Checklists and illustrative financial statements for finance companies: a financial reporting practice aid, November 1990 edition

American Institute of Certified Public Accountants. Technical Information Division

J. Byrne Kelly

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Checklists and Illustrative Financial Statements for Finance Companies
A FINANCIAL REPORTING PRACTICE AID
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Checklists and Illustrative Financial Statements for Finance Companies
A FINANCIAL REPORTING PRACTICE AID

Prepared by

J. Byrne Kelly, CPA
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American Institute of Certified Public Accountants
The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

- The checklists and illustrative financial statements have been updated through SAS No. 63, SSARS No. 6, FASB Statement of Financial Accounting Standards No. 105, FASB Interpretation No. 38, and FASB Technical Bulletin No. 88-2. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

- The checklists and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standard should be reviewed if clarification is desired as to whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being examined.

Users of these checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover). The author wishes to acknowledge the assistance of his colleague, Steven Moliterno, CPA, who served as consultant on this project.

John Graves
Director
Technical Services
# Checklist and Illustrative Financial Statements for Finance Companies

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INTRODUCTION

.01 Finance companies provide lending and financing services to consumers and business enterprises. The provisions of the AICPA Industry Audit Guide apply to independent and captive financing activities. It does not apply to banks, savings and loan associations, credit unions, or insurance companies because those entities are covered by other industry audit guides. However, the Finance Companies Audit Guide does apply to finance company subsidiaries of such entities.

.02 Numerous state and federal statutes affect finance companies' operations. Some statutes apply only to specific types of activities. Regulations affecting finance companies generally are limited to matters such as loan amounts, repayment terms, interest rates, and collateral; they generally do not deal with financial accounting and reporting.

.03 Common accounting and reporting by finance companies include:

- Accrual basis of accounting is the only acceptable basis of accounting under GAAP. Some finance companies may report certain immaterial revenue and expense items on a cash or modified cash basis.

- Finance companies usually prepare a non-classified balance sheet.

- The income statement may be reported on a "net interest income" basis. (Interest expense is deducted from interest revenues to arrive at net interest income.)

- Alternately, the income statement may emphasize interest revenues with interest expense included with other operating expenses.

- The provision for loans losses usually is reported as a deduction from net interest income, where the net interest income format is used.

- The recognition of interest income on finance receivables should be based on the interest method. The use of the Rule of 78's, the combination method, and the cash method is no longer considered acceptable.

- Inclusion of interest as a holding cost in determining the carrying amount of repossessed collateral expected to be held for more than a brief period is acceptable.

- GAAP applicable to business entities in general apply to finance companies.
Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use, and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids which may be available to other practitioners as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, and Accounting Research Bulletins. Some checklists also include references to FASB Interpretations and Industry Audit Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03. Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used in this booklet is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements" and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

- The checklists are not all-inclusive and are not intended to present minimum requirements.
Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.
Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

ARB = Accounting Research Bulletin
APB = Accounting Principles Board Opinion
SFAS = Statement of Financial Accounting Standards
SAS = Statement on Auditing Standards
FASBI = Financial Accounting Standards Board Interpretation
TB = Technical Bulletin issued by the staff of the FASB
AC = Reference to section number in FASB Accounting Standards Current Text
AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited
IAG = Industry Audit Guide, Audits of Finance Companies
SOP = AICPA Statement of Position

.03 Checklist Questionnaire

General

A. Titles and References

1. Are the financial statements suitably titled?
   [SAS 62, par. 7 (AU 623.07)]

---

1The FASB staff issues FASB Technical Bulletins to provide guidance concerning the application of FASB Statements or Interpretations, APB Opinions, or Accounting Research Bulletins. FASB Technical Bulletins do not establish new financial accounting and reporting standards or amend existing standards.
2. Does each statement include a general reference to the notes saying that they are an integral part of the financial statement presentation? 
[(AU 411.04 and AU 431.02)]

B. Disclosure of Accounting Policies

1. Is a description of all significant accounting policies of the reporting entity presented as an integral part of the financial statements? 
[APB 22, par. 8 (AC A10.102)]

2. Does disclosure of significant accounting policies encompass important judgments as to appropriateness of principles concerning recognition of revenue, and allocation of asset costs to current and future periods? 
[APB 22, par. 12 (AC A10.105); TB 82-1, par. 7 (AC I25.506)]

3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? 
[APB 22, par. 14 (AC A10.107)]

C. Accounting Changes

1. For all changes in accounting principles, are the following disclosures made in the year of change:
   a. Nature of the change? 
   [APB 20, pars. 17 and 19 (AC A06.113 and .115)]
   b. Justification for the change? 
   c. Effect on income before extra-ordinary items and on net income? 
   d. Effect on related per share amounts? 
   [APB 20, pars. 19-21, 25 (AC A06.115-.118 and .121)]

2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? 
[APB 20, pars. 19-21, 25 (AC A06.115-.118 and .121)]
3. For changes in the method of accounting for postretirement life insurance and health care benefits, are appropriate disclosures made?
   [TB 87-1, par. 4 (AC P50.503)]

4. For those changes in accounting principles requiring restatement of prior periods, is the effect of the change disclosed for all periods presented?
   [APB 20, pars. 28 and 35 (AC A06.124 and A35.113)]

5. Have the applicable AICPA Statements of Position and Guides listed in Appendix A to SFAS 83 (AC section A06 Exhibit 112A) been considered in justification of a change in accounting principle?
   [SFAS 32, pars. 10-11 (AC A06.112); APB 20, par. 16 (AC A06.112); SFAS 83, pars. 5-6 (AC A06.112)]

6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:
   a. Effect on income before extraordinary items and on net income?

6. For a change in accounting estimate affecting several future periods, are the following disclosures made in the year of change:
   a. Effect on income before extraordinary items and on net income?

b. Effect on related per share amounts?
   [APB 20, par. 33 (AC A06.132)]

7. Is the correction of an error shown as a prior period adjustment with disclosure of the following in the period of its discovery and correction:
   a. Nature of the error in previously issued financial statements?
   b. Effect of its correction on income before extraordinary items, net income (and related per share amounts)?
   [APB 20, pars. 36-37 (AC A35.105); SFAS 96, par. 205m (AC A35.103)]

8. If interim financial data and disclosures are not separately reported for the fourth quarter, and an accounting change is made during the fourth quarter, is disclosure made in the year of change of:
a. The effect on the interim periods?  

b. Cumulative effect?  
   [APB 28, par. 31. SFAS 3, par. 14  
   (AC I73.147)]

D. Comparative Financial Statements

1. Have comparative statements been considered?  
   [ARB 43, Ch. 2A, pars. 1-2 (AC F43.101-.102)]

2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, 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)]

3. If changes have 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)]

E. Business Combinations

1. If a business combination occurred during the period and met the specified conditions for a pooling of interests:  
   [APB 16, pars. 45-48 (AC B50.104-.107)]
   a. Has the required accounting method been applied?  
      [APB 16, pars. 50-62 (AC B50.109-.121)]
   b. Do the statements and notes include the required disclosures?  
      [APB 16, pars. 63-65 (AC B50.122-.124)]

2. If a business combination does not meet the specified conditions for a pooling of interests:
   a. Has the combination been accounted for by the purchase method?  
      [APB 16, pars. 66-94; SFAS 96 pars. 23 and 205c (AC B50.125-.147A and .159-.163); SFAS 38 (AC B50.148-.150 and
b. Do the statements and notes include the required disclosures?
   [APB 16, pars. 95-96 (AC B50.164-.165)]  
   Yes  No  N/A

3. If significant, has the amount of net operating loss or tax credit carryforwards for which any tax benefits will be applied to reduce goodwill and other noncurrent assets (of an acquired enterprise) been disclosed separately?
   [SFAS 96, par. 29 (AC I25.128 and 187)]  
   Yes  No  N/A

4. If financial statements for prior years are restated, have all purchase business combinations that were consummated in those prior years been remeasured in accordance with the requirements of SFAS 96?
   [SFAS 96, par. 35]  
   Yes  No  N/A

F. Consolidations

1. If consolidated statements are presented:

   a. Is the consolidation policy disclosed?
      [ARB 51, par. 5 (AC C51.108); APB 22, par. 13 (AC A10.106)]  
      Yes  No  N/A

   b. Are intercompany balances and transactions eliminated?
      [ARB 51, par. 6 (AC C51.109)]  
      Yes  No  N/A

   c. In instances when the financial reporting periods of subsidiaries differ from that of the parent, is recognition given to the effect of intervening events that materially affect financial position or the results of operations?
      [ARB 51, par. 4 (AC C51.107); SFAS 12, pars. 18-20 (AC I89.112-.114); FASBI 13 (AC I89.120-.122)]  
      Yes  No  N/A
2. Are the accounts of majority-owned subsidiaries consolidated?  
   [SFAS 94, par. 13 (AC C51.103)]

3. If the consolidated financial statements include more than one accepted practice of accounting for marketable securities, are the required disclosures for the various methods disclosed?  
   [SFAS 12, par. 20 (AC I89.114)]

4. If summarized information about the assets, liabilities, and results of operations (or separate statements) of unconsolidated majority-owned subsidiaries was disclosed in the financial statements for fiscal years 1986 and 1987, is that information disclosed in the current year's consolidated financial statements or notes?  
   [SFAS 94, par. 14 (AC C51.120A), IAG, page 73]

G. Related Party Transactions and Economic Dependency

1. For related party transactions do disclosures include:

   a. The nature of the relationship(s) involved (e.g., parent, subsidiary and affiliate companies, officers, stockholders, etc.)?

   b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?

   c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?

   d. Amounts due from or to related parties as of the date of each balance sheet
presented and, if not otherwise apparent, the terms and manner of settlement?

[SFAS 57, pars. 2-4 (AC R36.102-.104)]

e. If part of a group that files a consolidated tax return, is the amount of current and deferred tax expense disclosed for each of the periods for which income statements are presented and the amount of any tax-related balance due to or from affiliates as of the date of each balance sheet presented?

f. Are the principal provisions of the method in which current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in the method disclosed for each of the periods for which income statements are presented?

[SFAS 96, par. 30 (AC I25.129)]

2. Is information about economic dependency disclosed when necessary for a fair presentation?

[SFAS 21, par. 9 (AC S20.103)]

3. Is the nature of a controlled relationship disclosed, even though there are no transactions between the enterprises, if the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of the control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprise were autonomous?

[SFAS 57, pars. 2 and 4 (AC R36.102 and .104)]

H. Financial Instruments

1. Does the entity have a financial instrument that is:

   a. Cash in banks or on hand, or

   b. Evidence of an ownership interest in an entity, or
c. A contract that both:

(1) Imposes on one entity a contractual obligation (liability)
   
   (i) To deliver cash or financial instrument to a second entity or

   (ii) To exchange financial instruments on potentially unfavorable terms with the second entity?

(2) Conveys to that second entity a contractual right:

   (i) To receive cash or another financial instrument from the first entity or

   (ii) To exchange other financial instruments on potentially favorable terms with the first entity?

   [SFAS 105, par. 6 (AC F25.106)]

2. For financial instruments with off-balance-sheet risk, (except for those excluded in the statement) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:\(1\)

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

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

   (1) The credit and market risk of those instruments?

---

\(1\)Practices for grouping and separately identifying--classifying--similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In this Statement, class of financial instrument refers to those classifications.
(2) The cash requirements of those instruments?  

(3) The related accounting policy pursuant to the requirements of APB Opinion No. 22, "Disclosure of Accounting Policies"? Or [SFAS 105, par. 17 (AC F25.112)]

3. For financial instruments with off-balance-sheet risk, (except as noted above in H.2.) was the following disclosed either in the body of the financial statements or in the notes by class of financial instrument:

a. The amount of accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity?  

b. 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?  

[SFAS 105, par. 18 (AC F25.113)]

4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from individual counterparty or groups of counterparties, (except for certain insurance and investment contracts, purchase and pension obligations) include the following:

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

b. The amount of the accounting loss due to credit risk 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? ___ ___ ___

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

I. Foreign Currency

1. Is the aggregate transaction gain or loss included in net income for the period disclosed? ___ ___ ___

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

2. Does the analysis of changes during the period in the separate component of equity for cumulative translation adjustments 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? ___ ___ ___

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

d. The amounts transferred from cumulative translation adjustments and included in the determination of net income for the period as a result of the sale or complete or substantially complete liquidation of an investment in a foreign entity? ___ ___ ___

[SFAS 52, par. 31 (AC F60.141)]

3. Are rate changes occurring after the date of the financial statements and the effects on unsettled balances related to foreign currency translations disclosed, if significant? ___ ___ ___

[SFAS 52, par. 32 (AC F60.142)]
4. Are any foreign earnings reported in addition to amounts received in the United States disclosed, if significant? [ARB 43, Ch. 12, par. 5 (AC F65.102)]

5. Has disclosure of principal amounts of spot and forward exchange contracts been considered? [SFAS 80 (AC F80)]

J. Contingencies and Commitments

1. Are the nature and amount of accrued loss contingencies disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, par. 9 (AC C59.108)]

2. For loss contingencies not accrued, do disclosures indicate:
   a. Nature of the contingency?
   b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, par. 10 (AC C59.109 and .111)]

3. Are the nature and amount of guarantees disclosed (for example, obligations under standby letters of credit, guarantees to repurchase loans that have been sold)? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1-3 (AC C59.114)]

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

5. Is there adequate disclosure of commitments such as those for capital expenditures, for purchase or sale of securities under financial futures contracts, and for funding of loans? [SFAS 5, pars. 18-19 (AC C59.120); FASB 80 (AC F80)]
K. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provided additional evidence with respect to conditions that existed at the date of the balance sheet? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03-.04, 560.07 and 561.01-.09 (AU 560.03-.04, 560.07 and 561.01-.09)]

2. Are subsequent events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); (APB 16, par. 61 (AC B50.120) and SAS 1, secs. 560.05-.07, 560.09 and 561.01-.09 (AU 560.05-.07, 560.09 and 561.01-.09)]

L. Pension Plans—[For defined benefit pension plans, accounting and reporting by the plans themselves should be in conformity with SFAS 35 (AC Pe35)]

1. If there is a defined benefit plan, do disclosures include:

   a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented?

   b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components?

   Note: The net total of other components is the net effect during the period of certain delayed recognition provisions of SFAS 87 [AC P16]. That net total includes:
(1) The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)  

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<tr>
<th>Yes</th>
<th>No</th>
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(2) Amortization of the net gain or loss from earlier periods  

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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(3) Amortization of unrecognized prior service cost  

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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(4) Amortization of the unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 [AC 16].  

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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:

(1) The fair value of plan assets?  

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<th>Yes</th>
<th>No</th>
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(2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation?  

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<tr>
<th>Yes</th>
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(3) The amount of unrecognized prior service cost?  

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<th>Yes</th>
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(4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)?  

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<th>Yes</th>
<th>No</th>
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(5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of SFAS 87 (AC 16)?  

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<th>Yes</th>
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(6) The amount of any additional liability recognized pursuant to SFAS 87, paragraph 36 (AC 16.130)?  

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<tr>
<th>Yes</th>
<th>No</th>
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(7) The amount of net pension asset or liability recognized in the statement of financial position
pursuant to SFAS 87, paragraphs 35-36 (AC P16.129-.130) (which is the net result of combining the preceding six items)?

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<th>Yes</th>
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d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets?

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<tr>
<th>Yes</th>
<th>No</th>
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e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties?

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<th>Yes</th>
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f. If applicable, the alternative amortization method used pursuant to SFAS 87, paragraphs 26 and 33 [AC P16.120 and .127], and the existence and nature of the commitment discussed in SFAS 87 paragraph 41 [AC P16.135]?

<table>
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<th>Yes</th>
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g. If more than one defined benefit plan exists:

(1) Have the required disclosures above been aggregated for all of the employer's single employer defined benefit plans or disaggregated in groups so as to provide the most useful information?

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
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(2) Are plans with assets in excess of accumulated benefit obligations not aggregated with plans that have accumulated benefit obligations that exceed plan assets?

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<th>Yes</th>
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(3) Are disclosures for plans outside the U.S. not combined with those for U.S. plans unless
those plans use similar economic assumptions?
[SFAS 87, par. 56 (AC P16.153)]

Yes  No  N/A

2. If there is a defined contribution plan, do disclosures include:

a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented?

b. The amount of cost recognized during the period?
[SFAS 87, par. 65 (AC P16.162)]

c. If the pension plan has characteristics of both a defined benefit plan and a defined contribution plan:

(1) Is the substance of the plan to provide a defined benefit?

(2) If answer is yes, are disclosures required for a defined benefit plan made?
[SFAS 87, par. 66 (AC P16.163)]

3. If there is a multiemployer plan, do disclosures include:

a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented?

b. The amount of cost recognized during the period?
[SFAS 87, par. 69 (AC P16.166)]

c. If the situation arises where the withdrawal from a multiemployer plan may result in the employer having an obligation to the plan for a portion of its unfunded benefit obligations
which is either probable or reasonably possible, have the provisions of SFAS 5 (AC C59) been applied?

[SFAS 87, par. 70 (AC P16.167)]

4. If there is a settlement and/or curtailment of a defined benefit pension plan and/or termination benefits under such plan, do disclosures include:

a. A description of the nature of the event(s)?

b. The amount of gain or loss recognized?

[SFAS 88, par. 17 (AC P16.187)]

M. Postretirement Health Care and Life Insurance Benefits

1. Do disclosures include:

a. Description of benefits and employee groups covered?

b. Description of accounting and funding policies?

c. Cost of benefits recognized during the period?

d. Effect of significant matters affecting the comparability of the costs recognized for all periods presented?

[SFAS 81, par. 6 (AC P50.102)]

N. Futures Contracts

1. If a futures contract is designated a hedge:

a. Does the item to be hedged expose the enterprise to price (or interest rate) risk?

b. Does the futures contract reduce the exposure to risk and is it designated as a hedge?

[SFAS 80, par. 4 (AC F80.104 and .404)]

2. If the futures contract hedges an anticipated transaction:
a. Are the significant characteristics and expected terms of the anticipated transaction identified?  
   — — —  
b. Is it probable that the anticipated transaction will occur?  
   [SFAS 80, par. 9 (AC F80.109)]  
   — — —  
3. If a futures contract is accounted for as a hedge, does the disclosure include:  
   a. The nature of the assets, liabilities, firm commitments, or anticipated transactions that are hedged with futures contracts?  
   — — —  
b. The method of accounting for the futures contract including a description of the events or transactions that result in recognition in income of changes in value of the futures contracts?  
   [SFAS 80, par. 12 (AC F80.112)]  
   — — —  
O. Other Matters  
1. If required [SFAS 21 (AC S20)], does the financial statement presentation include segment information?  
   [SFAS 14 (AC S20); SFAS 24 (AC S20.109–110); SFAS 30 (AC S20.145); and TBS 79-4, 79-5 and 79-8 (AC S20.501–507)]  
   — — —  

Balance Sheet  
A. Investment Securities  
1. If significant, is the amount of the insurance subsidiary's marketable securities deposited with state regulatory authorities disclosed?  
   [IAG, Page 72]  
   — — —  
2. Are appropriate disclosures made for marketable equity securities?  
   [SFAS 12, Par. 12 (AC I89.106)]  
   — — —
B. Mortgage Loans and Mortgage-Backed Securities
   Held for Sale

   1. Are mortgage loans and mortgage-backed securities held for sale distinguished from mortgage loans and mortgage-backed securities held for long-term investment?
   [SFAS 65, par. 28 (AC Mo4.129)]

   2. Are mortgage loans and mortgage-backed securities held for sale reported at lower of cost or market value?
   [SFAS 65, par. 4 (AC Mo4.105)]

   3. Is the method used in determining lower of cost or market value disclosed (i.e., individual vs. aggregate method)?
   [SFAS 65, par. 29 (AC Mo4.130)]

   4. If right to service mortgage loans was acquired, is the following information disclosed:
      a. Amount capitalized during period in acquiring right to service?
      [SFAS 65, par. 30 (AC Mo4.131)]
      b. Method of amortizing capitalized amount?
      c. Amount of amortization for the period?

C. Receivables

   1. Are both interest-bearing (simple interest) and precomputed (discount) loans classified as finance receivables?
   [IAG, page 11]

   2. Are discount and interest-bearing loans presented similarly on the balance sheet (i.e., discount loans are presented net of unearned interest)?
   a. If a company desires to report the gross amount of a discount loan and the related unearned interest or discount, is the amount of unearned interest or discount disclosed in a note and not on the balance sheet?
   [IAG, page 21]
3. Are the unamortized balance of loan origination, commitment and other fees and costs, and any purchase premiums and discounts classified on the balance sheet as part of the loan balance to which they relate?  
[IAG, page 21]

4. Is the composition of finance receivables disclosed either in the balance sheet or in the notes to financial statements in a manner that best sets forth the kinds of risks and liquidity involved?  
   a. Is the amount of accrued interest included in the finance receivables?  
   b. Is the amount of nonearning assets represented by consumer and commercial loans for which accrual has been suspended separately disclosed?  
   c. Is there disclosure of information about the terms and maturities of finance receivables?  
   d. If contractual maturity data is not considered relevant, is data on prior collection experience disclosed?  
   [IAG, page 22]

5. Are participations classified as finance receivables net of the portions sold or at the net amount bought?  
   a. Is the amount of such participations combined with other finance receivables on the balance sheet?  
   b. If material in relation to total receivables has the amount of participations been disclosed?  
   c. If participations are, in substance, other than a pro rata sharing of risk, have they been accounted for as a liability on the balance sheet?  
   [IAG, page 64]
6. Are unearned premiums and unpaid claims on certain credit life and credit accident and health insurance policies deducted from finance receivables on the face of the consolidated balance sheet?  

   a. If not, does the balance sheet present only the net finance receivables if the notes to the financial statements contain sufficient disclosure of unearned premiums and unpaid claims and the allowance for losses?  
   [IAG, page 74]  

7. Are related party transactions such as loans to officers, directors and employees (and loans to organizations with which such individuals are affiliated) disclosed?  
   [IAG, pages 23 and 43]  

8. For receivables involved in troubled debt restructurings, are the following disclosed by major category of loans as of each balance sheet presented:  
   a. Aggregate recorded investment?  
   b. Gross interest income that would have been recorded if loans had been current per their original terms and had been outstanding throughout the period or since origination?  
   c. Amount of interest income included in net income?  
   d. Amounts of any commitment to lend additional funds to debtors owing restructured troubled loans?  
   [SFAS 15, pars. 40-41 (AC D22.136-.137); TBS 79-6 and 79-7 (AC D22.501-.505)]  

9. For loans sold with recourse:  
   a. Was a sale recognized only if:  
      (1) The transferor surrenders control of future economic benefits,
(2) The obligation under recourse provisions can be reasonably estimated, and

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<th>Yes</th>
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(3) The transferee cannot require the transferor to repurchase the receivable, except pursuant to the recourse provisions?

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b. If one or more of the conditions in (a) above were not met, was the transaction recorded as a financing?

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10. For loans sold with recourse, are the following disclosures made:

a. For each period for which an income statement is presented, the amount of proceeds?

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b. At date of each balance sheet presented, balance of sold receivables that remains uncollected?

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[SFAS 77, par. 9 (AC R20.109)]

11. Are receivables acquired under a portfolio purchase agreement accounted for as assets owned by the purchasing finance company and not considered collateral for loans made to the seller?

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[IAG, page 6]

12. If the collectibility of interest or principal is not probable, has the accrual of interest income or amortization of discount and the amortization of deferred net fees or costs been suspended?

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a. When interest income has been suspended, has the potential uncollectibility of previously accrued interest amounts been taken into consideration in the computation of the allowance for losses?

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b. Is the accrual of interest resumed when future collectibility of the loan and accrued interest becomes probable?

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[IAG, pages 14 and 15]
13. Under advance factoring arrangements, are the advances to clients applied against amounts owed clients for the purchase of clients' receivables and not recorded as finance receivables?  

   Yes  No  N/A

   a. Are factoring overadvances recorded as loans receivable and segregated from customer receivables purchased under factoring arrangements?  
   [IAG, page 18]

D. Lease Finance Receivables

1. Do disclosures include:

   a. Appropriate components of the net investment in the leases as of the date of each balance sheet presented?  
   [SFAS 13, par. 23u (AC L10.119a)]

   b. Future minimum lease payments to be received for each of the five succeeding fiscal years as of the date 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, pars. 41-47 (AC L10.143-.149)]

2. Are leasing arrangements described?  
   [SFAS 13, par. 23c (AC L10.119c); For amendments of SFAS 13 see SFASs 22, 23, 27, 28, 29, 76, 77, 91, 94, 96 and 98; for interpretations see FASBIs 19, 21, 23, 24, 26 and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2 and 88-1]

3. Are leveraged leases appropriately accounted for and reported?  
   [SFAS 13, pars. 41-47 (AC L10.143-.149)]

E. Allowance for Credit Losses

1. Is the allowance shown on the balance sheet as a deduction from loan and lease finance receivables?  
   [APB 12, par. 3 (AC V18.102)]
2. Is the allowance for credit losses adequate to cover estimated losses in the receivable portfolio?  
   [IAG, page 12]  
   Yes  No  N/A

3. When the accrual of interest income has been suspended, is accrued interest not reversed and the potential uncollectibility taken into consideration in the computation of the allowance for losses?  
   [IAG, pages 14 and 15]  
   Yes  No  N/A

4. Does the allowance for losses adequately reflect conditions such as the amount of delinquent receivables and the number of days they are past due; local, national, and international economic trends; credit policies and procedures; and the mix of receivables?  
   [IAG, page 13]  
   Yes  No  N/A

5. Do the notes to the financial statements report all of the charges in the allowance for credit losses?  
   [IAG, page 22]  
   Yes  No  N/A

F. Premises and Equipment

1. If material, are the balances of major classes of depreciable assets disclosed?  
   [APB 12, par. 5b (AC D40.105b)]  
   Yes  No  N/A

2. Is accumulated depreciation, either by major classes of assets or in total, disclosed?  
   [APB 12, par. 5c (AC D40.105c)]  
   Yes  No  N/A

3. Is the amount of capitalized interest disclosed?  
   [SFAS 34, par. 21 (AC I67.118)]  
   Yes  No  N/A

4. Is property not used in operations, such as repossessed collateral, excluded?  
   Yes  No  N/A

G. Other Assets

1. Are overnight investments recorded as assets in the balance sheet?  
   [IAG, page 59]  
   Yes  No  N/A
2. For investments in common stock accounted for by the equity method, are appropriate disclosures made?
[APB 18, par. 20 (AC 182.110)]

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

4. For an unidentified intangible asset arising as a result of the fair value of liabilities assumed in a purchase method business combination exceeding fair value of tangible and identified intangible assets acquired:

a. Is the amortization period no greater than the estimated remaining life of long-term interest-bearing assets acquired?
[SFAS 72, par. 4 (AC I60.131)]

b. Is the interest method used as the amortization method?
[SFAS 72, par. 5 (AC I60.133)]

c. Are method and period of amortization disclosed?
[APB 17, par. 30 (AC I60.111)]

5. For repossessed assets acquired in liquidation of receivables, are borrowers' accounts credited for the unpaid loan balance or the fair value of the repossessed properties, whichever is lower?

a. Are borrower accounts credited for proceeds from cancellation of insurance, rebates of unearned finance income, and amounts transferred from dealer reserves with any remaining deficiency charged to the allowance for losses?

b. Is a gain recorded where the proceeds from the sale of repossessed properties exceed the unpaid loan balance and are not required to be refunded?
[IAG, pages 19 and 20]
6. Are repossessed assets carried at cost (determined on the lower of the unpaid loan balance or fair value of the repossessed asset), and classified as other assets? [Yes No N/A]
   a. Is the carrying value periodically evaluated for recoverability? [Yes No N/A]
   b. If further write-downs are required, are the write-downs classified as other expense and not as a reduction of the allowance for credit losses? [Yes No N/A]
   c. Is a separate allowance for loss maintained based on "net realizable value"? [Yes No N/A]
   d. Are the costs of capital improvements incurred in readying repossessed assets for sale that increase their value added to the carrying amount of the repossessed property? [Yes No N/A]
   e. Has the difference between the carrying amount of repossessed assets and the selling price been recognized as a gain or loss and not included in the allowance for losses? [Yes No N/A] [IAG, page 20]

7. Are insurance policy acquisition costs deferred and amortized to income over the terms of the policies by the same method used to account for insurance premium income? [Yes No N/A]
   a. Are deferred costs associated with payment of commissions and other intercompany items eliminated in consolidation? [Yes No N/A] [IAG, page 72]

H. Income Taxes [Assumes the adoption of FASB 96]

1. Have deferred tax assets been recognized for the net tax benefit of net deductible amounts that could be realized by loss carryback from future years:
   a. To reduce a current deferred tax liability? [Yes No N/A]
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<th>Yes</th>
<th>No</th>
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<td>b. To reduce taxes paid in the current or a prior year? [SFAS 96, par. 17e (AU I25.116e)]</td>
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<tr>
<td>2. Have deferred tax assets or liabilities been adjusted for the effect of a change in tax law or rates with the effect included in income from continuing operations for the period that includes the enactment date? [SFAS 96, par. 20 (AC I25.119)]</td>
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<tr>
<td>3. Have deferred tax assets or liabilities attributable to different tax jurisdictions been presented separately and not offset? [SFAS 96, par. 24 (AC I25.123)]</td>
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<tr>
<td>4. Have the types of temporary differences that give rise to significant portions of a deferred tax asset or liability been disclosed? [SFAS 96, par. 24 (AC I25.123)]</td>
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<td>5. Is the amount of a deferred tax asset or liability the net deferred tax consequence of:</td>
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<td>a. Temporary differences that will result in net taxable or deductible amounts during the next year?</td>
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<tr>
<td>b. Temporary differences related to an asset or liability that is classified for financial reporting as current because of an operating cycle that is longer than one year?</td>
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<tr>
<td>c. Temporary differences for which there is no related identifiable asset or liability for financial reporting [SFAS 96, par. 12 (AC I25.111)] whenever other related assets and liabilities are classified as current because of an operating cycle that is longer than one year? [SFAS 96, par. 24 (AC I25.123)]</td>
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<tr>
<td>6. Have deferred tax liabilities been recognized for temporary differences that will result in net taxable amounts in future years? [SFAS 96, par. 17f-h (AC I25.116f-h)]</td>
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7. For undistributed earnings of subsidiaries and/or corporate joint ventures, for which a deferred tax liability is not recognized, do the disclosures include:

   a. A description of the types of temporary differences?  
   b. The type of events that would cause the temporary differences to become taxable?  
   c. The cumulative amount of each type of temporary difference?  
   d. The amount of the unrecognized deferred tax liability for unremitted earnings and the amount of withholding taxes that would be payable upon remittance of the earnings?  

   [SFAS 96, par. 25 (AC I25.124)]

I. Other Liabilities

1. Are estimated losses from loss contingencies accrued if both "probable" as explained in SFAS 5 (AC C59) and the amount can be reasonably estimated?  
   [SFAS 5, par. 8 (AC C59.105); FASBI 14 (AC C59.106-.107 and .124-.127)]

2. Are liabilities appropriately accrued and reported for employees' compensation for future absences?  
   [SFAS 43, par. 6 (AC C44.104)]

3. Are liabilities for special termination benefits to employees appropriately accrued and reported when the employees accept the offer and the amount can be reasonably estimated?  
   [SFAS 88, par. 15 (AC P16.185)]

4. For loans transferred with recourse which are not reported as sales, is the amount of proceeds from the transfer reported as a liability?  
   [SFAS 77, par. 8 (AC R20.109)]
5. Are "Dealer Reserves" (the unpaid portion of the finance charges) and "Dealer Holdbacks" classified as liabilities?  
   [IAG, page 3]

6. Are unpaid claims for property insurance and that portion of level term insurance and credit accident and health insurance (where the finance company will not receive the proceeds of such claims) presented as liabilities rather than as a reduction of finance receivables?  
   [IAG, page 74]

J. Long-Term Debt

1. Are the major components of debt disclosed on the face of the balance sheet or in the notes?  

   a. Is there disclosure of the aggregate amount of maturities and sinking fund requirements for all long-term borrowings and redeemable preferred stock for each of the five years following the balance sheet date?  
      [SFAS 47, par. 10 (AC C32.105)]

   b. Is information disclosed on liquidation preferences, participation rights, and interest rates?  

   c. Are the various types of subordination, bank borrowings, and commercial paper separately disclosed?  

   d. Are the components of debt that matures in more than one year disclosed?  

   e. Is the existence of bank lines of credit and their relevant terms and amounts disclosed?  

   f. Is debt classified on the balance sheet as subordinated and senior rather than as short-term and long-term?  
      [IAG, page 60]

2. Are conversion features appropriately accounted for and disclosed?  
   [APB 14, par. 12 (AC D10.103); APB 15, par. 19 (AC E09.110)]
3. For a troubled debt restructuring occurring during the current period, do disclosures include:
   
a. Description of the principal changes in terms, the major features of settlement or both?

b. Aggregate gain on restructuring of payables and the related income tax effect?

c. Aggregate net gain or loss on transfers of assets recognized during the period?

d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect?
   [SFAS 15, par. 25 (AC D22.121)]

4. For periods after a troubled debt restructuring, do disclosures include:
   
a. Extent to which amounts contingently payable are included in the carrying amount of restructured payables?

b. Total amounts that are contingently payable, if applicable, and conditions under which those amounts would become payable or forgiven?
   [SFAS 15, par. 26 (AC D22.122)]

5. Has debt, as required, been considered extinguished for financial reporting purposes because:
   
a. The debtor is legally released from being the primary obligor and it is probable that the debtor will not be required to make future payments with respect to the debt under any guarantee?

b. The debtor irrevocably places cash or other assets in a trust to be used solely for satisfying scheduled payments of both interest and principal of a specific obligation and the possibility that the debtor will be required to make future payments with respect to that debt is remote?
   [SFAS 76, par. 3 (AC D14.102A)]
6. If debt is considered to be extinguished in conformity with SFAS 76, paragraph 3c, does the disclosure include:

a. A general description of the transaction? ___ ___ ___

b. The amount of debt that is considered extinguished as long as the debt remains outstanding?
   [SFAS 76, par. 6 (AC D14.108)] ___ ___ ___

7. If there is an extinguishment of debt, is the difference between reacquisition price and carrying amount:

a. Recognized currently in income?
   [APB 26, pars. 20-21 (AC D14.103-.104);
   TB 80-1, pars. 3-4 (AC D14.503-.504);
   SFAS 84, par. 5 (AC D14.101)] ___ ___ ___

b. Identified as a separate or extraordinary item?
   [SFAS 4, par. 8 as amended by SFAS 64, par. 4 (AC D14.105)] ___ ___ ___

8. Do disclosures for extinguishments of debt described in 6 above include:

a. Description of the extinguishment transactions, including the source of any funds used to extinguish debt if it is practicable to identify the sources? ___ ___ ___

b. Income tax effect in the period of extinguishment? ___ ___ ___

c. The per share amount of the aggregate gain or loss net of related income tax effect?
   [SFAS 4, par. 9 (AC D14.107)] ___ ___ ___

K. Lessee Leases

1. For capital leases do disclosures include:

a. Gross amounts of assets recorded by major classes as of the date of each balance sheet presented?
   [SFAS 13, par. 16a (AC L10.112a(1)-(4))] ___ ___ ___
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 appropriate separate deductions therefrom for executory costs and imputed interest to reduce net minimum lease payments to present value?

[SFAS 13, pars. 10 and 16a (AC L10.106 and .112a(1)-(4))]

---

Yes  No  N/A

2. For operating leases that have initial or remaining noncancelable lease terms in excess of one year, 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?

---

Yes  No  N/A

b. Total of future minimum rentals under non-cancelable subleases as of the date of the latest balance sheet presented?

[SFAS 13, par. 16b (AC L10.112b)]

---

Yes  No  N/A
3. For all operating leases, do disclosures include rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and 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. Basis for determination of contingent rentals?  
   b. Terms of any renewal or purchase options or escalation clauses?  
   c. Restrictive covenants?  
[SFAS 13, par. 16d (AC L10.112d); For amendments of SFAS 13 see SFASs 17, 22, 23, 27, 28, 29, 76, 77, 91, 94, 96, and 98; for interpretations see FASBls 19, 21, 23, 24, 26, and 27; for technical bulletins see TBs 79-10, 79-12, 79-13, 79-14, 79-15, 79-16(r), 85-3, 86-2, and 88-1]  

L. Capital Stock  

1. For each class of stock, do disclosures include the number of shares authorized, issued and outstanding, and par or stated value per share?  
[APB 12, par. 10 (AC C08.102)]  

2. Do the financial statements include a description, in summary form, sufficient to explain the pertinent rights and privileges of the various securities outstanding, for example: dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices and pertinent dates, sinking fund requirements, or unusual voting rights?  
[APB 15, par. 19 (AC E09.110)]  

3. Are the amounts of redemption requirements for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates disclosed
for each of the five years following the date of the latest balance sheet presented? [SFAS 47, par. 10 (AC C32.105)]

4. Are liquidation preferences of preferred stock issued disclosed in the equity section of the balance sheet in the aggregate? [APB 10, par. 10 (AC C16.101)]

5. For preferred stock, do disclosures include:
   a. The aggregate or per share amounts at which shares may be called or are subject to redemption?
   [APB 10, par. 11 (AC C16.102)]
   b. The aggregate and per share amounts of arrearages in cumulative preferred dividends?

6. For stock option and stock purchase plans, do disclosures include:
   a. The number of shares under option?
   b. The option price?
   c. The number of shares as to which options are exercisable?
   d. For shares exercised, the number of shares exercised and option price?
      [APB 43, Ch. 13B, par. 15 (AC C47.123); FASBI 28 (AC C47.119-.122 and .138-.146); TB 82-2, pars. .10-.12 (AC C47.513-.515); FASBI 38 (AC C47.135A-.135E)]

M. Retained Earnings

1. Are significant restrictions on the use of retained earnings for payment of dividends disclosed? [SFAS 5, par. 18 (AC C59.120), IAG, page 95]

2. Are any appropriations of retained earnings for loss contingencies clearly identified and included in stockholders' equity? [SFAS 5, par. 15 (AC C59.117)]

3. After completion of a quasi-reorganization, is a new retained earnings account estab-
lished 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)]

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N. Other Stockholders’ Equity Accounts

1. Are cumulative translation adjustments separately disclosed? [SFAS 52, par. 31 (AC F60.141)]

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2. For treasury shares purchased at a stated price significantly in excess of current market price, is the allocation of amounts paid and the accounting treatment for such amounts disclosed? [TB 85-6, par. 3 (AC C23.501-.503)]

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3. Is the valuation allowance for marketable equity securities separately disclosed? [SFAS 12, par. 11 (AC I89.104)]

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Income Statement

A. Interest Income

1. For interest income from loans:

   a. Do the financial statements disclose interest and finance charges earned separately from other kinds of income, such as insurance premiums?

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   (1) Does the summary of significant accounting policies disclose the method of income recognition used?

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   (2) Does the summary of significant accounting policies disclose the method of suspending and resuming accruals of income on delinquent loans and policies for charging off uncollectible loans?

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   (3) If the charge-off policy is based on a specific period, is that period disclosed? [IAG, page 22]
b. Is amortization of deferred loan origination, commitment, and other fees and costs recognized as an adjustment of yield, reported as interest income? 
[SFAS 91, par. 22 (AC L20.121)]

2. Is the interest (actuarial) method used to account for interest income?

a. Is interest on fixed-rate installment loans measured and accrued over the lives of the loans to produce constant rates of interest (yields) when applied to the outstanding loan balance at any time in the lives of the loans?

b. If other computational methods are used, do they clearly produce results that reasonably approximate the interest (actuarial) method?
[IAG, page 14]

3. If the collectibility of interest or principal is not probable, has the accrual of interest income or amortization of discount and the amortization of deferred net fees or costs been suspended?

a. Is the accrual of interest resumed when future collectibility of the loan and accrued interest becomes probable?
[IAG, pages 14 and 15]

4. Are loan origination fees, direct loan origination costs, and purchase premiums and discounts on loans deferred?

a. Are they amortized to income as an adjustment of yield?
[IAG, page 16]

5. For interest income from investment securities:

a. Is the interest method used to record amortization and accretion?
[IAG, page 32]
6. Are revenues from insurance provided to finance customers presented as part of revenues from the finance business? [Yes No N/A]
   a. Alternately, if a net interest income presentation is used, are the revenues from captive insurance activities presented separately below net interest income? [IAG, page 75]

7. Except as specified in SFAS 91, paragraph 20 [AC L20.119], is the interest method used as the method of amortization? [SFAS 91, par. 18 (AC L20.117)]

8. For interest-bearing and discount loans, is interest income measured and recognized in a manner that reflects the economic substance of the underlying transaction? [IAG, page 13]

9. Are all loan commitment fees deferred except for retrospectively determined fees? [Yes No N/A]
   a. Are commitment fees, where the likelihood that the commitment will be exercised is remote, recognized on a straight-line basis over the commitment period?
   b. Are other commitment fees recognized as a yield adjustment over the life of the loan?
   c. If a commitment expires unexercised, is the commitment fee recognized in income upon expiration? [IAG, page 16]

10. Are delinquency fees recognized in income when chargeable if collectibility is reasonably estimable? [IAG, page 16]

11. Are prepayment penalties recognized in income only when the loan is prepaid? [IAG, page 17]
12. Is the difference between rebate calculations and accrual of interest income recognized in income when loans are prepaid or renewed? [IAG, page 17]  
13. Are factoring commissions recognized in income over the periods in which service is rendered? [IAG, page 17]  
14. Is insurance premium income recognized in accordance with Statement 60 (AC In6)?  
   a. Have insurance policies issued in connection with consumer lending been considered to represent short-duration contracts with the premiums recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided?  
   b. Are level term credit life insurance premiums recognized as revenue on a straight-line basis?  
   c. Are decreasing term credit life insurance premiums recognized as revenue using the interest method?  
   d. Are credit accident and health insurance premiums recognized in income in reasonable relationship to anticipated claims (i.e., an amount that falls between the straight-line method and the insurance in force method)?  
   e. Are property and liability insurance premiums recognized on a straight-line basis unless the amount of coverage declines on a predetermined schedule? [IAG, pages 70 and 71]  

B. Other Income  
1. Are gains/losses on pension plan settlements or curtailments or termination benefits disclosed? [SFAS 88, par. 17 (AC P16.187)]
2. For marketable equity securities are the following disclosed for each period for which an income statement is presented:

a. Net realized gain or loss included in determination of net income? 
   [SFAS 12, par. 12c (AC I89.106c)]  

b. For entities with certain specialized accounting practices, the change in net unrealized gain or loss? 
   [SFAS 12, par. 16b (AC I89.110b)]  

c. Basis on which cost was determined in computing realized gain or loss? 
   [SFAS 12, par. 12c (AC I89.106c)]  

d. The change in valuation allowance(s) during the period and when a classified balance sheet is presented, the amount of such change included in the determination of net income? 
   [SFAS 12, par. 12c (AC I89.106c)]

3. For investments in common stock accounted for by the equity method:

a. Are intercompany profits and losses appropriately eliminated until realized by the investor through transactions with independent third parties? 
   [APB 18, par. 19a (AC I82.109a)]  

b. Is the investor's share of earnings shown as a single amount except for investee extraordinary items and prior period adjustments that are material to the investor? 
   [APB 18, pars. 19c and 19d (AC I82.109c and .109d)]  

c. Are income taxes on the investor's share of the investee's earnings appropriately accrued? 
   [APB 24, pars. 7-10 (AC I42.114-.116 and .119); FASBI 29 (AC I42.117-.118)]
C. Other Expenses

1. Salaries:

   a. If there is a compensatory stock issuance plan:

      (1) Is compensation expense accrued in the proper periods?  
          [APB 25, pars. 12–15 (AC C47.112–.115); FASBI 38, pars. 2–6 (AC C47.135A–.135E)]

      (2) Are deferred income taxes recorded to recognize temporary differences between accrual of compensation expense and deduction for income tax purposes?  
          [APB 25, pars. 16–18 (AC C47.116–.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]

    b. For deferred compensation agreements, are estimated amounts to be paid properly accrued?  
       [APB 12, pars. 6–7 (AC C38.101–.102)]

2. Employee Benefits:

   a. Is the amount of net periodic pension costs and their components disclosed?  
      [SFAS 87, par. 54b (AC P16.150b)]

   b. Is the cost of postretirement health care and life insurance benefits disclosed?  
      [SFAS 81, par. 6c (AC P50.102c)]

3. Is the cost of the pension plan(s) accounted for in conformity with SFAS 87, paragraphs 20–34, 39–53 and 77?1  
   [SFAS 87, pars. 20–34, 39–53 and 77 (AC P16.114–.128, .133–.138 and .141–.149)]

---

1Accounting for defined contribution plans and for multiemployer plans is generally the same as current practice. The pension rules apply primarily to companies offering defined benefit pension plans.
4. Have settlements of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 3-5 and 9-11?  
   [SFAS 88, pars. 3-5 and 9-11 (AC P16.172, .177-.179 and .181)]

5. Have curtailments of defined benefit pension plans been accounted for in accordance with SFAS 88, paragraphs 6 and 12-14?  
   [SFAS 88, pars. 6 and 12-14 (AC P16.173 and .182-.184)]
   a. Have such settlements and curtailments been properly differentiated in accordance with SFAS 88, paragraphs 7-8?  
      [SFAS 88, pars. 7-8 (AC P16.174-.175)]

6. Have termination benefits been accounted for in accordance with SFAS 88, paragraph 15?  
   [SFAS 88, par. 15 (AC P16.185)]

7. Has the gain or loss measured in accordance with SFAS 88, paragraphs 9-10, 12-13 or 15, which is directly related to a disposal of a segment of a business, been included in determining the gain or loss associated with that event, and recognized in accordance with APB 30?  
   [SFAS 88, pars. 9-10, 12-13 and 15 (AC P16.177, .179, .182-.183 and .185)]

8. If there is a compensatory stock issuance plan:  
   a. Is compensation expense accrued in the proper periods?  
      [APB 25, pars. 12-15 (AC C47.112-.115); FASBI 38, pars. 2-6 (AC C47.135A-.135E)]
   b. Are deferred income taxes recorded to recognize timing differences between accrual of compensation expense and deduction for income tax purposes?  
      [APB 25, pars. 16-18 (AC C47.116-.118); TB 82-2, pars. 8 and 13 (AC C47.511 and .516)]
   c. Are disclosures adequate?  
      [ARB 43, Ch. 13B, par. 15 (AC C47.123)]
9. For deferred compensation agreements, are estimated amounts to be paid properly accrued?

[APB 12, pars. 6-8 (AC C38.101-.102)]

10. Provision for Losses:

a. Is the provision for credit losses presented separately as an expense item in the income statement?

[IAG, page 22]

11. Is depreciation expense for the period(s) disclosed accompanied by a general description of the method(s) used to compute depreciation for the major classes of depreciable assets?

[APB 12, par. 5 (AC D40.105)]

12. Operating Leases:

a. Is rental expense for each period for which an income statement is presented with separate amounts for minimum rentals, contingent rentals, and sublease rentals disclosed?

[SFAS 13, par. 16c (AC L10.112c)]

13. Has the allowance for loan losses been established through a charge to the provision for loan losses in the period when it is probable that an asset has been impaired and the amount can be reasonably estimated?

[IAG, page 12]

14. Is the discount or premium on debt being amortized to interest expense over the life of the debt, using the interest method?

[APB 12, pars. 16-17 (AC I69.108); APB 21, pars. 15-16 (AC I69.108-.109); IAG, page 59]

15. Is interest income on overnight investments combined with interest expense in the income statement and not shown separately?

a. If material, is such interest income disclosed in a note to the financial statements?

[IAG, page 59]
16. Are insurance commissions received from independent insurers deferred and systematically amortized to income over the life of the related insurance contract?

   a. Is the method of amortization consistent with the method of premium income recognition for that type of policy?

   b. Is the income from experience-related or retrospective commission arrangements accrued over the insurance risk period?

   c. Are commissions paid to a finance company by an insurance subsidiary eliminated in consolidation? [IAG, page 73]

17. Are the financial statements of insurance subsidiaries prepared for submission to regulatory authorities adjusted to conform to GAAP before they are consolidated with the financial statements of the parent company? [IAG, page 72]

D. Income Taxes

1. If an entity is a public enterprise that is not subject to income taxes because its income is taxed directly to its owners, has that fact and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities been disclosed? [SFAS 96, par. 24 (AC I25.123)]

2. Has the amount of income tax expense or benefit been allocated to:

   a. Continuing operations?

   b. Discontinued operations?

   c. Extraordinary items?

   d. Cumulative effect of accounting changes?

   e. Prior period adjustments?
f. Gains and loses included in comprehensive income but excluded from net income? 

---
  Yes No N/A

---

g. Capital transactions? 
[SFAS 96, par. 26 (AC I25.125)]

---

3. Have the following significant components of income tax expense attributable to continuing operations for each year presented been disclosed in the financial statements or notes thereto:

a. Current tax expense or benefit? 

---
  Yes No N/A

---

b. Deferred tax expense or benefit exclusive of (f) below? 

---
  Yes No N/A

---

c. Investment tax credits? 

---
  Yes No N/A

---

d. Government grants (to the extent recognized as a reduction of income tax expense)? 

---
  Yes No N/A

---

e. The benefits of operating loss carryforwards? 

---
  Yes No N/A

---

f. 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 enterprise? 
[SFAS 96, par. 27 (AC I25.126)]

---
  Yes No N/A

---

4. Do disclosures regarding income tax expense attributable to continuing operations include:

a. A reconciliation (using percentages or dollar amounts) to the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations? 

---
  Yes No N/A

---

b. The estimated amount and the nature of each significant item? 
[SFAS 96, par. 28 (AC I25.127)]

---
  Yes No N/A

---

5. Have the amounts and expiration dates (or a reasonable aggregation of expiration dates) of operating loss and tax credit
carryforwards for financial reporting (that is, amounts not already recognized as reductions of a deferred tax liability) and for tax purposes (that is, amounts available to reduce taxes payable on tax returns in future years) been disclosed?  
[APB 2, par. 16, SFAS 96, par. 29 (AC I25.128 and .187)]

6. Do the disclosures for investment tax credits include the method followed (flow-through or deferral) and the amounts involved?  
[APB 4, par. 11 (AC I25.186)]

7. If part of a group that files a consolidated tax return, have the following items been disclosed in its separately issued financial statements:

a. The 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?  

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 96, par. 30 (AC I25.129)]

8. For the earliest year restated or for the year SFAS 96 is first adopted if no prior year is restated, has the effect of applying SFAS 96 on the amount of deferred tax charges or credits at the beginning of the fiscal year been reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, Accounting Changes, except for any effects of the type required by SFAS 96 to be excluded from net income?  
[SFAS 96, par. 33]
9. When initially presented, have the financial statements for the year SFAS 96 is first adopted disclosed the following:

a. The effect of adopting SFAS 96 on income from continuing operations, on income before extraordinary items, and on net income for the year of adoption if restated financial statements for the prior year are not presented?  
   [SFAS 96, par. 34]

b. The effect of any restatement on any income from continuing operations, on income before extraordinary items, and on net income for each year presented?  
   [SFAS 96, par. 34]

E. Discontinued Operations

1. Are operations of a segment that has been discontinued or is the subject of a formal plan for disposition:

a. Reported separately from income from continuing operations and as a component (including applicable income taxes) of income before extraordinary items?  
   [APB 30, pars. 8 and 13-18 (AC II3.101-.103, .105-.106 and .108-.109)]

b. Accompanied by disclosure in the notes of revenue applicable to the discontinued operations?  
   [APB 30, par. 8 (AC II3.105)]

2. Is gain or loss from disposal of a discontinued segment reported separately (including applicable income taxes) in conjunction with results of discontinued operations as a component of income before extraordinary items?  
   [APB 30, pars. 8 and 13-18 (AC II3.101-.103, .105-.106 and .108-.109)]

3. If the entity sells part of its ownership interest in a foreign entity, is a pro rata portion of the accumulated translation adjustment component of equity attributable to that investment recognized in measuring the gain or loss on the sale?  
   [FASBI 37, par. 2 (AC F60.120)]
### F. Extraordinary Items

1. Do extraordinary items meet both criteria of (1) an unusual nature, and (2) infrequency of occurrence?
   [APB 30, pars. 19–24 (AC I17.106–.111 and .118)]

2. Are extraordinary items segregated and shown (including applicable income taxes) following income before extraordinary items and before net income?
   [APB 30, pars. 10–12 (AC I17.102–.103)]

3. Are descriptive captions and amounts (including applicable income taxes) 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. Do disclosures include descriptions of an extraordinary event(s) or transaction(s) and the principal items entering into
determination of extraordinary gain(s) or loss(es)?
[APB 30, par. 11 (AC I17.102)]

5. Are material events or transactions that are either unusual in nature, or of infrequent occurrence but not both (and therefore not meeting 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); TB 82-1, par. 6 (AC I25.505)]

6. For gains or losses from extinguishment of debt classified as extraordinary items, do disclosures include:

a. Description of the extinguishment transactions, including the sources of any funds used to extinguish the debt if it is practicable to identify the sources?

b. Income tax effect in the period of extinguishment?

c. Per share amount of the aggregate gain or loss net of related income tax effect?
[SFAS 4, par. 9 (AC I17.104)]

G. Other

1. Are the following excluded from determination of net income or results of operations under all circumstances:

a. Adjustments or charges or credits resulting from transactions in the company's own capital stock?

b. Transfers to and from accounts properly designated as appropriated retained earnings?

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c. Adjustments made pursuant to a quasi-reorganization?
   [APB 9, par. 28 (AC C08.101)]

2. Is earnings per share information presented on the face of the income statement accompanied by appropriate disclosure that includes the basis of the calculation?
   [APB 15 (AC E09); APB 20, pars. 19c, 33, 35 and 37 (AC A06.115c and .132, A35.105 and .113); APB 30, pars. 9 and 12 (AC E09.104, I13.107 and I17.103); FASBI 31 (AC E09.128–.131 and .169–.176); FASBI 38, par. 7 (AC E09.130A); and SFAS 85, par. 3 (AC E09.123A)]

3. For segment reporting, is the insurance business relating to finance customers included in the finance business segment?
   [IAG, page 75]

Statement of Changes in Stockholders' Equity

A. Are changes in separate component accounts of stockholders' equity disclosed?
   [APB 12, par. 10 (AC C08.102)]

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

C. Are prior period adjustments limited to:

1. Correction of an error(s) in financial statements of prior periods?
   [SFAS 16, par. 11 (AC A35.103)]

2. Adjustments resulting from realization of income tax benefits of preacquisition operating loss or tax credit carry-forwards of purchased subsidiaries?
   [SFAS 96, par. 23 (AC I25.122)]

D. Are prior period adjustments and their resulting effects (both gross and net of applicable income taxes) appropriately disclosed?
   [APB 9, par. 26 (AC A35.107)]

E. For a correction of an error, are the following disclosed in the period in which the error was discovered and corrected:
1. Nature of the error in previously issued financial statements?  

2. Effect of its correction on income before extraordinary items, net income, and related per share amounts (if applicable)?  
   [APB 20, par. 37 (AC A35.105)]

<table>
<thead>
<tr>
<th>Statement of Cash Flows</th>
</tr>
</thead>
</table>
| A. Is a statement of cash flows presented as a basic financial statement for each period for which a statement of income is presented?  
   [SFAS 95, par. 3 (AC C25.101)] |

| B. Are cash receipts and cash payments from operating activities shown separately on the statement of cash flows?  
   [SFAS 95, pars. 27-28 (AC C25.125-126)] |

<table>
<thead>
<tr>
<th>C. Are cash receipts and cash payments for the following transactions classified as cash flows from operating activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Interest received on loans?</td>
</tr>
<tr>
<td>2. Insurance proceeds except those directly related to investing or financing activities?</td>
</tr>
<tr>
<td>3. Interest paid to creditors?</td>
</tr>
<tr>
<td>4. Payments to suppliers and employees?</td>
</tr>
</tbody>
</table>
5. Payments to governments for taxes, duties, fines, and other fees or penalties?

6. Payments to settle lawsuits?

7. Contributions to charities?

D. Are cash receipts and cash payments from investing activities shown separately on statement of cash flows?

E. Are cash receipts and cash payments for the following transactions classified as cash flows from investing activities:
   1. Receipts from collections or sales of loans?
   2. Receipts from sales of property or investments?
   3. Loans to other entities?
   4. Payments to acquire property or investments?

F. Are cash receipts and cash payments from financing activities shown separately on the statement of cash flows?

G. Are cash receipts and cash payments for the following transactions classified as cash flows from financing activities:
   1. Proceeds from issuing debt or capital stock?
   2. Repayment of amounts borrowed?
   3. Dividend payments to shareholders?
   4. Acquisition of treasury stock?
H. If applicable, is the effect of exchange rate changes on cash balances held in
foreign currencies shown separately on statement of cash flows?
[SFAS 95, par. 25 (AC C25.123)]

I. Does statement of cash flows explain the effect of cash flows by showing change in
cash and cash equivalents?
[SFAS 95, par. 7 (AC C25.105)]

J. Is policy for defining what is a cash equivalent disclosed?
[SFAS 95, par. 10 (AC C25.108)]

K. Is a reconciliation of net income to net cash flow from operating activities presented either within the statement of cash flows or in a separate schedule?
[SFAS 95, par. 29–30 (AC C25.127–.128)]

L. Are noncash investing and financing activities (i.e., converting debt to equity) summarized in a separate schedule?
[SFAS 95, par. 32 (AC C25.134)]

M. If the indirect method is used, is the amount of interest paid (net of amounts capitalized) and income taxes paid during the period(s) disclosed?
[SFAS 95, par. 29 (AC C25.127)]
Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

SAS = Statement of Auditing Standards

AU = Reference to section number in AICPA Professional Standards (vol. 1) of SAS cited

SSARS = Statement on Standards for Accounting and Review Services

AR = Reference to section number in AICPA Professional Standards (vol. 2) of SSARS cited

IAG = Industry Audit Guide, Audits of Finance Companies

.03 Checklist Questionnaire

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the auditor's report include appropriate:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Address?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SAS 58, par. 9 (AU 508.09)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Date (or dual dates) of the report?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SAS 1, sec. 530 (AU 530); SAS 58, par. 46 (AU 508.46); SAS 26, pars. 15-17 (AU 504.15-17)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. A title that includes the word &quot;independent&quot;?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SAS 58, par. 8 (AU 508.08)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. If the auditor is not independent, has the appropriate disclaimer been expressed regardless of the extent of services provided?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SAS 26, par. 9 (AU 504.09)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. For a public entity?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SAS 26, pars. 8-10 (AU 504.08-10)]</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. For a nonpublic entity?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[SSARS No. 1, pars. 22 and 38 (AR 100.22 and .38)]</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3. Does the reporting language conform with the auditor's standard report on:

   a. Financial statements of a single year or period?
      [SAS 58, par. 8 (AU 508.08)]

   b. Comparative financial statements?
      [SAS 58, par. 8 (AU 508.08)]

4. Does the auditor's report include appropriate language with respect to the following:

   a. The auditor's opinion is based in part on the report of another auditor?
      [SAS 1, sec. 543 (AU 543);
      SAS 58, pars. 12-13 (AU 508.12-.13)]

   b. Departure from a promulgated accounting principle which could lead to a misleading financial statement?
      [SAS 58, pars. 14-15 (AU 508.14-.15)]

   c. The financial statements were affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation?
      [SAS 58, pars. 16-33 (AU 508.16-.33)]

   d. There is substantial doubt about the entity's ability to continue as a going concern?
      [SAS 59, par. 13 (AU 341.13)]

   e. There has been a material change between periods in accounting principles or in the method of their application?
      [SAS 58, pars. 34-36 (AU 508.34-.36)]

   f. Opinion on prior period financial statements different from the opinion previously expressed?
      [SAS 58, pars. 77-78 (AU 508.77-.78)]

   g. Predecessor auditor's report reissued?
      [SAS 58, pars. 80-82 (AU 508.80-.82)]

   h. Selected quarterly financial data required by the SEC have been omitted or have not been reviewed?
      [SAS 36, par. 29 (AU 722.29)]
### i. Required supplemental information has:

1. **Been omitted?**
   - Yes
   - No
   - N/A

2. **Presentation of information departs materially from FASB guidelines?**
   - Yes
   - No
   - N/A

3. **The auditor is unable to complete prescribed procedures?**
   - Yes
   - No
   - N/A

4. **The auditor has substantial doubts that the information conforms to FASB guidelines?**
   - Yes
   - No
   - N/A

   [SAS 52 (AU 551.15)]

### j. Other information in the document containing the audited financial statements is materially inconsistent with information appearing in the financial statements?

- Yes
- No
- N/A

   [SAS 8, par. 4 (AU 550.04)]

### k. A matter regarding the financial statement that should be emphasized?

- Yes
- No
- N/A

   [SAS 58, par. 37 (AU 508.37)]

### l. Report on one basic financial statement and there are no scope limitations?

- Yes
- No
- N/A

   [SAS 58, par. 48 (AU 508.48)]

### m. Reports on comparative financial statements?

- Yes
- No
- N/A

   [SAS 58, pars. 74-75 (AU 508.74-.75)]

### n. For comparative financial statements, there is an unqualified opinion on one of the financial statements and a qualified or adverse opinion, a disclaimer, or an explanatory paragraph on one or more financial statements for one or more periods?

- Yes
- No
- N/A

   [SAS 58, pars. 5 and 76 (AU 508.05 and .76)]

### o. Comparative financial statements with an opinion different from the opinion previously expressed?

- Yes
- No
- N/A

   [SAS 58, pars. 77-78 (AU 508.77-.78)]

### p. Comparative financial statements when predecessor auditor's report not presented?

- Yes
- No
- N/A

   [SAS 58, par. 83 (AU 508.83)]
q. Audited and unaudited financial statements in comparative form?  
[SAS 26, pars. 14–17 (AU 504.14–.17)]

r. Report on comparative statements of income, retained earnings, and cash flows without presentation of comparative balance sheets for the prior periods?  
[SAS 58, par. 8, fn. 7 (AU 508.08, fn. 7)]

5. Has a qualified opinion or disclaimer of opinion been expressed if:

a. There is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit?  
[SAS 31, par. 22 (AU 326.23); SAS 58, pars. 40–48 (AU 508.40–.48)]

6. Has a qualified opinion or adverse opinion been expressed if the following circumstances are present:

a. An uncertainty is not adequately disclosed in the financial statements?  
[SAS 58, par. 20 (AU 508.20)]

b. The accounting principles used cause the financial statements to be materially misstated?  
[SAS 58, par. 21 (AU 508.21)]

c. Unreasonable accounting estimates that cause the financial statements to be misstated?  
[SAS 58, par. 22 (AU 508.22)]

d. The financial statements contain a material departure from GAAP, inadequate disclosure or an accounting change?  
[SAS 58, pars. 49–66 (AU 508.49–.66); SAS 54, par. 18 (AU 317.18); SAS 32, par. 3 (AU 431.03); SAS 59, par. 12 (AU 341.12)]

e. Client representations about related party transactions?  
[SAS 45, par. 12 (AU 334.12)]
f. Clients' voluntarily including supplementary information which has not been audited?
[SAS 52, par. 3, (AU 558.03)]

7. Has an adverse opinion been expressed if the financial statements do not present fairly the financial position or the results of operations or cash flows in conformity with GAAP?
[SAS 58, pars. 67–69 (AU 508.67–.69)]

8. Has a disclaimer of opinion been expressed on the financial statements when the auditor has not performed an audit sufficient in scope to enable him to form an opinion?
[SAS 58, par. 70 (AU 508.70)]

a. Have any reservations regarding the fair presentation in conformity with generally accepted accounting principles been disclosed?
[SAS 58, par. 71 (AU 508.71)]

9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed:

a. Are all the substantive reasons for the opinion or disclaimer disclosed?
[SAS 58, pars. 39, 40, 51, 68 and 71 (AU 508.39, .40, .51, .68 and .71)]

b. Is the reporting language clear and appropriate for the:

(1) Qualified opinion?
[SAS 58, pars. 38–66 (AU 508.38–.66)]

(2) Adverse opinion?
[SAS 58, pars. 67–69 (AU 508.67–.69)]

(3) Disclaimer of opinion?
[SAS 58, pars. 70–72 (AU 508.70–.72)]

10. Does the auditor's report include modification, if applicable, for the following:

a. Conditions that precluded application of necessary auditing procedures to long-term investments?
[SAS 58, par. 42 (AU 508.42)]
b. Regulated companies?
   [SAS 1, sec. 544.02-.04 (AU 544.02-.04);
   SAS 62, pars. 2-8 (AU 623.02-.08)]

   Yes No N/A

   — — —

c. Inadequate disclosure?
   [SAS 58, pars. 55-58 (AU 508.55-.58)]

   — — —

d. Client representations about related party transactions?
   [SAS 45, par. 2 (AU 334.12)]

   — — —

e. Client's refusal to provide written representations?
   [SAS 19, par. 11 (AU 333.11)]

   — — —

f. Limitations on scope of lawyer's response?
   [SAS 12, pars. 12-14 (AU 337.12-.14)]

   — — —

g. Unresolved matters involving specialists?
   [SAS 11, par. 9 (AU 336.09)]

   — — —

h. Scope limitation concerning errors or irregularities?
   [SAS 53, pars. 26-27 (AU 316.26-.27)]

   — — —

i. Illegal acts by clients?
   [SAS 54 (AU 317)]

   — — —

j. Segment information?
   [SAS 21 (AU 435)]

   — — —

k. Entity's continued existence?
   [SAS 59, pars. 12-16 (AU 341.12-.16)]

   — — —

l. Material misstatement of the financial statements?
   [SAS 47, par. 31 (AU 312.31)]

   — — —

m. Financial statements issued before the effective date of a Statement of Financial Accounting Standards when disclosure is not made of the effect of a restatement which will be required in the future as a result of the FASB Statement?
   [Interpretation 3 of SAS 1, section 410 (AU 9410.13-.15)]

   — — —

n. Client's voluntarily including supplementary information which has not been audited?
   [SAS 52, par. 3 (AU 558.03)]

   — — —
11. Has a piecemeal opinion been avoided?
   [SAS 58, par. 73 (AU 508.73); SAS 62, par. 12 (AU 623.12)]

12. For special reports, have the provisions of SAS 35 and SAS 62 been complied with for the following:
   
   a. Statements prepared in accordance with a comprehensive basis of accounting other than generally accepted accounting principles?
      [SAS 62, pars. 2–8 (AU 623.02–.08)]
   
   b. Specified elements, accounts or items of a financial statement?
      [SAS 62, pars. 11–14 (AU 623.11–.14); SAS 35 (AU 622)]
   
   c. Compliance with aspects of contractual agreements or regulatory requirements relating to audited financial statements?
      [SAS 62, pars. 19–21 (AU 623.19–.21)]
   
   d. Financial information that requires a prescribed form of auditor's report?
      [SAS 62, pars. 22–26 (AU 623.22–.26)]

13. If information is to accompany the basic financial statements and auditor's report in an auditor-submitted document:
   
   a. Is there a clear distinction between the client's representation and auditor's representations?
      [SAS 29, par. 20 (AU 551.20)]
   
   b. Does the auditor's report on the accompanying information:
      
      (1) State that the audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole?
      [ ] [ ] [ ]
      
      (2) Specifically identify the accompanying information?
      [ ] [ ] [ ]
      
      (3) State that the accompanying information is presented for purposes of additional analysis and is not part of the basic financial statements?
      [ ] [ ] [ ]
(4) State whether the additional information has been subjected to the auditing procedures applied in examining the basic financial statements and whether the appropriate expression or disclaimer of opinion is included?  
[SAS 29, pars. 6-11 (AU 551.06-.11)]

14. If an auditor-submitted document with accompanying information is coexisting with a document that includes just the basic financial statements and auditor's report:

a. Do the basic financial statements in all co-existing documents consistently include all the information necessary for a fair presentation in conformity with generally accepted accounting principles?  
[SAS 29, par. 21 (AU 551.21)]

b. Are any additional comments or explanations by the auditor consistent with the description of the scope of the examination in the auditor's standard (or modified) report?  
[SAS 29, par. 20 (AU 551.20)]

15. If the document contains interim financial information, has the auditor's report been expanded if required?  
[SAS 36, pars. 24-30 (AU 722.24-.30)]

16. If supplementary information required by the FASB is presented outside the basic financial statements in an auditor-submitted document, has an opinion been disclaimed on such information unless it has been audited?  
[SAS 29, par. 7 (AU 551.07); SAS 27, pars. 8 and 11 (AU 558.08-.11)]

17. If the client is subject to FASB requirements to include certain supplementary information in documents containing audited financial statements, has the auditor's report been appropriately modified if:

a. Required supplementary information is omitted?  

b. Measurement or presentation of the supplementary information departs materially from guidelines prescribed by the FASB?
c. The auditor is unable to complete the procedures prescribed by SAS 52?  
[SAS 52, par. 2 (AU 558.08)]

18. If a report on internal accounting control is to be issued [material weaknesses in internal accounting controls ("reportable conditions") that have come to the auditor's attention which must be communicated, preferably in writing, to the audit committee or board of directors as required by SAS 60 (AU 325)] is the appropriate form used for:

a. Expression of an opinion on the entity's system of internal accounting control in effect as of a specified date or during a specific period of time?  
[SAS 30, pars. 37-46 (AU 642.37-.46)]

b. Communication to the audit committee of internal control structure related matters noted in an audit or other agreed upon matters?  
[SAS 60, pars. 12-19 (AU 325.12-.19)]

c. Report on all or part of an entity's system of internal accounting controls for restricted use of management or specified regulatory agencies, based on the regulatory agencies' preestablished criteria?  
[SAS 30, pars. 54-59 (AU 642.54-.59)]

d. Other special purpose reports on all or part of the entity's system for restricted use of management, specified regulatory agencies, or other specified third parties?  
[SAS 30, pars. 60-61 (AU 642.60-.61); SAS 44, pars. 35, 41 and 46 (AU 324.35, .41 and .46)]

19. If reporting in a client-prepared document on condensed financial statements (either for an annual or an interim period) that are derived from audited financial statements of a public entity that is required to file, at least annually, complete audited financial statements with a regulatory agency, does the auditor's report indicate:

a. That the auditor has examined and expressed an opinion on the complete financial statements?  

---

No
b. The date of the report on the complete financial statements?
   Yes  No  N/A

c. The type of opinion expressed?
   Yes  No  N/A

d. Whether, in the auditor's opinion, the information set forth in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?
   Yes  No  N/A
   [SAS 42, par. 5 (AU 552.05)]

20. If a statement that names the auditor and also states that condensed financial statements have been derived from audited financial statements is made in a client-prepared document that does not include audited financial statements and the client is not a public entity that is required to file complete audited financial statements with a regulatory agency, at least annually, does the auditor's report express a qualified or adverse opinion on the condensed financial statements because of inadequate disclosure?
   Yes  No  N/A
   [SAS 58, par. 55 (AU 508.55); SAS 42, par. 7, fn. 6 (AU 552.07, fn. 6)]

21. If reporting on selected financial data that are included in a client-prepared document that contains audited financial statements (or, with respect to a public entity, that incorporates such statements by reference to information filed with a regulatory agency) and that are derived from audited financial statements, does the auditor's report indicate the following:

a. That the auditor has examined and expressed an opinion on the complete financial statements?
   Yes  No  N/A

b. The type of opinion expressed?
   Yes  No  N/A

c. The specific data on which the auditor is reporting?
   Yes  No  N/A

d. Whether, in the auditor's opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived?
   Yes  No  N/A
   [SAS 42, par. 9 (AU 552.09)]
22. If the selected financial data for any of the years presented are derived from financial statements that were examined by another independent auditor, does the auditor's report on the selected financial data state that fact and express a disclaimer of opinion on that data? [SAS 42, par. 9 (AU 552.09)]
Illustrative Financial Statements
ILLUSTRATIVE FINANCE COMPANY FINANCIAL STATEMENTS

The following report and set of financial statements illustrate one form of currently acceptable practice and, as indicated, do not include all disclosures required under generally accepted accounting principles. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances.

The banking industry has adopted an income statement format that emphasizes presentation of net interest income. Because of the similarity between many banking activities and finance company activities, the AICPA Finance Companies Guide Special Committee believes that such a presentation is of increasing relevance for the finance industry. Therefore, the illustrative financial statements in this appendix include two alternative income statement formats, the first of which emphasizes a net interest income presentation.

Nevertheless, certain factors may limit the usefulness of the net interest income presentation. An income statement that does not emphasize net interest income may be more appropriate for companies that engage primarily or solely in factoring operations or that otherwise derive a substantial portion of their income from commissions for services rather than from interest earned on loans. Additionally, the scope of what is to be included in net interest income needs to be considered. For example, as not done in the illustrative financial statements, a finance company may include credit insurance premiums and insurance claims expense on affiliated credit insurance business in the display of net interest income to recognize the integral nature of lending and credit insurance activities. In addition, all or a portion of investment income may be included in the display of net interest income.

FASB Statement No. 95, Statement of Cash Flows, requires a statement of cash flows as part of a full set of financial statements for all business enterprises in place of a statement of changes in financial position.

Both the direct and indirect methods of presenting a statement of cash flows are illustrated in this section.
INDEPENDENT AUDITOR’S REPORT

To the Board of Directors and Stockholders
XYZ Finance Corporation
Anytown, U.S.A.

We have audited the accompanying consolidated balance sheets of XYZ Finance Corporation and subsidiaries as of December 31, 19X8 and 19X7, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of XYZ Finance Corporation and subsidiaries at December 31, 19X8 and 19X7, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

[Signature]

Office Town, U.S.A.
January 15, 19X9
XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Balance Sheets
December 31, 19X8 and 19X7
(in thousands except share and per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance receivables, net</td>
<td>$333,649</td>
<td>$272,166</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>32,760</td>
<td>30,838</td>
</tr>
<tr>
<td>Cash</td>
<td>6,015</td>
<td>4,907</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>4,689</td>
<td>3,830</td>
</tr>
<tr>
<td>Other</td>
<td>11,628</td>
<td>9,577</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$388,741</td>
<td>$321,318</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior debt</td>
<td>$163,064</td>
<td>$113,723</td>
</tr>
<tr>
<td>Senior subordinated debt</td>
<td>84,204</td>
<td>74,572</td>
</tr>
<tr>
<td>Junior subordinated debt</td>
<td>31,400</td>
<td>30,500</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>15,727</td>
<td>13,866</td>
</tr>
<tr>
<td>Credit balances of factoring clients</td>
<td>4,120</td>
<td>3,112</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>3,972</td>
<td>3,469</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>302,487</td>
<td>239,242</td>
</tr>
<tr>
<td><strong>Shareholders’ Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par value; 4,269,000 shares authorized and outstanding</td>
<td>4,269</td>
<td>4,269</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>18,945</td>
<td>18,945</td>
</tr>
<tr>
<td>Net unrealized depreciation of marketable equity securities</td>
<td>(626)</td>
<td>(278)</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td>63,666</td>
<td>59,140</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>86,254</td>
<td>82,076</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders’ equity</strong></td>
<td>$388,741</td>
<td>$321,318</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### XYZ Finance Corporation and Consolidated Subsidiaries

#### Statements of Income and Retained Earnings: Format 1

**Years Ended December 31, 19X8 and 19X7**

*(in thousands except share and per share amounts)*

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fee income</td>
<td>$55,510</td>
<td>$47,302</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(18,825)</td>
<td>(16,283)</td>
</tr>
<tr>
<td>Interest income before provision for credit losses</td>
<td>36,685</td>
<td>31,019</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>(4,284)</td>
<td>(3,623)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>32,401</td>
<td>27,396</td>
</tr>
<tr>
<td>Insurance premiums and other income</td>
<td>13,040</td>
<td>11,650</td>
</tr>
<tr>
<td>Other expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and fringe benefits</td>
<td>(10,546)</td>
<td>(8,987)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(13,227)</td>
<td>(11,565)</td>
</tr>
<tr>
<td>Policyholders' benefits</td>
<td>(6,644)</td>
<td>(5,600)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>15,024</td>
<td>12,894</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(7,211)</td>
<td>(6,189)</td>
</tr>
<tr>
<td>Net income</td>
<td>7,813</td>
<td>6,705</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>59,140</td>
<td>55,551</td>
</tr>
<tr>
<td>Dividends</td>
<td>(3,287)</td>
<td>(3,116)</td>
</tr>
<tr>
<td>Retained earnings, end of year</td>
<td>$63,666</td>
<td>$59,140</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$1.83</td>
<td>$1.57</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>$0.77</td>
<td>$0.73</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
**XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**Statements of Income and Retained Earnings: Format 2**

*Years Ended December 31, 19X8 and 19X7*

*(in thousands except share and per share amounts)*

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fee income</td>
<td>$55,510</td>
<td>$47,302</td>
</tr>
<tr>
<td>Insurance premiums and other income</td>
<td>13,040</td>
<td>11,650</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>68,550</td>
<td>58,952</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>18,825</td>
<td>16,283</td>
</tr>
<tr>
<td>Policyholders' benefits</td>
<td>6,644</td>
<td>5,600</td>
</tr>
<tr>
<td>Provision for credit losses</td>
<td>4,284</td>
<td>3,623</td>
</tr>
<tr>
<td>Salaries and fringe benefits</td>
<td>10,546</td>
<td>8,987</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>13,227</td>
<td>11,565</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>53,526</td>
<td>46,058</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>15,024</td>
<td>12,894</td>
</tr>
<tr>
<td>Income taxes</td>
<td>7,211</td>
<td>6,189</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>7,813</td>
<td>6,705</td>
</tr>
<tr>
<td>Retained earnings, beginning of year</td>
<td>59,140</td>
<td>55,551</td>
</tr>
<tr>
<td>Dividends</td>
<td>(3,287)</td>
<td>(3,116)</td>
</tr>
<tr>
<td><strong>Retained earnings, end of year</strong></td>
<td>$63,666</td>
<td>$59,140</td>
</tr>
<tr>
<td><strong>Earnings per share</strong></td>
<td>$ 1.83</td>
<td>$ 1.57</td>
</tr>
<tr>
<td><strong>Dividends per share</strong></td>
<td>$ 0.77</td>
<td>$ 0.73</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
XYZ FINANCE CORPORATION AND CONSOLIDATED SUBSIDIARIES

Statements of Cash Flows: Direct Method
Years Ended December 31, 19X8 and 19X7
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and fees received</td>
<td>$54,698</td>
<td>$46,589</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(18,275)</td>
<td>(15,897)</td>
</tr>
<tr>
<td>Cash payments for operating expenses</td>
<td>(21,912)</td>
<td>(18,686)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(5,242)</td>
<td>(4,565)</td>
</tr>
<tr>
<td>Insurance premiums received</td>
<td>12,790</td>
<td>11,498</td>
</tr>
<tr>
<td>Other</td>
<td>(2,611)</td>
<td>(1,937)</td>
</tr>
<tr>
<td></td>
<td><strong>19,448</strong></td>
<td><strong>17,002</strong></td>
</tr>
</tbody>
</table>

| Cash flows from investing activities: |            |            |
| Loans originated or purchased*       | (190,304)  | (136,571)  |
| Loans repaid or sold*                | 118,705    | 83,750     |
| Net investment in commercial paper   | (346)      | (555)      |
| Securities purchased                 | (19,243)   | (17,512)   |
| Securities sold or matured*          | 17,471     | 16,639     |
| Capital expenditures                 | (1,409)    | (1,656)    |
| Proceeds from sale of property and equipment | 200       | 643        |
|                          | **(74,926)** | **(55,262)** |

| Cash flows from financing activities: |            |            |
| Net borrowings of commercial paper   | 16,939     | 10,215     |
| Proceeds from issuance of other debt | 71,000     | 50,000     |
| Repayment of other debt             | (28,066)   | (18,215)   |
| Proceeds from issuance of common stock | -         | 955        |
| Dividends paid                       | (3,287)    | (3,116)    |
|                          | **56,586** | **39,839** |

Net increase in cash
Cash, beginning of year
Cash, end of year

Reconciliation of net income to net cash provided by operating activities:

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$7,813</td>
<td>$6,705</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for credit losses on finance receivables</td>
<td>4,284</td>
<td>3,623</td>
</tr>
<tr>
<td>Policyholders' benefits</td>
<td>6,644</td>
<td>5,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>350</td>
<td>303</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>503</td>
<td>473</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>1,861</td>
<td>1,530</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>(812)</td>
<td>(713)</td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>(152)</td>
<td>(183)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,043)</td>
<td>(336)</td>
</tr>
<tr>
<td></td>
<td><strong>$19,448</strong></td>
<td><strong>$17,002</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.

*If the amounts are significant, this caption may be separated into two line items.


XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES

Statements of Cash Flows: Indirect Method
Years Ended December 31, 19X8 and 19X7
(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 7,813</td>
<td>$ 6,705</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for credit losses on finance receivables</td>
<td>4,284</td>
<td>3,623</td>
</tr>
<tr>
<td>Policyholders’ benefits</td>
<td>6,644</td>
<td>5,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>350</td>
<td>303</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>503</td>
<td>473</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>1,861</td>
<td>1,530</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>(812)</td>
<td>(713)</td>
</tr>
<tr>
<td>Gain on sale of securities</td>
<td>(152)</td>
<td>(183)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,043)</td>
<td>(336)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>19,448</td>
<td>17,002</td>
</tr>
</tbody>
</table>

| Cash flows from investing activities: |        |        |
| Loans originated or purchased*        | (190,304)| (136,571)|
| Loans repaid or sold*                 | 118,705  | 83,750  |
| Net investment in commercial paper    | (346)   | (555)   |
| Securities purchased                  | (19,243) | (17,512)|
| Securities sold or matured*           | 17,471  | 16,639  |
| Capital expenditures                  | (1,409) | (1,656) |
| Proceeds from sale of property and equipment | 200  | 643    |
| Net cash used in investing activities  | (74,926)| (55,262)|

| Cash flows from financing activities: |        |        |
| Net borrowings of commercial paper    | 16,939  | 10,215  |
| Proceeds from issuance of other debt  | 71,000  | 50,000  |
| Repayment of other debt               | (28,066)| (18,215)|
| Proceeds from issuance of common stock | —     | 955     |
| Dividends paid                        | (3,287) | (3,116) |
| Net cash provided by financing activities | 56,586 | 39,839  |

| Net increase in cash                  | 1,108   | 1,579   |
| Cash, beginning of year               | 4,907   | 3,328   |
| Cash, end of year                     | $ 6,015 | $ 4,907 |

Supplemental disclosures of cash flow information:

Cash paid during the year for:
- Interest                           | $18,275 | $15,897 |
- Income taxes                       | $ 5,242 | $ 4,565 |

The accompanying notes are an integral part of these financial statements.

*If the amounts are significant, this caption may be separated into two line items.
XYZ FINANCE CORPORATION AND
CONSOLIDATED SUBSIDIARIES

Notes to Financial Statements

A. Summary of Significant Accounting Policies

Basis of Consolidation
The consolidated financial statements include the accounts of XYZ Finance Corporation (the Company) and its subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Income Recognition
Interest income from finance receivables is recognized using the interest (actuarial) method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for ninety days or more. The accrual is resumed when the loan becomes contractually current, and past due interest income is recognized at that time. In addition, a detailed review of commercial loans will cause earlier suspension if collection is doubtful. Premiums and commissions for credit life insurance are recognized as revenue using the interest method. Premiums and commissions for credit accident and health insurance are recognized over the terms of the contracts based on the mean of the straight-line and interest methods.

Credit Losses
Provisions for credit losses are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover the losses of principal and interest in the existing portfolio. The Company’s charge-off policy is based on a loan-by-loan review for all receivables except consumer loans and factored receivables, which are charged off when they are 180 days and 90 days contractually past due, respectively.

Loan Origination Fees and Costs
Fees received and direct costs incurred for the origination of loans are deferred and amortized to interest income over the contractual lives of the loans using the interest method. Unamortized amounts are recognized in income at the time that loans are sold or paid in full.

Investments
Investments in marketable equity securities are carried at lower of aggregate market value and cost. Investments in bonds and notes are carried at amortized cost. The amount by which the aggregate cost of investments in marketable equity securities exceeds aggregate market value is reported as a deduction from equity. Net realized gains or losses resulting from sales of investments or from declines in market values of investments that are other than temporary are included in income.

B. Finance Receivables and Allowance for Credit Losses
Finance receivables as of December 31 consisted of the following (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate secured</td>
<td>$131,961</td>
<td>$104,078</td>
</tr>
<tr>
<td>Other</td>
<td>119,135</td>
<td>97,857</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>3,175</td>
<td>2,550</td>
</tr>
<tr>
<td></td>
<td>254,271</td>
<td>204,485</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable loans</td>
<td>32,002</td>
<td>27,440</td>
</tr>
<tr>
<td>Factored accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>21,404</td>
<td>18,594</td>
</tr>
<tr>
<td>Inventory loans to clients</td>
<td>2,965</td>
<td>2,876</td>
</tr>
<tr>
<td>Overadvances to clients</td>
<td>2,947</td>
<td>2,260</td>
</tr>
<tr>
<td>Floor plan loans</td>
<td>5,441</td>
<td>5,763</td>
</tr>
<tr>
<td>Other</td>
<td>29,962</td>
<td>23,620</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>1,200</td>
<td>1,013</td>
</tr>
<tr>
<td></td>
<td>95,921</td>
<td>81,566</td>
</tr>
<tr>
<td>Total finance receivables</td>
<td>350,192</td>
<td>286,051</td>
</tr>
<tr>
<td>Allowance for credit losses</td>
<td>(9,506)</td>
<td>(7,839)</td>
</tr>
<tr>
<td>Unearned credit insurance premiums and liabilities for policyholder benefits</td>
<td>(7,037)</td>
<td>(6,046)</td>
</tr>
<tr>
<td>Finance receivables, net</td>
<td>$333,649</td>
<td>$272,166</td>
</tr>
</tbody>
</table>
At December 31, 19X8, the accrual of interest income was suspended on $4,086,000 and $2,107,000 of consumer and commercial loans, respectively.

At December 31, 19X8, contractual maturities of finance receivables were as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X9</th>
<th>19X0</th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>secured</td>
<td>$20,963</td>
<td>$10,785</td>
<td>$10,474</td>
<td>$8,480</td>
<td>$8,917</td>
<td>$72,342</td>
<td>$131,961</td>
</tr>
<tr>
<td>Other</td>
<td>51,325</td>
<td>29,374</td>
<td>20,164</td>
<td>9,507</td>
<td>2,423</td>
<td>6,342</td>
<td>119,135</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>loans</td>
<td>32,002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>32,002</td>
<td></td>
</tr>
<tr>
<td>Factored</td>
<td>27,316</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27,316</td>
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<tr>
<td>accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floor plan</td>
<td>4,686</td>
<td>755</td>
<td></td>
<td></td>
<td></td>
<td>5,441</td>
<td></td>
</tr>
<tr>
<td>loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6,140</td>
<td>8,243</td>
<td>5,192</td>
<td>4,934</td>
<td>5,453</td>
<td>29,962</td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td>4,375</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,375</td>
<td></td>
</tr>
<tr>
<td>Total finance</td>
<td>$146,807</td>
<td>$49,157</td>
<td>$35,830</td>
<td>$22,921</td>
<td>$16,793</td>
<td>$78,684</td>
<td>$350,192</td>
</tr>
</tbody>
</table>

It is the Company's experience that a substantial portion of the consumer loan portfolio generally is renewed or repaid before contractual maturity dates. The above tabulation, therefore, is not to be regarded as a forecast of future cash collections. During the years ended December 31, 19X8 and 19X7, cash collections of principal amounts of consumer loans totaled $57,670,000 and $40,719,000, respectively, and the ratios of these cash collections to average principal balances were 25 percent and 29 percent, respectively.

Changes in the allowance for credit losses were as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>Consumer</th>
<th></th>
<th>Commercial</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Real</td>
<td>Accounts</td>
<td>Commercial</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Estate</td>
<td>Receivable</td>
<td>Floor Plan</td>
<td>Other</td>
</tr>
<tr>
<td></td>
<td>Secured</td>
<td>Loans</td>
<td>Plan Loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
<td>Other</td>
<td>Total</td>
</tr>
<tr>
<td>Balance as of</td>
<td>$762</td>
<td>$628</td>
<td>$112</td>
<td>$620</td>
</tr>
<tr>
<td>December 31, 19X6</td>
<td>$3,885</td>
<td>$556</td>
<td>$620</td>
<td>$6,563</td>
</tr>
<tr>
<td>Provision for</td>
<td>597</td>
<td>627</td>
<td>129</td>
<td>172</td>
</tr>
<tr>
<td>credit losses</td>
<td>1,564</td>
<td>534</td>
<td>172</td>
<td>3,623</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(376)</td>
<td>(749)</td>
<td>(154)</td>
<td>(156)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>(1,357)</td>
<td>(639)</td>
<td>(154)</td>
<td>(3,431)</td>
</tr>
<tr>
<td>Balance as of</td>
<td>1,041</td>
<td>731</td>
<td>133</td>
<td>709</td>
</tr>
<tr>
<td>December 31, 19X7</td>
<td>4,582</td>
<td>643</td>
<td>133</td>
<td>7,839</td>
</tr>
<tr>
<td>Provision for</td>
<td>651</td>
<td>664</td>
<td>121</td>
<td>175</td>
</tr>
<tr>
<td>credit losses</td>
<td>2,090</td>
<td>583</td>
<td>121</td>
<td>4,284</td>
</tr>
<tr>
<td>Loans charged off</td>
<td>(448)</td>
<td>(808)</td>
<td>(147)</td>
<td>(178)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>(1,601)</td>
<td>(710)</td>
<td>(147)</td>
<td>(3,892)</td>
</tr>
<tr>
<td>Balance as of</td>
<td>76</td>
<td>243</td>
<td>44</td>
<td>98</td>
</tr>
<tr>
<td>December 31, 19X8</td>
<td>601</td>
<td>213</td>
<td>44</td>
<td>1,275</td>
</tr>
<tr>
<td></td>
<td>$1,320</td>
<td>$830</td>
<td>$151</td>
<td>$804</td>
</tr>
<tr>
<td></td>
<td>$5,672</td>
<td>$729</td>
<td>$804</td>
<td>$9,506</td>
</tr>
</tbody>
</table>
C. Investments in Securities
Investments in securities as of December 31 were as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Market</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>$10,454 $9,523 $9,523</td>
<td>$9,429 $8,382 $8,382</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>5,897</td>
<td>6,202</td>
</tr>
<tr>
<td>Total marketable equity securities</td>
<td>16,351</td>
<td>15,725</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds</td>
<td>6,552</td>
<td>6,128</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>4,586</td>
<td>4,271</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>5,897</td>
<td>5,897</td>
</tr>
<tr>
<td>Total other</td>
<td>17,035</td>
<td>16,296</td>
</tr>
<tr>
<td>Total investments in securities</td>
<td>$33,386</td>
<td>$32,021</td>
</tr>
</tbody>
</table>

All but $6,710,000 and $3,801,000 of the above investments were held by insurance subsidiaries as of December 31, 19X8 and 19X7, respectively. As of December 31, 19X8, the marketable equity securities portfolio had gross unrealized gains of $428,000 and gross unrealized losses of $1,054,000. The gross unrealized losses have not been reduced for their tax effects. Sales of marketable equity securities resulted in net realized gains of $152,000 and $183,000 in 19X8 and 19X7, respectively.

D. Debt
Debt as of December 31 consisted of the following (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>$62,600</td>
<td>$45,661</td>
</tr>
<tr>
<td>4% to 7% notes due 19X9-19X2</td>
<td>73,866</td>
<td>47,570</td>
</tr>
<tr>
<td>7½% notes due 19Y3-19Y7</td>
<td>12,090</td>
<td>9,314</td>
</tr>
<tr>
<td>8% notes due 19Y2</td>
<td>9,671</td>
<td>7,452</td>
</tr>
<tr>
<td>Variable interest rate notes due 19Y1</td>
<td>4,837</td>
<td>3,726</td>
</tr>
<tr>
<td>Total senior debt</td>
<td>163,064</td>
<td>113,723</td>
</tr>
</tbody>
</table>

Senior subordinated debt
<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% notes due 19Y2</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>7% notes due 19Y3</td>
<td>34,572</td>
<td>34,572</td>
</tr>
<tr>
<td>8½% notes due 19Y6-19Z0</td>
<td>9,632</td>
<td></td>
</tr>
<tr>
<td>Total senior subordinated debt</td>
<td>84,204</td>
<td>74,572</td>
</tr>
</tbody>
</table>

Junior subordinated debt
<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>8% notes due 19Y2</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>10½% notes due 19Y3-19Y9</td>
<td>6,400</td>
<td>5,500</td>
</tr>
<tr>
<td>Total junior subordinated debt</td>
<td>31,400</td>
<td>30,500</td>
</tr>
<tr>
<td>Total subordinated debt</td>
<td>115,604</td>
<td>105,072</td>
</tr>
<tr>
<td>Total debt</td>
<td>$278,668</td>
<td>$218,795</td>
</tr>
</tbody>
</table>

The Company maintains various bank credit agreements, primarily to support commercial paper borrowings. As of December 31, 19X8, these agreements included $50,000,000 of formal credit lines and $158,460,000 of revolving credit agreements. Credit lines are reviewed annually, and the revolving credit agreements consist of $50,160,000 and $108,300,000 expiring June 30, 19Y0, and September 30, 19Y2, respectively. As of December 31, 19X8, none of the credit lines or revolving credit agreements were in use. To support the availability of credit agreements, the Company pays commitment fees or maintains compensating balances, or both. Borrowings under these lines generally are available at the prime rate. Compensating balance and annual commitment fee requirements as of December 31, 19X8 totaled $742,000 and $987,000, respectively.
Data on commercial paper were as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X8</th>
<th>19X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average interest rate at year end</td>
<td>9.2%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Maximum amount outstanding at any month end</td>
<td>$62,600</td>
<td>$48,735</td>
</tr>
<tr>
<td>Average borrowings</td>
<td>54,131</td>
<td>43,867</td>
</tr>
<tr>
<td>Weighted average interest rate during the year</td>
<td>9.0%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Maturities as of December 31, 19X8, were as follows (in thousands of dollars):

<table>
<thead>
<tr>
<th></th>
<th>19X9</th>
<th>19X0</th>
<th>19X1</th>
<th>19X2</th>
<th>19X3</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior debt</td>
<td>$81,100</td>
<td>$18,500</td>
<td>$22,337</td>
<td>$29,037</td>
<td>$2,400</td>
<td>$9,690</td>
<td>$163,064</td>
</tr>
<tr>
<td>Senior subordinated debt</td>
<td></td>
<td></td>
<td></td>
<td>40,000</td>
<td>34,572</td>
<td>9,632</td>
<td>84,204</td>
</tr>
<tr>
<td>Junior subordinated debt</td>
<td></td>
<td></td>
<td>25,000</td>
<td>1,000</td>
<td>5,400</td>
<td>31,400</td>
<td></td>
</tr>
<tr>
<td>Total debt</td>
<td>$81,100</td>
<td>$18,500</td>
<td>$22,337</td>
<td>$94,037</td>
<td>$37,972</td>
<td>$24,722</td>
<td>$278,668</td>
</tr>
</tbody>
</table>

The loan agreements under which certain of the senior and subordinated debts were issued contain restrictions on the payment of dividends, the purchase of common stock, and the requirements for maintenance of certain financial ratios and other financial conditions. Under the most restrictive of the dividend payment provisions, approximately $21,056,000 of consolidated retained earnings were free of such restrictions as of December 31, 19X8. Requirements for maintenance of certain financial ratios and other financial conditions have the effect of requiring maintenance of consolidated shareholders' equity at certain minimum amounts; as of December 31, 19X8, consolidated equity exceeded this minimum amount by approximately $38,600,000.

Note: See appropriate FASB and AICPA pronouncements for additional guidance in presenting other information required by generally accepted accounting principles such as disclosures about insurance activities, segment data, lease commitments, employee benefit plans, and income taxes.
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