

# What The CPA's Think About The Proposed Financial Statement Presentation

Stuart Shough, University of South Carolina Upstate, USA

## ABSTRACT

*The Financial Accounting Standards Board and the International Accounting Standards Board jointly issued a Discussion Paper soliciting comments on a proposed financial statement presentation. This paper presents the results from 605 CPA's responses to selected questions asked in the Discussion Paper.*

**Keywords:** FASB proposed financial statement presentation

## INTRODUCTION

Many users have expressed concerns that too many alternative types of presentations are allowed for financial statement presentation and that information in financial statements is highly aggregated and inconsistently presented, making it difficult to fully understand the relationship between the financial statements and the financial results of an entity.

In response, the Financial Accounting Standards Board and the International Accounting Standards Board jointly developed three objectives for financial statement presentation that state that information should be presented in the financial statements in a manner that portrays a cohesive financial picture of an entity's activities, disaggregates information so that it is useful in predicting an entity's future cash flows, and helps users assess an entity's liquidity and financial flexibility.

On October 16, 2008, the Boards jointly issued a Discussion Paper titled Preliminary Views on Financial Statement Presentation. The purpose of the Discussion Paper was to solicit comments on whether the proposed financial statement presentation would improve the usefulness of the information provided by the entity and help users in making decisions. Specific questions were included in the Discussion Paper for respondents to submit their comments in writing by April 14, 2009.

Subsequent to that, a survey of their opinions was made of CPAs. This paper presents the responses of 605 CPA's to selected questions drawn from the Discussion Paper.

## CLASSIFICATION SCHEME

Exhibit 1 illustrates the proposed classification scheme for the financial statements.

**Exhibit 1**

| Statement of Financial Position                                                             | Statement of Comprehensive Income                                                     | Statement of Cash Flows                                                              |
|---------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| <i>Business</i><br>• Operating assets and liabilities<br>• Investing assets and liabilities | <i>Business</i><br>• Operating income and expenses<br>• Investing income and expenses | <i>Business</i><br>• Operating cash flows<br>• Investing cash flows                  |
| <i>Financing</i><br>• Financing assets<br>• Financing liabilities                           | <i>Financing</i><br>• Financing asset income<br>• Financing liability expenses        | <i>Financing</i><br>• Financing asset cash flows<br>• Financing liability cash flows |
| <i>Income taxes</i>                                                                         | <i>Income taxes on continuing operations</i> (business and financing)                 | <i>Income taxes</i>                                                                  |
| <i>Discontinued operations</i>                                                              | <i>Discontinued operations</i> , net of tax                                           | <i>Discontinued operations</i>                                                       |
| <i>Equity</i>                                                                               | <i>Other comprehensive income</i> , net of tax                                        | <i>Equity</i>                                                                        |

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                              |                                  |    |                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Would the objectives of financial statement presentation proposed above improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                         | <input type="text" value="38%"/> | No | <input type="text" value="62%"/> |

**STATEMENT OF FINANCIAL POSITION**

As can be observed in Exhibit 2, the Statement of Financial Position (Balance Sheet) would group data by major activities (operating, investing, and financing) not by assets, liabilities, and equity as at present.

The business activities section presents information about the way the entity creates value and the financing activities section presents information about the way it funds or finances those business activities.

| <b>What Do The CPA's Think</b>                                                                                                                                                           |                                  |    |                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Would the separation of business activities from financing activities provide information that is more decision useful than that provided in the financial statement formats used today? |                                  |    |                                  |
| Yes                                                                                                                                                                                      | <input type="text" value="48%"/> | No | <input type="text" value="52%"/> |

The Boards concluded that information about the financing of business activities should be shown according to the source. The financing section would include nonowner sources of financing and the equity section would display information from owner sources.

| <b>What Do The CPA's Think</b>                                                                                                               |                                  |    |                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section? |                                  |    |                                  |
| Yes                                                                                                                                          | <input type="text" value="64%"/> | No | <input type="text" value="36%"/> |

In the Statement of Financial Position, information about discontinued operations would be shown separately from its continuing business and financing activities.

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                       |                                  |    |                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| In the proposed presentation model, an entity would present its discontinued operations in a separate section. Does this presentation provide decision-useful information?                                                           |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                  | <input type="text" value="80%"/> | No | <input type="text" value="20%"/> |
| Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets, and financing liabilities)? |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                  | <input type="text" value="23%"/> | No | <input type="text" value="77%"/> |

Management would classify its assets and liabilities into the sections and categories in the statement of financial position based upon how management thinks the asset or liability is used within the entity. This classification by management would determine the classification in the statements of comprehensive income and cash flows.

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                                                             |                                  |    |                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment. |                                  |    |                                  |
| Would a management approach provide the most useful view of an entity to users of its financial statements?                                                                                                                                                                |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                                                        | <input type="text" value="37%"/> | No | <input type="text" value="63%"/> |
| Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach?                                                                                                       |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                                                        | <input type="text" value="61%"/> | No | <input type="text" value="39%"/> |

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                                                                               |                                  |    |                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| The paper proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position.                                                                                                                         |                                  |    |                                  |
| Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                                                                          | <input type="text" value="36%"/> | No | <input type="text" value="64%"/> |

The Discussion Paper states that the business section should include assets and liabilities that management views as part of its continuing business activities of producing goods or providing services with customers, suppliers, and employees.

The operating category should include assets and liabilities that management views as related to the central purpose for which the entity is in business and the investing category should include assets and liabilities that management views as unrelated to the central purpose for which the entity is in business.

| <b>What Do The CPA's Think</b>                                                                                 |                                  |    |                                  |
|----------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Are the business section and the operating and investing categories within that section defined appropriately? |                                  |    |                                  |
| Yes                                                                                                            | <input type="text" value="47%"/> | No | <input type="text" value="53%"/> |

The financing section should include financial assets and financial liabilities that management views as part of the financing of the entity's business and other activities. The liabilities would normally result from capital-raising activities to fund business activities.

| <b>What Do The CPA's Think</b>                                                                                                     |                                  |    |                                  |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately? |                                  |    |                                  |
| Yes                                                                                                                                | <input type="text" value="45%"/> | No | <input type="text" value="55%"/> |
| Should the financing section be restricted financial liabilities as defined in IFRSs and U.S. GAAP as proposed?                    |                                  |    |                                  |
| Yes                                                                                                                                | <input type="text" value="64%"/> | No | <input type="text" value="36%"/> |

The Discussion Paper proposes the elimination of cash equivalents. These types of securities should be shown as short-term investments and not presented as part of cash in the statement of financial position.

| <b>What Do The CPA's Think</b>                                                                                                                                                 |                                  |    |                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| The Discussion Paper proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? |                                  |    |                                  |
| Yes                                                                                                                                                                            | <input type="text" value="54%"/> | No | <input type="text" value="46%"/> |

The Boards required disaggregation of assets and liabilities according to their measurement bases and present them on separate lines in the statement of financial position. For example, securities measured at amortized cost and securities measured at fair value should be shown on separate lines.

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                                                                                                                                           |                                  |    |                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| An entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? |                                  |    |                                  |
| Yes                                                                                                                                                                                                                                                                                                                                                      | <input type="text" value="50%"/> | No | <input type="text" value="50%"/> |

## STATEMENT OF COMPREHENSIVE INCOME

There is to be only a single Statement of Comprehensive Income (Exhibit 3) of which net income or loss would be a subtotal. Comprehensive income and other comprehensive income would no longer be allowed to be shown in the statement of changes in stockholder's equity.

| <b>What Do The CPA's Think</b>                                                                                              |                                  |    |                                  |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------|----|----------------------------------|
| Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed? |                                  |    |                                  |
| Yes                                                                                                                         | <input type="text" value="64%"/> | No | <input type="text" value="36%"/> |

## STATEMENT OF CASH FLOWS

There are two major changes in the proposed format of the Statement of Cash Flows (Exhibit 4). Firstly, the elimination of cash equivalents and secondly, the entity would use the direct method to present its cash receipts and cash payments. The use of the indirect method would no longer be allowed for the operating activities section of the statement of cash flows.

| <b>What Do The CPA's Think</b>                                                                                                                         |     |    |     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| The Paper proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.                                  |     |    |     |
| Would a direct method of presenting operating cash flows provide information that is decision useful?                                                  |     |    |     |
| Yes                                                                                                                                                    | 59% | No | 41% |
| Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives than an indirect method?                               |     |    |     |
| Yes                                                                                                                                                    | 58% | No | 42% |
| Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule? |     |    |     |
| Yes                                                                                                                                                    | 52% | No | 48% |

### NEW: A RECONCILIATION SCHEDULE

A new Reconciliation Schedule, (Exhibit 5), will be presented in the notes to the financial statements. This schedule reconciles cash flows to comprehensive income.

| <b>What Do The CPA's Think</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |     |    |     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|-----|
| The Paper proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, c)remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments. |     |    |     |
| Would the proposed reconciliation schedule increase users' understanding of the amount, timing, and uncertainty of an entity's future cash flows?                                                                                                                                                                                                                                                                                                                                                      |     |    |     |
| Yes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 51% | No | 49% |

The proposed financial statements presentation would apply to all entities except not-for-profit entities and nonpublic entities. The Discussion Paper states that the FASB has not considered explicitly whether this model should apply to nonpublic entities.

| <b>What Do The CPA's Think</b>                                                               |     |    |     |
|----------------------------------------------------------------------------------------------|-----|----|-----|
| Do you think the FASB should consider the proposed presentation model to nonpublic entities? |     |    |     |
| Yes                                                                                          | 23% | No | 77% |

### CONCLUSION

The survey clearly shows that the CPA's do not think the objectives of the proposed financial statement presentation would improve the usefulness of the information provided in an entity's financial statements and help users make better decisions.

Exhibit 2

|                                             |                                               | As at December 31  |                    |
|---------------------------------------------|-----------------------------------------------|--------------------|--------------------|
|                                             |                                               | 2009               | 2008               |
| <b>Long Company</b>                         |                                               |                    |                    |
| <b>Statement of Financial Position</b>      |                                               |                    |                    |
| <b>Proposed Format</b>                      |                                               |                    |                    |
| <b>BUSINESS</b>                             |                                               |                    |                    |
| <b>Operating</b>                            |                                               |                    |                    |
| Accounts receivable, trade                  |                                               | 943,050            | 805,550            |
| Less allowance for doubtful accounts        |                                               | (67,680)           | (69,180)           |
| Accounts receivable, net                    |                                               | 875,370            | 736,370            |
| Inventory                                   |                                               | 57,250             | 73,250             |
| Prepaid rent                                |                                               | 42,000             | 36,000             |
|                                             | <i>Total short-term assets</i>                | <i>974,620</i>     | <i>845,620</i>     |
| Property, plant and equipment               |                                               | 2,378,000          | 2,258,000          |
| Less accumulated depreciation               |                                               | (1,929,694)        | (1,349,847)        |
| Property, plant and equipment net           |                                               | 448,306            | 908,153            |
| Investment in ABC Co.                       |                                               | 424,800            | 424,000            |
|                                             | <i>Total long-term assets</i>                 | <i>873,106</i>     | <i>1,332,153</i>   |
| Accounts payable, trade                     |                                               | (49,400)           | (43,900)           |
| Wages payable                               |                                               | (35,200)           | (17,200)           |
| Warranties payable                          |                                               | (35,000)           | (30,000)           |
| Current portion of lease liability          |                                               | (75,131)           | (68,301)           |
|                                             | <i>Total short-term liabilities</i>           | <i>(194,731)</i>   | <i>(159,401)</i>   |
| Lease liability                             |                                               | (173,555)          | (248,686)          |
| Other long-term liabilities                 |                                               | (50,000)           | (50,000)           |
|                                             | <i>Total long-term liabilities</i>            | <i>(223,555)</i>   | <i>(298,686)</i>   |
|                                             | <b>Net operating assets</b>                   | <b>1,429,440</b>   | <b>1,719,686</b>   |
| <b>Investing</b>                            |                                               |                    |                    |
| Available-for-sale securities (short-term)  |                                               | 62,000             | 54,000             |
| Investment in XYZ Co. (long-term)           |                                               | 685,500            | 683,000            |
|                                             | <b>Total investing assets</b>                 | <b>747,500</b>     | <b>737,000</b>     |
|                                             | <b>NET BUSINESS ASSETS</b>                    | <b>2,176,940</b>   | <b>2,456,686</b>   |
| <b>FINANCING</b>                            |                                               |                    |                    |
| <b>Financing assets</b>                     |                                               |                    |                    |
| Cash                                        |                                               | 2,170,080          | 1,258,480          |
|                                             | <b>Total financing assets</b>                 | <b>2,170,080</b>   | <b>1,258,480</b>   |
| <b>Financing liabilities</b>                |                                               |                    |                    |
| Short-term borrowings                       |                                               | (400,000)          | (400,000)          |
| Interest payable                            |                                               | (17,000)           | (9,000)            |
|                                             | <i>Total short-term financing liabilities</i> | <i>(417,000)</i>   | <i>(409,000)</i>   |
| Long-term borrowings                        |                                               | (619,000)          | (545,000)          |
|                                             | <b>Total financing liabilities</b>            | <b>(1,036,000)</b> | <b>(954,000)</b>   |
|                                             | <b>NET FINANCING ASSETS</b>                   | <b>1,134,080</b>   | <b>304,480</b>     |
| <b>INCOME TAXES</b>                         |                                               |                    |                    |
| <b>Short-term</b>                           |                                               |                    |                    |
| Deferred tax asset                          |                                               | 15,200             | 10,400             |
| Income taxes payable                        |                                               | (45,828)           | (26,686)           |
| <b>Long-term</b>                            |                                               |                    |                    |
| Deferred tax liability                      |                                               | (136,000)          | (216,000)          |
|                                             | <b>NET INCOME TAX LIABILITY</b>               | <b>(166,628)</b>   | <b>(232,286)</b>   |
| <b>DISCONTINUED OPERATIONS</b>              |                                               |                    |                    |
| <b>Assets held for sale</b>                 |                                               |                    |                    |
| Assets held for sale                        |                                               | 162,000            | 162,000            |
| Liabilities related to assets held for sale |                                               | (80,000)           | (89,000)           |
|                                             | <b>NET ASSETS HELD FOR SALE</b>               | <b>82,000</b>      | <b>73,000</b>      |
|                                             | <i>NET ASSETS</i>                             | <i>3,226,392</i>   | <i>2,601,880</i>   |
| <b>EQUITY</b>                               |                                               |                    |                    |
| Share capital                               |                                               | (1,552,000)        | (1,437,000)        |
| Retained earnings                           |                                               | (1,761,192)        | (1,162,480)        |
| Accumulated other comprehensive income      |                                               | 1,800              | (2,400)            |
| Treasury Stock                              |                                               | 85,000             |                    |
|                                             | <b>TOTAL EQUITY</b>                           | <b>(3,226,392)</b> | <b>(2,601,880)</b> |
| <b>Total short-term assets</b>              |                                               | <b>3,383,900</b>   | <b>2,330,500</b>   |
| <b>Total long-term assets</b>               |                                               | <b>1,558,606</b>   | <b>2,015,153</b>   |
| <b>Total assets</b>                         |                                               | <b>4,942,506</b>   | <b>4,345,653</b>   |
| <b>Total short-term liabilities</b>         |                                               | <b>(737,559)</b>   | <b>(684,087)</b>   |
| <b>Total long-term liabilities</b>          |                                               | <b>(978,555)</b>   | <b>(1,059,686)</b> |
| <b>Total liabilities</b>                    |                                               | <b>(1,716,114)</b> | <b>(1,743,773)</b> |

Exhibit 3

| <b>Long Company<br/>Statement of Comprehensive Income<br/>Proposed Format</b> |                                                    |                    |
|-------------------------------------------------------------------------------|----------------------------------------------------|--------------------|
|                                                                               | As at December 31                                  |                    |
|                                                                               | 2009                                               | 2008               |
| <b>BUSINESS</b>                                                               |                                                    |                    |
| <b>Operating</b>                                                              |                                                    |                    |
| Sales                                                                         |                                                    |                    |
| Wholesale                                                                     | 2,640,000                                          | 2,480,000          |
| Retail                                                                        | 660,000                                            | 620,000            |
|                                                                               | <i>Total revenue</i>                               | <i>3,300,000</i>   |
| Cost of goods sold                                                            |                                                    |                    |
| Materials                                                                     | (467,500)                                          | (425,000)          |
| Labor                                                                         | (704,000)                                          | (640,000)          |
| Overhead-depreciation                                                         | (454,847)                                          | (454,847)          |
| Overhead-other                                                                | (101,200)                                          | (91,200)           |
|                                                                               | <i>Total cost of goods sold</i>                    | <i>(1,727,547)</i> |
|                                                                               | <i>Gross profit</i>                                | <i>1,572,453</i>   |
| Selling expenses                                                              |                                                    |                    |
| Wages and salaries                                                            | (64,000)                                           | (60,000)           |
| Warranty expense                                                              | (35,000)                                           | (30,000)           |
| Bad debt                                                                      | (42,000)                                           | (45,330)           |
|                                                                               | <i>Total selling expenses</i>                      | <i>(141,000)</i>   |
| General and administrative expenses                                           |                                                    |                    |
| Rent                                                                          | (78,000)                                           | (72,000)           |
| Wages and salaries                                                            | (76,000)                                           | (75,000)           |
| Depreciation                                                                  | (165,000)                                          | (175,000)          |
| Interest on lease liability                                                   | (31,699)                                           | (37,908)           |
|                                                                               | <i>Total general and administrative</i>            | <i>(350,699)</i>   |
|                                                                               | <i>Income before other operating items</i>         | <i>1,080,754</i>   |
| Other operating income                                                        |                                                    |                    |
| Share of profit--ABC Co.                                                      | 14,600                                             | 16,000             |
| Gain on disposal of equipment                                                 | 28,000                                             |                    |
|                                                                               | <i>Total other operating income</i>                | <i>42,600</i>      |
|                                                                               | <b>Total operating income</b>                      | <b>1,123,354</b>   |
| <b>Investing</b>                                                              |                                                    |                    |
| Dividend income                                                               | 11,000                                             | 9,000              |
| Realized gain on available-for-sale securities                                | 6,000                                              |                    |
| Share of profit--XYZ Co.                                                      | 15,500                                             | 14,000             |
|                                                                               | <b>Total investing income</b>                      | <b>32,500</b>      |
|                                                                               | <b>TOTAL BUSINESS INCOME</b>                       | <b>1,155,854</b>   |
| <b>FINANCING</b>                                                              |                                                    |                    |
| Interest income on cash                                                       | 14,000                                             | 12,000             |
|                                                                               | <b>Total financing asset income</b>                | <b>14,000</b>      |
| Interest expense                                                              | (92,000)                                           | (89,000)           |
|                                                                               | <b>Total financing liability expense</b>           | <b>(92,000)</b>    |
|                                                                               | <b>TOTAL FINANCING EXPENSE</b>                     | <b>(78,000)</b>    |
|                                                                               | <i>Profit from continuing operations</i>           | <i>1,077,854</i>   |
|                                                                               | <i>before taxes and other comprehensive income</i> | <i>955,715</i>     |
| <b>INCOME TAXES</b>                                                           |                                                    |                    |
| Income tax expense                                                            | (431,142)                                          | (382,286)          |
|                                                                               | <i>Net profit from continuing operations</i>       | <i>646,712</i>     |
| <b>DISCONTINUED OPERATIONS</b>                                                |                                                    |                    |
| Loss on discontinued operations                                               | (10,000)                                           | (14,000)           |
| Tax benefit                                                                   | 4,000                                              | 5,600              |
|                                                                               | <b>NET LOSS FROM DISCONTINUED OPERATIONS</b>       | <b>(6,000)</b>     |
|                                                                               | <b>NET INCOME</b>                                  | <b>640,712</b>     |
| <b>OTHER COMPREHENSIVE INCOME (after tax)</b>                                 |                                                    |                    |
| Unrealized gain on available-for-sale securities (investing)                  | (4,200)                                            | 2,400              |
|                                                                               | <b>TOTAL OTHER COMPREHENSIVE INCOME</b>            | <b>(4,200)</b>     |
|                                                                               | <b>TOTAL COMPREHENSIVE INCOME</b>                  | <b>636,512</b>     |
|                                                                               | Basic earnings per share                           | 7.14               |
|                                                                               | Diluted earnings per share                         | 6.78               |
|                                                                               |                                                    | 6.89               |
|                                                                               |                                                    | 5.92               |

Exhibit 4

| <b>Long Company<br/>Statement of Cash Flows<br/>Proposed Format</b>      |                    |                    |
|--------------------------------------------------------------------------|--------------------|--------------------|
|                                                                          | As at December 31  |                    |
|                                                                          | 2009               | 2008               |
| <b>BUSINESS</b>                                                          |                    |                    |
| <b>Operating</b>                                                         |                    |                    |
| Cash received from customers                                             |                    |                    |
| Wholesale                                                                | 2,496,000          | 2,356,000          |
| Retail                                                                   | 624,000            | 589,000            |
| <i>Total cash collected from customers</i>                               | <i>3,120,000</i>   | <i>2,945,000</i>   |
| Cash paid for goods                                                      |                    |                    |
| Material purchases                                                       | (446,000)          | (435,000)          |
| Labor                                                                    | (690,000)          | (642,000)          |
| Overhead-other                                                           | (101,200)          | (91,200)           |
| <i>Total cash paid for goods</i>                                         | <i>(1,237,200)</i> | <i>(1,168,200)</i> |
| Cash paid for selling activities                                         |                    |                    |
| Wages and salaries                                                       | (64,000)           | (60,000)           |
| Warranty                                                                 | (30,000)           | (25,000)           |
| <i>Total cash paid for selling activities</i>                            | <i>(94,000)</i>    | <i>(85,000)</i>    |
| Cash paid for general and administrative activities                      |                    |                    |
| Rent                                                                     | (84,000)           | (72,000)           |
| Wages and salaries                                                       | (72,000)           | (70,000)           |
| Lease payments                                                           | (68,301)           | (62,092)           |
| Interest on lease liability                                              | (31,699)           | (37,908)           |
| <i>Total cash paid for general and administrative activities</i>         | <i>(256,000)</i>   | <i>(242,000)</i>   |
| <i>Cash flow before other operating activities</i>                       | <i>1,532,800</i>   | <i>1,449,800</i>   |
| Cash from other operating activities                                     |                    |                    |
| Dividend income                                                          | 13,800             | 12,000             |
| Purchase of equipment                                                    | (160,000)          | (200,000)          |
| Disposal of equipment                                                    | 28,000             |                    |
| <i>Total cash received for other operating activities</i>                | <i>(118,200)</i>   | <i>(188,000)</i>   |
| <b>Net cash from operating activities</b>                                | <b>1,414,600</b>   | <b>1,261,800</b>   |
| <b>Investing</b>                                                         |                    |                    |
| Dividends received                                                       | 24,000             | 19,000             |
| Sale of available-for-sale financial assets                              | 36,000             |                    |
| Purchase of available-for-sale financial assets                          | (45,000)           | (50,000)           |
| <b>Net cash from investing activities</b>                                | <b>15,000</b>      | <b>(31,000)</b>    |
| <b>NET CASH FROM BUSINESS ACTIVITIES</b>                                 | <b>1,429,600</b>   | <b>1,230,800</b>   |
| <b>FINANCING</b>                                                         |                    |                    |
| Interest received on cash                                                | 14,000             | 12,000             |
| <b>Total cash from financing assets</b>                                  | <b>14,000</b>      | <b>12,000</b>      |
| Pay long-term liabilities                                                | (46,000)           |                    |
| Interest paid                                                            | (84,000)           | (80,000)           |
| Dividends paid                                                           | (42,000)           | (56,000)           |
| Proceeds from long-term liabilities                                      | 120,000            |                    |
| <b>Total cash from financing liabilities</b>                             | <b>(52,000)</b>    | <b>(136,000)</b>   |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                | <b>(38,000)</b>    | <b>(124,000)</b>   |
| <i>Change in cash from continuing operations before taxes and equity</i> | <i>1,391,600</i>   | <i>1,106,800</i>   |
| <b>INCOME TAXES</b>                                                      |                    |                    |
| Cash taxes paid                                                          | (490,000)          | (256,000)          |
| <i>Change in cash before discontinued operations and equity</i>          | <i>901,600</i>     | <i>850,800</i>     |
| <b>DISCONTINUED OPERATIONS</b>                                           |                    |                    |
| Cash paid from discontinued operations                                   | (20,000)           | (17,000)           |
| <b>NET CASH FROM DISCONTINUED OPERATIONS</b>                             | <b>(20,000)</b>    | <b>(17,000)</b>    |
| <i>Change in cash before equity</i>                                      | <i>881,600</i>     | <i>833,800</i>     |
| <b>EQUITY</b>                                                            |                    |                    |
| Proceeds from issue of common stock                                      | 115,000            |                    |
| Proceeds from reissue of treasury stock                                  | (85,000)           |                    |
| <b>NET CASH FROM EQUITY</b>                                              | <b>30,000</b>      | <b>-</b>           |
| <b>CHANGE IN CASH</b>                                                    | <b>911,600</b>     | <b>833,800</b>     |
| <b>Beginning cash</b>                                                    | <b>1,258,480</b>   | <b>424,680</b>     |
| <b>Ending cash</b>                                                       | <b>2,170,080</b>   | <b>1,258,480</b>   |



Exhibit 5

| Long Company<br>Reconciliation of Cash Flows to Comprehensive Income<br>For The Year Ended December 31, 2009 |                    |                                 |                                  |                                     |                      |                                                                                      |
|--------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------|----------------------------------|-------------------------------------|----------------------|--------------------------------------------------------------------------------------|
| Caption in Statement of Cash Flows                                                                           | Cash Flows         | Noncash Items Affecting Income  |                                  |                                     | Comprehensive Income | Statement of Comprehensive Income<br>Caption in Statement of Comprehensive Income    |
|                                                                                                              |                    | Not From Remeasurements         | From Remeasurements              |                                     |                      |                                                                                      |
|                                                                                                              |                    | Accruals Allocations, and Other | Recurring Fair Value Adjustments | Other Than Recurring FV Adjustments |                      |                                                                                      |
| <b>BUSINESS</b>                                                                                              |                    |                                 |                                  |                                     |                      | <b>BUSINESS</b>                                                                      |
| <b>Operating</b>                                                                                             |                    |                                 |                                  |                                     |                      | <b>Operating</b>                                                                     |
| Cash received from wholesale customers                                                                       | 2,496,000          | 144,000                         |                                  |                                     | 2,640,000            | Sales—wholesale                                                                      |
| Cash received from retail customers                                                                          | 624,000            | 36,000                          |                                  |                                     | 660,000              | Sales—retail                                                                         |
| <i>Total cash collected from customers</i>                                                                   | <i>3,120,000</i>   | <i>180,000</i>                  |                                  |                                     | <i>3,300,000</i>     | <i>Total revenue</i>                                                                 |
| Cash paid for goods                                                                                          |                    |                                 |                                  |                                     |                      | Cost of goods sold                                                                   |
| Materials                                                                                                    | (446,000)          | (21,500)                        |                                  |                                     | (467,500)            | Materials                                                                            |
| Labor                                                                                                        | (690,000)          | (14,000)                        |                                  |                                     | (704,000)            | Labor                                                                                |
|                                                                                                              |                    | (454,847)                       |                                  |                                     | (454,847)            | Overhead-depreciation                                                                |
| Overhead-other                                                                                               | (101,200)          | -                               |                                  |                                     | (101,200)            | Overhead-other                                                                       |
| <i>Total cash paid for goods</i>                                                                             | <i>(1,237,200)</i> | <i>(490,347)</i>                |                                  |                                     | <i>(1,727,547)</i>   | <i>Total cost of goods sold</i>                                                      |
|                                                                                                              |                    |                                 |                                  |                                     |                      | <i>Gross profit</i>                                                                  |
| Cash paid for selling activities                                                                             |                    |                                 |                                  |                                     |                      | Selling expenses                                                                     |
| Wages and salaries                                                                                           | (64,000)           | -                               |                                  |                                     | (64,000)             | Wages and salaries                                                                   |
| Warranty expense                                                                                             | (30,000)           | (5,000)                         |                                  |                                     | (35,000)             | Warranty expense                                                                     |
|                                                                                                              |                    | (42,000)                        |                                  |                                     | (42,000)             | Bad debt                                                                             |
| <i>Total cash paid for selling activities</i>                                                                | <i>(94,000)</i>    | <i>(47,000)</i>                 |                                  |                                     | <i>(141,000)</i>     | <i>Total selling expenses</i>                                                        |
| Cash paid for general and administrative activities                                                          |                    |                                 |                                  |                                     |                      | General and administrative expenses                                                  |
| Rent                                                                                                         | (84,000)           | 6,000                           |                                  |                                     | (78,000)             | Rent                                                                                 |
| Wages and salaries                                                                                           | (72,000)           | (4,000)                         |                                  |                                     | (76,000)             | Wages and salaries                                                                   |
|                                                                                                              |                    | (165,000)                       |                                  |                                     | (165,000)            | Depreciation                                                                         |
| Capital expenditures                                                                                         | (68,301)           | 68,301                          |                                  |                                     |                      |                                                                                      |
| Interest on lease liability                                                                                  | (31,699)           | -                               |                                  |                                     | (31,699)             | Interest on lease liability                                                          |
| <i>Total cash paid for general and administrative</i>                                                        | <i>(256,000)</i>   | <i>(94,699)</i>                 |                                  |                                     | <i>(350,699)</i>     | <i>Total general and administrative expenses</i>                                     |
| <i>Cash flow before other operating activities</i>                                                           | <i>1,532,800</i>   | <i>(452,046)</i>                |                                  |                                     | <i>1,080,754</i>     | <i>Income before other operating items</i>                                           |
| Cash from other operating activities                                                                         |                    |                                 |                                  |                                     |                      | Other operating income (expense)                                                     |
| Dividend income                                                                                              | 13,800             | 800                             |                                  |                                     | 14,600               | Share of profit-ABC Co.                                                              |
| Purchase of equipment                                                                                        | (160,000)          | 160,000                         |                                  |                                     |                      |                                                                                      |
| Disposal of property, plant and equipment                                                                    | 28,000             |                                 |                                  |                                     | 28,000               | Gain on disposal of equipment                                                        |
| <i>Total cash received from other operating activities</i>                                                   | <i>(118,200)</i>   | <i>160,800</i>                  |                                  |                                     | <i>42,600</i>        | <i>Total other operating income</i>                                                  |
| <b>Net cash from operating activities</b>                                                                    | <b>1,414,600</b>   | <b>(291,246)</b>                |                                  |                                     | <b>1,123,354</b>     | <b>Total operating income</b>                                                        |
| <b>Investing</b>                                                                                             |                    |                                 |                                  |                                     |                      | <b>Investing</b>                                                                     |
| Dividend income                                                                                              | 13,000             | (2,000)                         |                                  |                                     | 11,000               | Dividend income                                                                      |
| Realized gain on available-for-sale securities                                                               |                    | 6,000                           |                                  |                                     | 6,000                | Realized gain on available-for-sale securities                                       |
| Dividend income                                                                                              | 11,000             | 4,500                           |                                  |                                     | 15,500               | Share of profit-XYZ Co.                                                              |
| Sale of available-for-sale financial assets                                                                  | 36,000             | (36,000)                        |                                  |                                     |                      |                                                                                      |
| Purchase of available-for-sale financial assets                                                              | (45,000)           | 45,000                          |                                  |                                     |                      | Purchase of available-for-sale financial assets                                      |
| <b>Net cash from investing activities</b>                                                                    | <b>15,000</b>      | <b>17,500</b>                   |                                  |                                     | <b>32,500</b>        | <b>Total investing income</b>                                                        |
| <b>NET CASH FROM BUSINESS ACTIVITIES</b>                                                                     | <b>1,429,600</b>   | <b>(273,746)</b>                |                                  |                                     | <b>1,155,854</b>     | <b>TOTAL BUSINESS INCOME</b>                                                         |
| <b>FINANCING</b>                                                                                             |                    |                                 |                                  |                                     |                      | <b>FINANCING</b>                                                                     |
| Interest income on cash                                                                                      | 14,000             |                                 |                                  |                                     | 14,000               | Interest income on cash                                                              |
| <b>Total cash from financing assets</b>                                                                      | <b>14,000</b>      |                                 |                                  |                                     | <b>14,000</b>        | <b>Total financing asset income</b>                                                  |
| Proceeds from issue of short-term debt                                                                       | (46,000)           | 46,000                          |                                  |                                     |                      |                                                                                      |
| Interest paid                                                                                                | (84,000)           | (8,000)                         |                                  |                                     | (92,000)             | Interest expense                                                                     |
| Dividends paid                                                                                               | (42,000)           | 42,000                          |                                  |                                     |                      |                                                                                      |
| <b>Total cash from financing liabilities</b>                                                                 | <b>(172,000)</b>   | <b>80,000</b>                   |                                  |                                     | <b>(92,000)</b>      | <b>Total financing liability expense</b>                                             |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                                                    | <b>(158,000)</b>   | <b>80,000</b>                   |                                  |                                     | <b>(78,000)</b>      | <b>TOTAL NET FINANCING EXPENSE</b>                                                   |
| <i>Change in cash from continuing operations before taxes and equity</i>                                     | <i>1,271,600</i>   | <i>(193,746)</i>                |                                  |                                     | <i>1,077,854</i>     | <i>Profit from continuing operations before taxes and other comprehensive income</i> |
| <b>INCOME TAXES</b>                                                                                          |                    |                                 |                                  |                                     |                      | <b>INCOME TAXES</b>                                                                  |
| Cash taxes paid                                                                                              | (490,000)          | 58,858                          |                                  |                                     | (431,142)            | Cash taxes paid                                                                      |
| <i>Change in cash before discontinued operations and equity</i>                                              | <i>781,600</i>     | <i>(134,888)</i>                |                                  |                                     | <i>646,712</i>       | <i>Net profit from continuing operations</i>                                         |
| <b>DISCONTINUED OPERATIONS</b>                                                                               |                    |                                 |                                  |                                     |                      | <b>DISCONTINUED OPERATIONS</b>                                                       |
| Cash paid from discontinued operations                                                                       | (20,000)           | 10,000                          |                                  |                                     | (10,000)             | Loss on discontinued operations                                                      |
|                                                                                                              |                    | 4,000                           |                                  |                                     | 4,000                | Tax benefit                                                                          |
| <b>NET CASH FROM DISCONTINUED OPERATIONS</b>                                                                 | <b>(20,000)</b>    | <b>14,000</b>                   |                                  |                                     | <b>(6,000)</b>       | <b>NET LOSS FROM DISCONTINUED OPERATIONS</b>                                         |
| <i>Change in cash before equity</i>                                                                          | <i>761,600</i>     | <i>(120,888)</i>                |                                  |                                     | <i>640,712</i>       | <b>NET INCOME</b>                                                                    |
|                                                                                                              |                    |                                 |                                  |                                     |                      | <b>OTHER COMPREHENSIVE INCOME (after tax)</b>                                        |
|                                                                                                              |                    |                                 |                                  | (4,200)                             | (4,200)              | Unrealized gain on available-for-sale securities                                     |
| <i>Change in cash before equity</i>                                                                          | <i>761,600</i>     | <i>(120,888)</i>                | <i>(4,200)</i>                   |                                     | <i>636,512</i>       | <b>TOTAL OTHER COMPREHENSIVE INCOME</b>                                              |
|                                                                                                              |                    |                                 |                                  |                                     |                      | <b>TOTAL COMPREHENSIVE INCOME</b>                                                    |

**AUTHOR INFORMATION**

**Stuart Shough** has worked in the private sector for 12 years and has taught accounting for 26 years. He is currently Senior Instructor at the George Dean Johnson, Jr. College of Business and Economics at the University of South Carolina Upstate.

**REFERENCES**

Available from author.

**NOTES**