. 29 (AR 200.29)]

18. If the financial statements of a prior period have been restated:
   a. If the successor accountant is not engaged to report on the prior year financial statements and the predecessor accountant does not reissue his or her report, does the introductory paragraph of the report indicate that a predecessor accountant reported on the financial statements of the prior period before restatement?
   [SSARS 2, pars. 25-27, as amended by SSARS 12 (AR 200.25-.27)]

19. If the use of a report is restricted by the accountant (e.g., when the subject matter of the accountant’s report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles), is there a separate paragraph at the end of the report that includes the following elements:
   a. A statement indicating that the report is intended solely for the information and use of the specified parties?
   [SSARS 1, par. 58, as amended by SSARS 12 (AR 100.58)]

Predecessor’s Compilation Report

20. 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? (Note: The accountant should not name the predecessor accountant unless the predecessor’s practice was acquired by, or merged with, that of the successor accountant.) 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)]
Part II—If the Accountant Submits Compiled Financial Statements To a Client That Are Not Reasonably Expected To Be Used by a Third Party

21. 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 8, par. 20 (AR 100.20)]

22. 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 8, par. 21 (AR 100.21)]

23. 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 8, par. 21 (AR 100.21)]

24. 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 8, par. 22 (AR 100.22)]
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.
[SSARS 1, par. 45 (AR 100.45)]

1. Does the review report include the following basic elements:
   a. A statement that the review has been performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants? ____________
   b. A statement that all information included in the financial statements is the representation of the management (owners) of the entity? ____________
   c. A statement that a review consists principally of inquiries of company personnel and analytical procedures applied to financial data? ____________
   d. A statement that a review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements taken as a whole and, accordingly, no such opinion is expressed? ____________
   e. A statement that the accountant is not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles, other than those modifications, if any, indicated in the report? ____________
   f. A signature of the accounting firm or the accountant as appropriate (for example, the signature could be manual, stamped, electronic, or typed)? ____________
   g. The date of the review report (the date of completion of the accountant’s review procedures should be used as the date of the accountant’s report)? ____________
[SSARS 1, par. 39, as amended by SSARS 9 (AR 100.39)]

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. 39, as amended by SSARS 9 (AR 100.39)]

3. If the accountant is not independent, is a disclaimer expressed and is a compilation report the highest level of service performed? ____________
[SSARS 1, pars. 19 and 45 (AR 100.19 and .45)]

4. 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. 46 and 47 (AR 100.46 and .47)]

5. 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. 47, fn. 29 (AR 100.47, fn. 29)]
6. Does each page of the financial statements include a reference such as “See Accountant’s Review Report”?  
[SSARS 1, par. 41, as amended by SSARS 9 (AR 100.41)]

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

7. When the basic financial statements are accompanied by information presented for supplementary analysis purposes, does the accountant clearly indicate the degree of responsibility, if any, he or she is taking with respect to such information?  
[SSARS 1, par. 60 (AR 100.60)]

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

8. When the accountant has reviewed the basic financial statements, has an explanation been included in the review report, or in a separate report on the other data; and does the report state that:

a. The review has been made primarily for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformance with generally accepted accounting principles?  

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

b. And either:

(1) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements and the accountant did not become aware of any material modifications that should be made to such data? or

(2) The other data accompanying the financial statements are presented only for supplementary analysis purposes and have not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but were compiled from information that is the representation of management, without audit or review and the accountant does not express an opinion or any other form of assurance on such data?  
[SSARS 1, par. 60, as amended by SSARS 9 (AR 100.60)]

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

9. Did the client provide a representation letter? (Note: If the answer is “no” the accountant is prohibited from issuing a review report. A compilation report may be appropriate in limited circumstances.)  
[SSARS 7, par. 66 (AR 100.66)]

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

10. If an audit engagement is changed to a review, does the report omit reference to:

a. The original engagement?  

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

b. Any auditing or review procedures that may have been performed?  

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

c. Any scope limitation that resulted in the changed engagement?  
[SSARS 1, par. 68 (AR 100.68)]

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

11. 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>
</table>

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, pars. 8–10 (AR 200.08–10)]

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>
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 financial statements of a prior period have been restated:
   a. If the successor accountant is not engaged to report on the prior year financial statements and the predecessor accountant does not reissue his or her report, does the introductory paragraph of the report indicate that a predecessor accountant reported on the financial statements of the prior period before restatement?
   [SSARS 2, pars. 25–27, as amended by SSARS 12 (AR 200.25–.27)]

16. 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. 29 (AR 200.29)]

17. If the use of a report is restricted by the accountant (e.g., when the subject matter of the accountant’s report or the presentation being reported on is based on measurement or disclosure criteria contained in contractual agreements or regulatory provisions that are not in conformity with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles), is there a separate paragraph at the end of the report that includes the following elements:
   a. A statement indicating that the report is intended solely for the information and use of the specified parties?
   b. An identification of the specified parties to whom use is restricted?
   c. A statement that the report is not intended to be and should not be used by anyone other than the specified parties?
   [SSARS 1, par. 58, as amended by SSARS 12 (AR 100.58)]

Predecessor’s Review Report

18. 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, as amended? (Note: The accountant should not name the predecessor accountant unless the predecessor’s practice was acquired by, or merged with, that of the successor accountant.) 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, as amended by SSARS 11 (AR 200.16–19)]

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

### Interim Financial Information

19. If, in conjunction with a filing with a regulatory agency in preparation for a public offering, the auditor is reviewing financial statements covering a period less than a full year or for a 12-month period ending on a date other than the entity’s fiscal year, does the review report conform to paragraphs 37–46 of SAS 100?  
[SAS 100, pars. 2 and 3 (AU 722.02 and .03)]

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FSP §6300
Illustrative Financial Statement Formats

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) 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents,* as amended. According to SAS 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.

* In September 2002, the Auditing Standards Board (ASB) issued SAS 98, Omnibus Statement on Auditing Standards—2002, which among other matters amends SAS 29 by clarifying the reporting guidance with respect to required supplementary information.
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, 2006, Sixtieth Edition.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Report form</td>
<td>506</td>
<td>504</td>
<td>506</td>
<td>507</td>
<td>494</td>
</tr>
<tr>
<td>Account form</td>
<td>94</td>
<td>96</td>
<td>94</td>
<td>92</td>
<td>105</td>
</tr>
<tr>
<td>Financial position</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>1</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>

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

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.

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 multiple-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.

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, 2006, Sixtieth 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>Income tax shown as separate last item</td>
<td>105</td>
<td>110</td>
<td>133</td>
<td>156</td>
<td>153</td>
</tr>
<tr>
<td>Income tax listed among 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 to show operating income</td>
<td>216</td>
<td>220</td>
<td>211</td>
<td>221</td>
<td>220</td>
</tr>
<tr>
<td>Costs deducted from sales to show gross margin</td>
<td>279</td>
<td>270</td>
<td>256</td>
<td>223</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>
</tr>
</tbody>
</table>

Examples of the single-step and multiple-step income statement formats are included as Exhibits 3 and 4 of this section.

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 130 provides examples of presentations of comprehensive income and its components in the statement of changes in equity.

**Statement of Cash Flows**

.16 SFAS 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 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.
### 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>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</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>(20__—$XXX,XXX; 20__—$XXX,XXX)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></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>Less: Allowance for doubtful accounts</strong></td>
<td></td>
<td></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></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>Prepaid expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></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></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>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></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>Goodwill</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Patents</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Other assets and deferred charges</strong></td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>

*(continued)*
<table>
<thead>
<tr>
<th>Liabilities and Shareholders’ Equity</th>
<th>20_</th>
<th>20_</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable (Note )</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Current portion of mortgage loan payable</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Current portion of obligations under capital leases</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Accounts payable—trade</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Income taxes payable (Notes )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Other accounts payable and accrued expenses</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Mortgage payable (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Obligation under capital leases (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Deferred income tax credits (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Minority interest</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Redeemable preferred stock (Note ): ___% cumulative, no par value—XXX shares authorized; XXX shares issued and outstanding</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Common stock, no par value—XXX shares authorized; XXX shares issued at stated value of $XX a share</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Capital in excess of stated value</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Less: XXX shares of common stock in treasury, at cost</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Commitments and contingent liabilities (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td></td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>
## ABC COMPANY

### Statement of Financial Position

**December 31, 20__ and 20__**

<table>
<thead>
<tr>
<th>Description</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<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 debt and equity securities (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Notes and accounts receivable, less estimated 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:**

<table>
<thead>
<tr>
<th>Description</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and accounts payable and accrued expenses (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Income taxes (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

**Working capital**

<table>
<thead>
<tr>
<th>Description</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable equity securities (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Equity in affiliated companies (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Property, plant, and equipment, at cost less accumulated depreciation (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Deferred charges and other assets</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Working capital and other assets</strong></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

**Deductions:**

<table>
<thead>
<tr>
<th>Description</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt (Note )</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Minority interest in consolidated subsidiary companies</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td><strong>Excess of assets over liabilities</strong></td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>

**Shareholders' equity:**

<table>
<thead>
<tr>
<th>Description</th>
<th>20__</th>
<th>20__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock, $XX par value—authorized XXX shares; issued and outstanding XXX shares</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Capital in excess of par value</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Commitments and contingent liabilities (Note )</td>
<td>$XXX,XXX</td>
<td>$XXX,XXX</td>
</tr>
</tbody>
</table>
Exhibit 3
Single-Step Income Statement

ABC COMPANY
Consolidated Statements of Income

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>20_</th>
<th>20_</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and other revenue:</td>
<td></td>
<td></td>
</tr>
<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>
<tr>
<td></td>
<td>XXX,XXX</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Cost and expenses:</td>
<td></td>
<td></td>
</tr>
<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>
<tr>
<td></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>Net income per share data:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$ X.XX</td>
<td>$ X.XX</td>
</tr>
<tr>
<td>Diluted</td>
<td>$ X.XX</td>
<td>$ X.XX</td>
</tr>
</tbody>
</table>
### 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>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>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>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>$ X.XX</td>
<td>$ X.XX</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___*

<table>
<thead>
<tr>
<th>Sales and other revenue:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other income</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost and expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Interest expense</td>
<td>XXX,XXX</td>
</tr>
</tbody>
</table>

| Income from operations before tax | XXX,XXX |
| Provision for income taxes        | — |

| Income before extraordinary item | XXX,XXX |
| Extraordinary item, net of tax   | (XXX,XXX) |

| Net income                      | XXX,XXX |

<table>
<thead>
<tr>
<th>Other comprehensive income, net of tax:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency translation adjustments</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td></td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>$XX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Defined benefit pension plans:¹</td>
<td></td>
</tr>
<tr>
<td>Prior service cost arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Net loss arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Less: amortization of prior service cost included in net periodic pension cost</td>
<td>XXX</td>
</tr>
</tbody>
</table>

| Other comprehensive income          | XX,XXX |
| Comprehensive income                | $ XX,XXX |

---

¹ This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.
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 items of comprehensive income. In that case, the comprehensive income section (the portion of the statement following "net income") might appear as follows:

<table>
<thead>
<tr>
<th>Other comprehensive income, before tax:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency translation adjustments</td>
<td>$XX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td></td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>$XX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(X,XXX) XX,XXX</td>
</tr>
<tr>
<td>Defined benefit pension plans:</td>
<td></td>
</tr>
<tr>
<td>Prior service cost arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Net loss arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Less: amortization of prior service cost included in net periodic pension cost</td>
<td>XXX (X,XXX)</td>
</tr>
<tr>
<td>Other comprehensive income, before tax</td>
<td>XX,XXX</td>
</tr>
<tr>
<td>Provision for income taxes related to items of other comprehensive income</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>$XX,XXX</td>
</tr>
</tbody>
</table>

---

2 See footnote 1.
### Exhibit 6

**Separate Statement of Comprehensive Income**

**ABC COMPANY**

Statement of Comprehensive Income  
Year Ended December 31, 20__

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(XXX,XXX) XXX,XXX</td>
</tr>
<tr>
<td>Defined benefit pension plans:³</td>
<td></td>
</tr>
<tr>
<td>Prior service cost arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Net loss arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Less: amortization of prior service cost included in net periodic pension cost</td>
<td>XXX (X,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 a items of comprehensive income. In that case, the statement would appear as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Other comprehensive income, before tax</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td>XXX,XXX</td>
</tr>
<tr>
<td>Unrealized holding gains arising during period</td>
<td>$XXX,XXX</td>
</tr>
<tr>
<td>Less: reclassification adjustment for gains included in net income</td>
<td>(XXX,XXX) XXX,XXX</td>
</tr>
<tr>
<td>Defined benefit pension plans:⁴</td>
<td></td>
</tr>
<tr>
<td>Prior service cost arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Net loss arising during period</td>
<td>(X,XXX)</td>
</tr>
<tr>
<td>Less: amortization of prior service cost included in net periodic pension cost</td>
<td>XXX (X,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>

³ See footnote 1.  
⁴ See footnote 1.
### 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>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>
</tbody>
</table>

#### Costs and expenses:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<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>
</tbody>
</table>

#### Income before income taxes

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31,</th>
</tr>
</thead>
<tbody>
<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>
</tbody>
</table>

#### Dividends declared:

|                                | Year Ended December 31, |
| Convertible preferred stock ($.XX per share) | (XXX,XXX) | (XXX,XXX) |
| Common stock (20_—$.XX per share; 20_—$.XX per share) | (XXX,XXX) | (XXX,XXX) |
|                                | (XXX,XXX) | (XXX,XXX) |

#### Retained earnings at end of year

|                                | Year Ended December 31, |
| Retained earnings at end of year | $XXX,XXX | $XXX,XXX |
| Net income per common share—basic (Note ) | $ X.XX | $ X.XX |
| Net income per common share—diluted (Note ) | $ X.XX | $ X.XX |
Exhibit 8

Statement of Cash Flows—Direct Method

ABC COMPANY

Statement of Cash Flows
for the Year Ended December 31, 20__

Cash flows from operating activities:
- Cash received from customers $ XXX,XXX
- Cash paid to suppliers and employees (XXX,XXX)
- Dividend received from investee XXX,XXX
- Interest received XXX,XXX
- Interest paid (net of amount capitalized) (XXX,XXX)
- Income taxes paid (XXX,XXX)
- Insurance proceeds received (XXX,XXX)
- Cash paid to settle lawsuit (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
- Principle payments under capital lease obligation (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

Reconciliation of net income to net cash provided by 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 installment note receivable for
      sale of inventory 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

Non-cash financing activities:
- Equipment capital leases XXX,XXX
- Conversion of preferred stock to common stock 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 Preparers and auditors of SEC-registrant financial statements are reminded that as discussed in SAB Topic 11M (SAB74), and AU 9410, Interpretation 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.).

.02 Auditors of SEC-registrant financial statements are reminded that Public Company Accounting Oversight Board’s (PCAOB) Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements, requires auditors to conduct two audits of their publicly traded clients: the traditional audit of financial statements and a new audit of internal control. The two audits are intended to be tightly integrated, with the same firm performing both, using the results of both to plan, perform, and report on the engagement. Auditors should refer to the PCAOB Auditing Standard No. 2 for an understanding of its requirements.
To the stockholders of ABC Company:

We have audited the accompanying consolidated balance sheets of ABC Company as of December 31, 20X3 and 20X2, 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 auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. 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, 20X3 and 20X2, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[Signature]
[Date]

*For audits of issuers, as defined by the Sarbanes-Oxley Act, and other entities when prescribed by the rules of the Securities and Exchange Commission (collectively referred to as “issuers”), Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 1, References in Auditors’ Reports to the Standards of the Public Company Accounting Oversight Board, replaces this sentence with the following sentence: “We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States).” On May 14, 2004, the SEC approved PCAOB Auditing Standard No. 1 and also issued an interpretive release to help with its implementation. The SEC’s interpretive release is designed to assist the PCAOB, registrants, auditors and investors by, among other things, addressing certain transitional implementation issues and clarifying the impact of Auditing Standard No. 1 on existing references in the SEC rules and regulations to “generally accepted auditing standards.” (See Release No. 33-8422 for more information.)

In June 2004, the Auditing Standards Board issued two auditing interpretations of SAS 58, Reports on Audited Financial Statements, which provide reporting guidance for audits of nonissuers. Interpretation 17, “Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards,” addresses how auditors may expand their independent auditing report to explain that their testing was sufficient to test the procedures of internal control over financial reporting, but not the effectiveness of the internal control. Interpretation 18, “Reference to PCAOB Standards in an Audit Report of a Nonissuer,” provides guidance on the appropriate referencing of PCAOB standards in auditing reports for those auditors who choose to follow PCAOB standards when auditing nonissuers. The ASB also has undertaken a project to determine what amendments, if any, should be made to SAS 58.
Sample Financial Statements

ABC COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 20X3 and 20X2

<table>
<thead>
<tr>
<th>Assets (In thousands)</th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<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 13)</td>
<td>503</td>
<td>449</td>
</tr>
<tr>
<td>Other current assets</td>
<td>908</td>
<td>333</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>52,647</td>
<td>51,040</td>
</tr>
<tr>
<td><strong>Property, Plant, and Equipment, at cost (Note 6)</strong></td>
<td>11,302</td>
<td>11,683</td>
</tr>
<tr>
<td><strong>Deferred Tax Assets (Note 12)</strong></td>
<td>1,009</td>
<td>714</td>
</tr>
<tr>
<td><strong>Other Assets (Note 7)</strong></td>
<td>1,264</td>
<td>1,258</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$66,222</strong></td>
<td><strong>$64,695</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Stockholders' Equity (In thousands, except share data)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings (Note 8)</td>
<td>$ 4,875</td>
<td>$ 6,960</td>
</tr>
<tr>
<td>Current maturities of long-term debt (Note 9)</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><strong>Long-Term Debt (Note 9)</strong></td>
<td>12,517</td>
<td>11,189</td>
</tr>
<tr>
<td><strong>Other Long-Term Liabilities</strong></td>
<td>675</td>
<td>797</td>
</tr>
<tr>
<td><strong>Commitments and Contingent Liabilities (Note 14)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>34,626</strong></td>
<td><strong>35,265</strong></td>
</tr>
</tbody>
</table>

| Stockholders' Equity (Notes 8 and 10): |        |        |
| Class A Common stock, issued 5,094,370 shares in 20X3 and 5,089,370 shares in 20X2 | 51     | 51     |
| Paid-in capital | 17,559 | 17,559 |
| Retained earnings | 11,967 | 10,598 |
| Accumulated other comprehensive income | 2,298  | 1,501  |
| Treasury stock—at cost, Class A Common stock, 128,000 shares | (279)  | (279)  |
| **Total Stockholders’ Equity** | 31,596 | 29,430 |
| **Total Liabilities and Stockholders’ Equity** | **$66,222** | **$64,695** |

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Income
For the Two Years Ended December 31, 20X3

(In thousands, except per share)

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$131,383</td>
<td>$117,131</td>
</tr>
<tr>
<td>Costs of goods sold</td>
<td>117,885</td>
<td>103,333</td>
</tr>
<tr>
<td>Selling, general, and administrative expenses</td>
<td>11,223</td>
<td>10,707</td>
</tr>
<tr>
<td>Interest expense</td>
<td>1,420</td>
<td>1,033</td>
</tr>
<tr>
<td>Other (income) expense</td>
<td>(278)</td>
<td>(138)</td>
</tr>
<tr>
<td>Total Costs and Expenses</td>
<td>130,250</td>
<td>114,935</td>
</tr>
<tr>
<td>Income Before Income Taxes</td>
<td>1,133</td>
<td>2,196</td>
</tr>
<tr>
<td>Income Tax Benefit (Note 12)</td>
<td>(236)</td>
<td>(524)</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 1,369</td>
<td>$ 2,720</td>
</tr>
<tr>
<td>Earnings Per Common Share (Note 11)</td>
<td>$ 0.XX</td>
<td>$ 0.XX</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income  
For the Two Years Ended December 31, 20X3

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th></th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$1,369</td>
<td>Net income</td>
<td>$2,720</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td></td>
<td>Other comprehensive income, net of tax</td>
<td></td>
</tr>
<tr>
<td>Unrealized gains on securities</td>
<td></td>
<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>$967</td>
<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 $57)</td>
<td>(170)</td>
<td>Less: reclassification adjustment for gains included in net income (net of income taxes of $31)</td>
<td>(122)</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$2,166</td>
<td>Comprehensive income</td>
<td>$2,762</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Two Years Ended December 31, 20X3

(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows From Operating Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$1,369</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>336</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>(575)</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>Net Cash Provided (Used) by Operating Activities</td>
<td>1,259</td>
<td>(2,914)</td>
</tr>
</tbody>
</table>

| **Cash Flows From Investing Activities:** |       |       |
| Proceeds from sales of marketable securities | 983    | 587   |
| Purchases of marketable securities        | (1,436)| (491)|
| Proceeds from sale of property, plant, and equipment | 2,983  | 1,054 |
| Capital expenditures on property, plant, and equipment | (2,037)| (1,400)|
| Net Cash Provided (Used) by Investing Activities | 493    | (270)|

| **Cash Flows From Financing Activities:** |       |       |
| (Repayments) proceeds of revolving agreement borrowings | (2,085)| 3,710 |
| Repayment of long-term debt                | (463)  | (543) |
| Proceeds from issuance of long-term debt   | 869    |       |
| Net Cash Provided (Used) by Financing Activities | (1,679)| 3,167|

| **Net Increase (Decrease) in Cash and Cash Equivalents** | 73    | (17)  |
| Cash and Cash Equivalents at Beginning of Year | 590   | 607   |
| Cash and Cash Equivalents at End of Year     | $663  | $590  |

**Supplemental Disclosures of Cash Flow Information:**

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</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 20X3 and 20X2, 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.

FSP §6500.07
ABC COMPANY AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity  
For the Two Years Ended December 31, 20X3  

<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, 20X2</td>
<td>$51</td>
<td>$17,559</td>
<td>$7,878</td>
<td>$1,459</td>
<td>$(279)</td>
<td>$26,668</td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,720</td>
<td>2,720</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>42</td>
</tr>
<tr>
<td><strong>Balance, December 31, 20X2</strong></td>
<td><strong>51</strong></td>
<td><strong>17,559</strong></td>
<td><strong>10,598</strong></td>
<td><strong>1,501</strong></td>
<td><strong>(279)</strong></td>
<td><strong>29,430</strong></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,369</td>
<td>1,369</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>797</td>
</tr>
<tr>
<td><strong>Balance, December 31, 20X3</strong></td>
<td><strong>$51</strong></td>
<td><strong>$17,559</strong></td>
<td><strong>$11,967</strong></td>
<td><strong>$2,298</strong></td>
<td><strong>$(279)</strong></td>
<td><strong>$31,596</strong></td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
ABC COMPANY AND SUBSIDIARIES
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 20X3 and 20X2.

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.

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, 20X3 and 20X2, respectively.

During the years ended December 31, 20X3 and 20X2, 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, 20X3 and 20X2 were $43 and $56, respectively.

Note 3: Marketable Debt and Equity Securities

Investments in marketable debt and equity securities at December 31, 20X3 and 20X2, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Gross Unrealized Gain</th>
<th>Gross Unrealized Losses</th>
<th>Estimated Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 20X3:</strong></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><strong>December 31, 20X2:</strong></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, and the corporate debt securities, mature in 20X4. 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, 20X3 and 20X2, respectively. The cost of securities sold is based on the specific identification method.

Proceeds from the sale of available for sale securities during 20X3 and 20X2 were $___ and $___, respectively. Gross gains of $___ and $___, and gross losses of $___ and $___ were realized on sales of available for sale securities during 20X3 and 20X2, respectively.

† The following disclosures for investments in marketable debt and equity securities are presented to help practitioners ensure compliance with the disclosure requirements of SFAS 115, as amended, and are not necessarily relevant or properly tailored to the financial statements presented in this section.
Total gains for securities with net gains in accumulated other comprehensive income were $____ and $____ during 20X3 and 20X2, respectively. Total losses for securities with net losses in accumulated other comprehensive income were $____ and $____ during 20X3 and 20X2, respectively.

**Note 4: Accounts Receivable**

At 20X3 and 20X2, accounts receivable is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</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 20X3 and 20X2, inventories are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</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, Plant, and Equipment**

At 20X3 and 20X2, property, plant, and equipment is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</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 20X3 and 20X2, 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>Total</td>
<td>21,781</td>
<td>27,559</td>
</tr>
<tr>
<td>Less:</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>Net property, plant, and equipment</td>
<td>$11,302</td>
<td>$11,683</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, 20X3:

FSP §6500.09
Illustrative Financial Statements, Notes, and Auditor’s Report

(In thousands) Amount

Year ending December 31,
20X4  $ 859
20X5  832
20X6  783
20X7  588
20X8 and thereafter  747
Total minimum lease payments  3,809
Less amount representing interest  659
Total present value of minimum payments  3,150
Less current portion of such obligations  633
Long-term obligations with interest rates ranging from 6.92% to 11.42%  $2,517

Note 7: Other Assets

At December 31, 20X3 and 20X2, 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 8: Short-Term Borrowings

Effective November 1, 20X3, 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, 20X3, the Company was in compliance with all of the agreement’s covenants. At December 31, 20X3, 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, 20X3. At December 31, 20X3, $12,485,000 was available for future dividend payments.

Note 9: Long-Term Debt and Related Matters

Long-term debt at December 31, 20X3 and 20X2, consists of the following:

(In thousands) 20X3  20X2
Revolving Credit Agreement with weighted average interest rate of 6.57% at December 31, 20X3, and 7.33% at December 31, 20X2, expiring July 1, 20X9 $10,000 $10,000
Lease obligations payable in installments through 20Y2 with a weighted average interest rate of 8.0% at December 31, 20X3, and 9.45% at December 31, 20X2  3,150  1,588
Subtotal  13,150  11,588
Less current maturities  633  399
Total  $12,517 $11,189

FSP §6500.09
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 20X4.

The maturities of long-term debt for each of the succeeding five years subsequent to December 31, 20X3, are as follows: 20X4—$633,000; 20X5—$656,000; 20X6—$661,000; 20X7—$10,515,000; and 20X8 and beyond—$1,085,000.

**Note 10: Stockholders' Equity**

At December 31, 20X3 and 20X2, 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>20X3</th>
<th>20X2</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 11: Earnings Per Common Share**

Earnings per common share are computed by dividing net income by the average number of Class A Common shares outstanding during the year. The weighted average number of Class A Common shares outstanding during the year ended December 31, 20X3, were approximately _______ and approximately _______ during the year ended 20X2.

**Note 12: Income Taxes**

At December 31, 20X3, 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, 20X3. The Company also has alternative minimum federal tax credit carryforwards at December 31, 20X3, 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, 20X3 and 20X2, are as follows:

FSP §6500.09
(In thousands)  

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred tax liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$614</td>
<td>$301</td>
</tr>
<tr>
<td>Other—net</td>
<td>(31)</td>
<td>34</td>
</tr>
<tr>
<td><strong>Total deferred tax liabilities</strong></td>
<td>583</td>
<td>335</td>
</tr>
<tr>
<td><strong>Deferred tax assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating loss carryforwards</td>
<td>1,709</td>
<td>2,248</td>
</tr>
<tr>
<td>Tax credit carryforwards</td>
<td>486</td>
<td>443</td>
</tr>
<tr>
<td>Other—net</td>
<td></td>
<td>157</td>
</tr>
<tr>
<td><strong>Total deferred tax assets</strong></td>
<td>2,195</td>
<td>2,848</td>
</tr>
<tr>
<td>Valuation allowance for deferred tax assets</td>
<td>100</td>
<td>1,350</td>
</tr>
<tr>
<td><strong>Deferred tax assets</strong></td>
<td>2,095</td>
<td>1,497</td>
</tr>
<tr>
<td><strong>Net deferred tax assets</strong></td>
<td>$1,512</td>
<td>$1,163</td>
</tr>
</tbody>
</table>

The valuation allowance for deferred tax assets was reduced by $1,249,550 and $1,187,000 during 20X3 and 20X2, respectively.

Significant components of the provision for income taxes are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>$51</td>
<td>$41</td>
</tr>
<tr>
<td>State</td>
<td>63</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total current</strong></td>
<td>114</td>
<td>90</td>
</tr>
<tr>
<td><strong>Deferred:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>(170)</td>
<td>(591)</td>
</tr>
<tr>
<td>State</td>
<td>(180)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Total deferred</strong></td>
<td>(350)</td>
<td>(614)</td>
</tr>
<tr>
<td><strong>Total income tax benefit</strong></td>
<td>$(236)</td>
<td>$(524)</td>
</tr>
</tbody>
</table>

The reconciliation of income tax computed at statutory rates of income tax benefit is as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X3</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory rate</td>
<td>34.0%</td>
<td>34.0%</td>
</tr>
<tr>
<td>State income tax</td>
<td>(3.0)</td>
<td>0.7</td>
</tr>
<tr>
<td>Nondeductible expenses</td>
<td>3.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Net operating loss</td>
<td>(22.9)</td>
<td>(28.6)</td>
</tr>
<tr>
<td>Change in valuation reserve</td>
<td>(30.2)</td>
<td>(25.5)</td>
</tr>
<tr>
<td>Prior period tax</td>
<td>13.2</td>
<td>(11.5)</td>
</tr>
<tr>
<td>Other</td>
<td>(1.3)</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>(7.2)%</strong></td>
<td>(23.9)%</td>
<td></td>
</tr>
</tbody>
</table>

**Note 13: Rental and Lease Information**

The Company leases certain plant facilities, office facilities, and equipment. Rental expense for the years ended December 31, 20X3 and 20X2, amounted to $933,500 and $846,500, respectively.

At December 31, 20X3, 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: 20X4—$431,500; 20X5—$188,500; 20X6—$43,500; 20X7—$35,000; and 20X8—$10,000.
Note 14: 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, 20X3, the Company had outstanding letters of credit of approximately $564,000.

Note 15: 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 16: 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, 20X3, approximate fair value.
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