

INFORMATION TO USERS

This was produced from a copy of a document sent to us for microfilming. While the most advanced technological means to photograph and reproduce this document have been used, the quality is heavily dependent upon the quality of the material submitted.

The following explanation of techniques is provided to help you understand markings or notations which may appear on this reproduction.

1. The sign or "target" for pages apparently lacking from the document photographed is "Missing Page(s)". If it was possible to obtain the missing page(s) or section, they are spliced into the film along with adjacent pages. This may have necessitated cutting through an image and duplicating adjacent pages to assure you of complete continuity.
2. When an image on the film is obliterated with a round black mark it is an indication that the film inspector noticed either blurred copy because of movement during exposure, or duplicate copy. Unless we meant to delete copyrighted materials that should not have been filmed, you will find a good image of the page in the adjacent frame.
3. When a map, drawing or chart, etc., is part of the material being photographed the photographer has followed a definite method in "sectioning" the material. It is customary to begin filming at the upper left hand corner of a large sheet and to continue from left to right in equal sections with small overlaps. If necessary, sectioning is continued again—beginning below the first row and continuing on until complete.
4. For any illustrations that cannot be reproduced satisfactorily by xerography, photographic prints can be purchased at additional cost and tipped into your xerographic copy. Requests can be made to our Dissertations Customer Services Department.
5. Some pages in any document may have indistinct print. In all cases we have filmed the best available copy.

University
Microfilms
International

300 N. ZEEB ROAD, ANN ARBOR, MI 48106
18 BEDFORD ROW, LONDON WC1R 4EJ, ENGLAND

DE RIDDER, JEROME J.

COMPARISON OF SEVEN FUNDAMENTAL FEATURES OF THE STATEMENT
OF CHANGES IN FINANCIAL POSITION IN THE UNITED STATES,
CANADA, THE UNITED KINGDOM, NEW ZEALAND AND AUSTRALIA

The University of Nebraska - Lincoln

PH.D.

1980

**University
Microfilms
International**

300 N. Zeeb Road, Ann Arbor, MI 48106

Copyright 1980

by

DE RIDDER, JEROME J.

All Rights Reserved

COMPARISON OF SEVEN FUNDAMENTAL FEATURES OF THE STATEMENT
OF CHANGES IN FINANCIAL POSITION IN THE UNITED
STATES, CANADA, THE UNITED KINGDOM,
NEW ZEALAND AND AUSTRALIA

by

Jerome J. De Ridder

Presented to the Faculty of

The Graduate College in the University of Nebraska

In Partial Fulfillment of Requirements

For the Degree of Doctor of Philosophy

Major: Interdepartment Area of Business (Accounting)

Under the Supervision of Professor Robert H. Raymond

Lincoln, Nebraska

August 1980

TITLE

Comparison of Seven Fundamental Features of the Statement of
Changes in Financial Position in the United States,
Canada, the United Kingdom, New Zealand and
Australia

BY

Jerome J. DeRidder

APPROVED

DATE

<u>Robert H. Raymond</u>	<u>August 14, 1980</u>
<u>Thomas E. Balke</u>	<u>August 14, 1980</u>
<u>Keith L. Broman</u>	<u>August 14, 1980</u>
<u>George C. Holdren</u>	<u>August 14, 1980</u>
<u>Robert A. Mittelstaedt</u>	<u>August 14, 1980</u>
<u>Cary D. Thorp</u>	<u>August 14, 1980</u>
<u> </u>	<u> </u>

SUPERVISORY COMMITTEE

GRADUATE COLLEGE

UNIVERSITY OF NEBRASKA

ACKNOWLEDGMENTS

I wish to dedicate this study to my mother and father who imparted the love of knowledge to me at an early age. It is their love and devotion which encouraged me to attempt this program at this time of my life. I also wish to thank my wife Ann for her encouragement.

Although it is not possible to acknowledge everyone who contributed to this study I wish to thank them all. I especially wish to express my deepest gratitude to Professor Robert H. Raymond, who served as Chairman of the Supervisory Committee. His consideration and thoughtfulness are what brought me to the University of Nebraska and his continuing encouragement, guidance, valuable assistance, and moral support are what made this dissertation possible. I also wish to thank Professors Keith Broman, George C. Holdren, Thomas E. Balke, Robert A. Mittelstaedt and Cary D. Thorp who served on the Supervisory Committee. Their contributions are gratefully acknowledged.

I wish to thank the regulatory accounting bodies of the countries involved in this study. Also I wish to thank W. A. Linnenbringer of Price Waterhouse International, Mrs. Claudia

van Schaik of Peat, Marwick, Mitchell and Company and E. P. Akins of the International Accounting Standards Committee, for the assistance they provided. I also wish to thank Professors Rodger Tang and Ashley Burrows for their assistance. Finally I wish to thank Faisal A. Hafiz from Medina Saudi Arabia for the friendship shown me during this study.

Although many individuals contributed to this study any errors or misjudgments in this study are my sole responsibility.

TABLE OF CONTENTS

ACKNOWLEDGMENTS	ii
LIST OF TABLES	ix
LIST OF ILLUSTRATIONS	xi
 Chapter	
I. INTRODUCTION	1
Literature Review.	8
Need for an International Study.	11
Objective of the Study	14
Methodology.	15
Research Design.	16
Historical Research.	17
Empirical Research.	18
Evaluation	19
II. HIGHLIGHTS OF THE HISTORICAL DEVELOPMENT OF THE UNITED STATES' STATEMENT OF CHANGES IN FINANCIAL POSITION.	21
Current Position of United States' Statement of Changes in Financial Position.	27
Current Status of the United States' Statement of Changes in Financial Position in Relation to the Inter- national Standards.	28
Concluding Comment	31
III. UNITED STATES' STATEMENT OF CHANGES IN FINANCIAL POSITION.	33
Objectives of United States' Statement of Changes in Financial Position	34
Overview of the Form and Content of the United States' Statement of Changes in Financial Position.	35

TABLE OF CONTENTS (CONTINUED)

Chapter

III.	Seven Points of Comparison with Promulgations in Effect in Four Other Countries . . .	45
	Interpretive Comment	49
IV.	CANADA'S STATEMENT OF CHANGES IN FINANCIAL POSITION	52
	Current Position of Canada's Statement of Changes in Financial Position	54
	Current Status of Canada's Statement of Changes in Financial Position in Relation to the International Standards . . .	56
	Objectives of Canada's Statement of Changes in Financial Position as Recommended by Handbook Section 1540	59
	Form and Content of Canada's Statement of Changes in Financial Position as Recommended by Handbook Section 1540.	59
	Comparison of Canada's Statement of Changes in Financial Position with the United States' Statement of Changes in Financial Position.	64
	Contrast of Reporting Requirements	72
	Funds Statement Disclosure Requirements Unique to One Country	74
	Interpretive Comment	75
	Concluding Observation	77
V.	THE UNITED KINGDOM'S STATEMENT OF SOURCE AND APPLICATION OF FUNDS.	79
	Current Position of the United Kingdom's Statement of Source and Application of Funds.	80
	Current Position of the United Kingdom's Statement of Source and Application of Funds in Relation to the International Standards.	84
	Objectives of the United Kingdom's Statement of Source and Application of Funds under SSAP 10	87

TABLE OF CONTENTS (CONTINUED)

Chapter

V.	Form and Content of the Statement of Source and Application under SSAP10	87
	Comparison of United Kingdom's Statement of Source and Application of Funds with the United States' Statement of Changes in Financial Position.	90
	Contrast of Reporting Requirements	98
	Funds Statement Disclosure Requirements Unique to One Country	100
	Interpretive Comment	101
	Concluding Observation	102
VI.	NEW ZEALAND'S STATEMENT OF CHANGES IN FINANCIAL POSITION.	103
	Current Status of New Zealand's Statement of Changes in Financial Position.	104
	Current Status of New Zealand's Statement of Changes in Financial Position in Relation to the International Standards	106
	Objectives of New Zealand's Statement of Changes in Financial Position under SSAP 10	108
	Form and Content of the Statement of Changes in Financial Position under SSAP 10	109
	Comparison of New Zealand's Statement of Changes in Financial Position with the United States' Statement of Changes in Financial Position.	113
	Contrast of Reporting Requirements	120
	Funds Statement Disclosure Requirements Unique to One Country	122
	Interpretive Comment	124
	Concluding Observation	125
VII.	AUSTRALIA'S STATEMENT OF SOURCE AND APPLICATION OF FUNDS.	127
	Current Position of Australia's Statement of Source and Application of Funds.	127

TABLE OF CONTENTS (CONTINUED)

Chapter

VII.	Current Position of Australia's Statement of Source and Application of Funds in Relation to the International Standards	130
	Objective of Australia's Statement of Source and Application of Funds as Recommended in Technical Bulletin Fl.	133
	Form and Content of Australia's Statement of Source and Application of Funds as Recommended in Technical Bulletin Fl.	133
	Comparison of Australia's Statement of Source and Application of Funds with the United States' Statement of Changes in Financial Position	137
	Contrast of Reporting Requirements	147
	Funds Statement Disclosure Requirements Unique to One Country	148
	Interpretive Comment	149
	Concluding Observation	151
VIII.	STATUS OF THE STATEMENT OF CHANGES IN FINANCIAL POSITION IN THE EUROPEAN ECONOMIC COMMUNITY COUNTRIES	153
	United Kingdom	154
	Ireland	155
	Netherlands	155
	Belgium	156
	Luxembourg	157
	Denmark	158
	West Germany	158
	Italy	160
	Interpretive Comment	160
	Concluding Observation	161
IX.	SUMMARY, RECOMMENDATIONS AND CONCLUSION	163
	Comparative Summary	164
	Contrast of Reporting Requirements	170
	Interpretive Summary	172
	Recommendations and Conclusion	173

TABLE OF CONTENTS (CONTINUED)

Chapter

IX. Recommendations for Future Research.190
Concluding Remarks196

APPENDICES

A. United States' Accounting Principles
Board Opinion 19198
B. Canadian Institute of Chartered Accountants'
Handbook Section 1540.208
C. United Kingdom's Statement of Standard
Accounting Practice No. 10219
D. New Zealand's Statement of Standard
Accounting Practice No. 10226
E. Australia's Technical Bulletin F1236
F. International Accounting Standard 7244
BIBLIOGRAPHY.253

LIST OF TABLES

I. United States' companies included in American Institute of Certified Public Accountants' annual survey that presented a statement of changes in financial position as part of their annual financial report: 1963-1979. . . . 29

II. Canadian companies included in the Canadian Institute of Chartered Accountants survey that presented a statement of source and application of funds as part of their annual financial report: 1967-1970 53

III. Canadian companies' included in the Canadian Institute of Chartered Accountants survey that presented a statement of changes in financial position as part of their annual financial report: 1971-1978 56

IV. Comparative analysis of seven reporting provisions of the statement of changes in financial position in the United States and Canada. . 73

V. United Kingdom companies' included in the International Center for Research in Accounting survey that presented a statement of source and application of funds as part of their annual financial report: 1968-1973. 81

VI. United Kingdom companies included in the International Center for Research in Accounting survey that presented a statement of source and application of funds as part of their annual financial report: 1974-1978. 83

VII. Comparative analysis of seven reporting provisions of the statement of source and application of funds in the United States and the United Kingdom 99

LIST OF TABLES (CONTINUED)

VIII.	New Zealand companies included in a survey that presented a statement of changes in financial position as part of their annual financial report: 1975-1979.	106
IX.	Comparative analysis of seven reporting provisions of the statement of changes in financial position in the United States and New Zealand	121
X.	Comparative analysis of seven reporting provisions of the statement of source and application of funds in the United States and Australia	146
XI.	Netherlands companies included in a survey that presented a statement of changes in financial position as part of their annual financial report.	155
XII.	Comparative analysis of seven major reporting provisions of the statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand, Australia, and International Accounting Standard 7.	171

LIST OF ILLUSTRATIONS

Figure

1	Schedule of changes in working capital to include with the statement of changes in financial position to satisfy the reporting standards set out in United States' <u>APB Opinion 19</u>	41
2	A textbook illustration of the statement of changes in financial position which meets the reporting requirements of United States' <u>APB Opinion 19</u>	43
3	An example of a statement of changes in financial position which meets the reporting standards set out in Canada's <u>CICA Handbook</u> Section 1540.	63
4	An example of a statement of source and application of funds which meets the reporting standards set out in United Kingdom's <u>SSAP 10</u>	91
5	An example of a statement of changes in financial position which meets the reporting standards set out in New Zealand's <u>SSAP 10</u>	112
6	An example of a statement of source and application of funds which meets the reporting standards set out in Australia's <u>Technical Bulletin Fl.</u>	136
7	An example of a statement of changes in financial position which is modified to present current cost information	192

CHAPTER I

INTRODUCTION

A major objective of financial reporting is to supply relevant information to statement users for decision making purposes. Whether or not accounting fulfills this objective may be examined by attempting to answer the following questions: (1) who is the user of the information and for what purpose is the information to be used? (2) how much information is needed?¹

Among the most widely accepted answers to the above questions are: (1) financial reports are prepared for the use of present and potential investors, creditors and other users in making rational investment, credit and similar decisions, and (2) "...accounting reports should disclose that which is necessary to make them not misleading."²

Historically, financial statements developed in response to the need to provide information to outside interest groups concerning the impact of management on the income

¹Eldon S. Hendriksen, Accounting Theory, (3rd ed.: Homewood, Illinois: Richard D. Irwin, Inc., 1977), p. 545.

²Maurice Moonitz, "The Basic Postulates of Accounting," Accounting Research Study No. 1 (New York: American Institute of Certified Public Accountants, 1961), p. 50.

stream. The basic financial statements are (1) the balance sheet, (2) the income statement, (3) the statement of changes in financial position, and (4) the statement of changes in owners' or stockholders' equity.

Many simplified descriptions of the balance sheet include the idea that it provides a financial picture of an organization at a specific point in time. In essence it reflects in one half the resources obtained from various sources such as payables, bonds, common stocks, and in the other half reports the amount of those resources that have been invested in the various classes of assets such as receivables, inventories, and equipment. The statement reflects aggregates up until a particular moment of time--it does not show transaction details.³

When comparative balance sheets showing the balances at the beginning and end of the period are presented, the

³APB Statement No. 4 describes a balance sheet as a statement that presents the financial position of an enterprise at a particular point in time. Financial position comprises the enterprises assets, liabilities, owners' equity and the relationship among them, including other financial matters related to the enterprise at the time which are required to be disclosed in conformity with general accepted accounting principles. See American Institute of Certified Public Accountants, APB Statement No. 4, reprinted in Financial Accounting Standards (Chicago: Commerce Clearing House, 1976), pp. 442 and 462. For a more complete definition see Eric Kohler, A Dictionary for Accountants (Engle: Prentice Hall Inc., 1970), p. 47.

statement users can reconstruct some of the details; however, they cannot ordinarily identify whether changes in assets and liabilities resulted from profitable operations, new equity, or from using assets to pay debts, acquire other assets or make distributions.

Some detail about the amount of resources generated from operations each fiscal period is reflected in the statement of owner's equity (or retained earnings statement) and the income statement. The statement of owner's equity presents net income and items such as dividends and adjustments of the net income of prior periods.⁴ The income statement presents the results of the firm's profit directed activities for the period in terms of revenue, expenses, gains and losses in conformity with generally accepted accounting principles.⁵ However, neither the balance sheet, the income statement, nor the statement of changes in the owners' or stockholders' equity show in detail the significant transactions which were entered into during the period to finance the firm.

For many years accountants were aware that the balance

⁴APB Statement No. 4, Commerce Clearing House, p. 442.

⁵Ibid. p. 442 and 463. For more information see Kohler, A Dictionary for Accountants, p. 226.

sheet, income and retained earnings statements and the statement of changes in stockholders' equity did not provide statement users with all of the relevant facts desired for efficient decision making. A statement specifically designed to provide information concerning the source and utilization of resources came to be included as part of the financial reports of many firms on an optional basis. It was prepared in a variety of slightly different forms under many different names, including the following:

1. Statement of sources and application of funds
2. Funds flow or funds statement
3. Statement of funds provided and applied.

Prior to Accounting Principles Board Opinion No. 19 (APB Opinion 19), the preparation of a funds statement was recommended by Accounting Principles Board Opinion No. 3 but it was not required by official promulgation or government edict. It simply evolved in response to the need of investors and other statement users. During this evolutionary process, the term "funds" has been used in many ways, including the following:

1. Working capital
2. Quick assets less current liabilities
3. Cash and marketable securities less current liabilities
4. Cash and marketable securities less short-term bank credit

5. Cash and marketable securities
6. Cash
7. Total funds employed in the business
8. Total shareholders' funds
9. Equity interests.⁶

Although not identified as another concept of funds, preparation of supplemental statements restated for general price changes under Accounting Principles Board Statement No. 3 and Financial Accounting Standard No. 33 start with preparation of a funds statement using a net monetary assets concept of funds.

In 1971 the Accounting Principles Board (APB) changed the recommendation for the preparation of a funds statement to a requirement that a funds statement must be included as part of the annual financial statements whenever a balance sheet and an income statement is prepared. The APB obviously assumed that the inclusion of such a statement would provide relevant information to decision makers. In the introduction to the opinion, they noted that:

In view of the present widespread recognition of the usefulness of information on sources and uses of funds, the Board has considered whether presentation of such a statement should be required

⁶Accountants International Study Group, The Funds Statement: Current Practices in Canada, United Kingdom, and the United States (New York: American Institute of Certified Public Accountants, 1973), para. 33.

to complement the income statement and the balance sheet.⁷

The first paragraph of the opinion proper builds from the usefulness assumption with these words:

The Board concludes that information concerning the financing and investing activities of a business enterprise and the changes in its financial position for a period is essential for financial statement users, particularly owners and creditors, in making economic decisions. When financial statements purporting to present both financial position (balance sheet) and results of operations (statement of income and retained earnings) are issued, a statement summarizing changes in financial position should also be presented as a basic financial statement for each period for which an income statement is presented. These conclusions apply to all profit-oriented business entities, whether or not the reporting entity normally classifies its assets and liabilities as current and noncurrent.⁸

An all financial resources concept is required. Under this concept the enterprise may adopt whatever concept of funds it believes most useful. The financial and investing effect of all financial transactions which have an impact on the firm's financial position must be disclosed separately regardless of which concept is followed, even if cash or working capital is not directly affected.

The Board has provided the following guidelines for

⁷Accounting Principles Board Opinion No. 19, "Reporting Changes in Financial Position" (New York: American Institute of Certified Public Accountants, 1971), para. 2.

⁸Ibid. para. 7.

presenting the funds statement:

1. The statement should set out working capital or cash provided by or used in operations
2. Results of operations should exclude the effects of extraordinary items
3. Net changes in each element of working capital should be disclosed in detail
4. The effects of other individual financing and investing activities should be separately disclosed
5. The statement should also clearly disclose
 - a) Outlays for the purchase of long-term assets
 - b) Proceeds from the sale of long-term assets not used in the business, less related expenses
 - c) Conversion of long-term debt or preferred stock to common stock
 - d) Issuance, redemption, or purchase of capital stock
 - e) Issuance, assumption, redemption, and repayment of long-term debt
 - f) Dividends in cash or in kind or other distributions to shareholders (except stock dividends and stock splits)
6. Isolated figures of cash or working capital provided by operations should not be presented in the annual

stockholders' reports.⁹

In order to reflect the broad concept indicated in the above guidelines, the Board recommended that the title of the statement be changed to Statement of Changes in Financial Position.

The following section reviews the literature search for this study and the need for an international study of the statement of changes in financial position in selected foreign countries is identified. The objective of the study is discussed along with the methodology used, research design, historical research, empirical research and anticipated evaluation of findings.

Literature Review

A review of the literature concerning the statement of changes in financial position shows that a considerable amount of research has been done on the development of a "funds" statement. Areas covered by previous studies include:

- (1) The importance of the statement of changes in financial position to various users of the

⁹Ibid. para. 10-15.

statement¹⁰

- (2) The most useful definition of "funds" and format presentation to be used in reporting information within the statement¹¹
- (3) Compliance of the United States companies preparation of the statement of changes in financial

¹⁰E. L. Summers, "Observation of Effects of Using Alternative Reporting Practices." The Accounting Law Review (April 1968), pp. 257-268; Lyn D. Pankoff and Robert Virgil, "Some Preliminary Findings from a Laboratory Experiment on the Usefulness of Financial Accounting Information to Security Analysts," Empirical Research in Accounting: Selected Studies 1970, supplement to Journal of Accounting Research (1970), pp. 1-48; Gyan Chandra, "A Study of the Consensus on Disclosure Among Public Accountants and Security Analysts," The Accounting Review (October 1974), pp. 733-742.

¹¹Philip E. Fess and Jerry Weygandt, "Cash Flow Presentations--Trends, Recommendations," Journal of Accountancy (August 1969), pp. 52-59; John H. Regazzi, "Why Aren't Financial Statements Understood?" Journal of Accountancy (April 1974), pp. 48-55; Maurice Stark, "Funds--Working Capital or Cash?" Michigan CPA (May-June 1975), pp. 23-25; Robert L. Warren and Jackson White, "Cash Information: Toward a More Useful Statement of Changes in Financial Position," The National Public Accountant (February 1975), pp. 30-34; Ganas K. Rakes and William Shenkir, "User Responses to Accounting Principles Board Opinion No. 19," Journal of Accountancy (September 1972), pp. 48-55; S. C. Yu, "A Flow of Resources Statement for Business Enterprises," The Accounting Review (July 1969), pp. 571-582; Aubrey C. Roberts and David Gabhart, "Statement of Funds: A Glimpse of the Future?" Journal of Accountancy (April 1972), pp. 49-54; Evan J. Henry, "A New Funds Statement Format for Greater Disclosure," Journal of Accountancy (April 1975), pp. 56-62; Study Group on the Objectives of Financial Statements, Objectives of Financial Statements (New York: American Institute of Certified Public Accountants, 1973), pp. 20-37.

position with the provisions set out in APB
Opinion 19.¹²

A review was made of dissertation studies concerning the "funds" statement.¹³ Also, research of the various professional accounting organizations involving the "funds" statement was examined.¹⁴ Although a thorough search was made of the many studies involving various aspects of the

¹²Earl A. Spiller and Robert Virgil, "Effectiveness of APB Opinion No. 19 in Improving Funds Reporting," Journal of Accounting Research (Spring 1974), pp. 112.

¹³Jack J. Kempber, "The Statement of Application of Funds in Modern Corporate Accounting Practice," (Ph.D. dissertation, University of California, Los Angeles, 1968); Edward J. Schmidlein, "The Funds Statement in Accounting Practice and College Instruction," (Ph.D. dissertation, New York University, 1953); Robert L. Kvam, "A New Funds Statement: A Statement Summarizing Financial Transactions," (Ph. D. dissertation, Louisiana State University, 1957); Lawrence S. Rosen, "A Critical Examination of Funds Statement Concepts," (Ph.D. dissertation, University of Washington, 1966); Earl R. Brownlee II, "An Investigation and Analysis of the Usefulness of the Statement of Changes in Financial Position to Selected Users of Corporate Financial Information," (Ph. D. dissertation, Georgia State University, 1975); Howard M. Daniels, "A Reformulation of the Theory of the Funds Statement," (Ph.D. dissertation, University of Texas, 1957).

¹⁴American Accounting Association's Subcommittee on Financial Accounting Standards, "Response to Exposure Draft Number 7 of the International Accounting Standards Committee entitled, 'Statement of Source and Application of Funds,'" reprinted in the Accounting Review (Supplement to Vol 52, 1977), p. 192-199; "Objectives of Financial Reporting by Business Enterprises," Statement of Financial Accounting Concepts No. 1 (Stamford, Connecticut: Financial Accounting Standards Board, 1978), p. viii.

statement of changes in financial position no research was uncovered which made an international study of the United States "funds" statement promulgations compared to the "funds" statement promulgations in other countries.

Need for an International Study

The literature shows the increasing importance of the statement of changes in financial position to investors, creditors and other users. As nations are now becoming more interdependent there is a growing need to provide investors, creditors and other users of financial statements with useful comparable financial data from other countries in order to facilitate global decision making which could influence the efficient utilization of the world's resources.¹⁵

¹⁵Since the statement of changes in financial position reports transactions, it is relatively unaffected by most income measurement principles. Even where this is not completely true, "funds" statements in the countries involved in this study are assumed to be comparable because there is some similarity in the accounting principles. Also, if the accounting principles are consistently applied changes in the firm's financial position will be reflected in the balance sheet. Therefore, even if there is some variation in the accounting principles, the fact that the funds statement is derived from both the income statement and changes in the balance sheet increases its comparability. Richard C. Da Costa, Jacques C. Bourgeois and William M. Larson, "A Classification of International Financial Accounting Practices," The International Journal of Accounting (Spring 1978), pp. 73-85.

There are many international accounting organizations which are seeking to improve accounting standards throughout the world. One such organization is the International Accounting Standard Committee (IASC) which was formed in 1973 with the objective of bringing harmonization to international accounting standards. The preface to statements of International Accounting Standards states:

One of the objects of the formation of the IASC was to harmonize as far as possible the diverse accounting standards and accounting policies at present in use in different countries.¹⁶

This goal is repeated in the conclusion to the document.

It is to be expected that the quality of presentation of financial statements will be improved and that there will be an increasing degree of uniformity.¹⁷

The International Accounting Standard Committee has as its membership professional accountants from forty-two nations representing fifty-three accounting bodies. One of the United States' representatives to the IASC, Don Hayes, states:

Lack of consistency in the standards followed in different countries creates a need for costly

¹⁶American Accounting Association's Subcommittee on the Accounting Treatment of Changing Prices of the Committee on Financial Accounting Standards, "Report to the International Accounting Standards Committee," reprinted in The Accounting Review, (Supplement to Vol. 52, 1977), p. 191.

¹⁷Ibid. p. 192.

multiple record keeping by international businesses and limits the understandability of financial statements to management, employees, investors and creditors. Business should also recognize that the move toward international standards is not likely to be reversed. Unless United States businessmen participate actively in the process, the international standards that evolve might not be to their liking.¹⁸

By January 1980 the IASC had issued thirteen standards and one exposure draft. Other international groups actively striving to harmonize accounting standards are the United Nations, the Organization for Economic Cooperation and Development, the European Economic Committee, and the International Chamber of Commerce. Also, in October 1977 the International Congress of Accountants established an International Federation of Accountants which will address itself to developing international standards to harmonize other accounting areas such as auditing, management accounting, management information systems, professional training, and continuing education.¹⁹

On January 1, 1979 the IASC adopted International Accounting Standard No. 7 (IAS 7). The adoption of this

¹⁸Donald Hayes and Roy Nash, "Harmonizing International Accounting Standards and Practices," Arthur Young Views (Aug. 1979), p. 4.

¹⁹William P. Cummings and William L. Rogers, "Developments in International Accounting," CPA Journal (May 1978), pp. 15-19.

standard introduces a statement requirement similar to APB Opinion 19. The international recognition given to the statement of changes in financial position by IAS 7 indicates the increasing importance of the statement of changes in financial position in other countries, which supports this investigation into the status of the statement of changes in financial position in the international area.

Objective of the Study

This study recognizes the need for worldwide harmonization of accounting principles and standards. It starts with an assumption that the statement of changes in financial position could possibly be a catalyst in advancing such harmonization. In order for this to happen there must be wide understanding of all aspects of the statement of changes in financial position on an international level. One study alone cannot bring about that understanding; therefore, this study carves out as its sole objective the determination of the current state of the art of the statement of changes in financial position and its reporting requirements on an international basis to the extent revealed by the material received from the United States, Canada, United Kingdom, New Zealand and Australia, plus peripheral observation of material received in other languages. Limiting the objective to

determination of the state of the art in selected countries is not regarded as a constraint prohibiting appropriate observational comments about desirable and undesirable features, recommendations or possible future trends of "funds" statement development.

Methodology

The need for a "funds" statement promulgation to use as a "Standard" against which the promulgations of the other countries could be compared was satisfied by a preliminary examination of the five countries domestic "funds" statement promulgations. The most desirable "Standard" in terms of scope and comprehensiveness appears to be United States APB Opinion 19. This promulgation was the earliest domestic "funds" statement reporting requirement to be adopted by any of the five countries. It is possible that APB Opinion 19 could have served as the model for the development of the other countries' "funds" statement promulgations, perhaps even for the development of International Accounting Standard 7. Also, the fact that this study is being done in the United States leads to the desire to compare the United States "funds" statement promulgation with those of other countries. Therefore, United States APB Opinion 19 was selected as the "Standard" for comparison purposes.

Seven salient features of the "funds" statement prepared under APB Opinion 19 seem to capture the essential reporting concept within the statement. Comparison of each country's "funds" statement promulgation is therefore primarily limited to the comparison of these seven features:

1. Applicability of reporting requirements
2. Concept of funds
3. Funds from normal operations
4. Extraordinary items
5. Financing activities
6. Investing activities
7. Noncurrent exchanges.

Research Design

The inclusion of statistical analysis in this study was considered and rejected. The defined objective of this study is to determine the current state of the art of the "funds" statement reporting requirements in the United States, Canada, the United Kingdom, New Zealand and Australia. An attempt is made to recommend a minimum model statement (reporting requirement) and explore the feasibility of a more sophisticated model. The process of model formulation involves many steps which include, (1) abstracting from reality to build the model, (2) preparing predictions from the model,

(3) comparing the results of predictions to reality (through empirical testing and use of statistical methods) and (4) evaluation of the models' predictions to determine whether to accept or reject the model. This dissertation is concerned with only the first step in the process involving determining the current state of the art to use in recommending a minimum reporting requirement model and assess the feasibility of a more sophisticated model. Therefore by reason of the stated objective, this study does not collect data which is conducive to statistical testing.

A method uniquely suitable for verifying the accuracy of the results of this study was available and adopted. As the chapter containing the results of the analysis of each countries' promulgations was completed it was forwarded to that countries' authoritative accounting body for comment. Comments received were considered in the final result.

Historical Research

The historical evolution of the statement of changes in financial position in the United States is traced and the significant factors which influenced its development are identified in Chapter II. The methodology for this phase of the research centered on analysis of the previous studies, surveys, reports, and publications discussed earlier in this chapter.

Empirical Research

Before doing anything else, a study was made to determine whether or not APB Opinion 19 represents current practice. That preliminary study consisted of scrutiny of the American Institute of Certified Public Accountant's annual survey of the accounting practices of 600 industrial firms reported in Accounting Trends and Techniques. No departures from the reporting requirements were noted.

Correspondence was sent to the American Institute of Certified Public Accountants, the International Accounting Standards Committee, the big eight accounting firms and their overseas branches, and the International Center for Accounting Research in England. A survey letter seeking relevant information on the statement of changes in financial position was sent to the accounting standards regulation agency within each of the following countries and colonies:

- | | | |
|--------------------------|---------------|-----------------|
| 1. Australia | 10. England | 19. Kenya |
| 2. Bahamas | 11. Finland | 20. Korea |
| 3. Belgium | 12. France | 21. Luxembourg |
| 4. Bermuda | 13. Hong Kong | 22. Mexico |
| 5. Bolivia | 14. Ireland | 23. Netherlands |
| 6. Brazil | 15. Israel | 24. New Zealand |
| 7. Canada | 16. Italy | 25. Nigeria |
| 8. Denmark | 17. Jamaica | 26. Norway |
| 9. Dominican
Republic | 18. Japan | 27. Pakistan |

28. Panama	33. South Africa	38. United States
29. Peru	34. Sweden	39. Venezuela
30. Phillippines	35. Switzerland	40. West Germany
31. Scotland	36. Taiwan	
32. Singapore	37. Trinidad & Tobago	

Replies were received from the following countries:

1. Australia	7. Italy	13. Peru
2. Bahamas	8. Jamaica	14. Scotland
3. Belgium	9. Mexico	15. Sweden
4. Canada	10. Netherlands	16. Switzerland
5. England	11. New Zealand	17. United States
6. Hong Kong	12. Pakistan	18. West Germany

Evaluation

As noted earlier, it soon became evident that a detailed analytical comparison of seven salient features in the "funds" statement of key English speaking countries plus peripheral observations about the information submitted by organizations in other countries was as much as could be effectively handled in a single study. At the beginning of the study it was anticipated that two model statements could possibly be developed.

1. A model statement embodying the minimum reporting requirements for a statement of changes in financial position which should be adopted by all the countries in the immediate future.
2. A sophisticated model statement designed to meet the needs of a statement of changes in financial position for investors and creditors.

Without unduly telescoping the conclusions, it may be helpful to readers to know that two model statements were not generated at the conclusion of the study. Instead, a strong recommendation is made that all countries implement International Accounting Standard 7 post haste and suggestions are made for the improvement of APB Opinion 19. Reasons are given as evidence is discussed throughout the study.

CHAPTER II

HIGHLIGHTS OF THE HISTORICAL DEVELOPMENT OF THE UNITED STATES STATEMENT OF CHANGES IN FINANCIAL POSITION

The history of the evolutionary development of the United States statement of changes in financial position is well documented in other research; therefore, it will not be discussed in detail. However, in order to provide an historical perspective for this study, the highlights of the historical development of the United States' statement of changes in financial position will be presented in the following section.

The United States' statement of changes in financial position can be traced back to the early usage of a simple form of "funds" statement by the railroads as early as 1863. The Missouri Pacific Railway Company appears to have been the first company to present a "funds" statement which showed changes in all balance sheet accounts in its Statement Showing Resources and their Application during the

Year 1893.¹

The first textbook to advocate the use of a statement reporting the sources and uses of funds was written in 1908 by William Morse Cole and entitled, Accounts, their Construction and Interpretation.² The statement which Cole helped popularize was one which simply classified all balance sheet accounts as "where got" (sources) or "where gone" (uses). He regarded the statement as useful for analyzing solvency changes and not as a means of providing supplementary information not reported in the balance sheet.³

Funds statements emphasizing changes in working capital were introduced in the 1920's primarily through the efforts of H.A. Finney who, as the author of a leading textbook and the editor of the "Student Department" of the Journal of Accountancy, was able to influence current accounting thought

¹L.S. Rosen and Don T. DeCoster, "'Funds' Statements: A Historical Perspective," The Accounting Review, (January 1969), p. 125.

²Karl Kafer and V.K. Zimmerman, "Notes on the Evolution of the Statement of Sources and Application of Funds," The International Journal of Accounting (Spring 1967), p. 91.

³Lloyd C. Heath, "Financial Reporting and the Evaluation of Solvency," Accounting Research Monograph 3, (New York: AICPA, 1978), p. 88.

toward the adoption of a major statement which showed the causes of changes in working capital.⁴

Finney's discussion of funds statement problems in Certified Public Accountant exams influenced other textbook authors to include more discussion of funds statements in their textbooks and to adopt working capital as the most acceptable funds concept.⁵ Meanwhile the American Accounting Association became engaged in research on the development of uniform accounting principles which, although not directly involved with the "funds" statement, provided some of the conceptual framework needed for the later development of financial reporting utilized in the "funds" statement.⁶

During the 1950's and 1960's a favorite issue for accounting debate was the concept of funds which should be used in preparing funds statements. Among the many views

⁴Earl Richard Brownlee II, "An Investigation and Analysis of the Usefulness of the Statement of Changes in Financial Position to Selected Users of Corporate Financial Information," (Ph.d. dissertation, Georgia State University, 1975), p. 29.

⁵Rosen and DeCoster, "'Funds' Statements," p. 128.

⁶Committee to Prepare a Statement of Basic Accounting Theory, American Accounting Association, A Statement of Basic Accounting Theory (Evanston, Ill: American Accounting Association, 1966), pp. 1-71.

debated the two most popular issues were that (1) the function of the funds statement was to report changes in solvency but that a cash or near cash funds concept was more appropriate than working capital, and (2) the purpose of the funds statement was not to report changes in solvency but to explain changes in all balance sheet accounts.⁷

In an attempt to identify the primary purpose of the funds statement Perry Mason undertook what may be considered as the first major research on the funds statement. His study, "Cash Flow Analysis and the Funds Statement" was published by the American Institute of Certified Public Accountants (AICPA) in 1961 as "Accounting Research Study Number 2."⁸ In this study Mason concluded that (1) funds should be defined as purchasing or spending power resulting from external transactions, (2) the funds statement should report all changes in financial position, and (3) the funds statement should be a major financial statement and included in all corporate annual reports.⁹

⁷Loyd C. Heath, Accounting Research Monograph 3, p. 91.

⁸Joseph R. Oliver, "The Statement of Changes in Financial Position," The National Public Accountant (August 1972), p. 21.

⁹Perry Mason, "Cash Flow Analysis and the Funds Statement," Accounting Research Study No. 2 (New York: American Institute of Certified Public Accountants, 1961), p. 91.

Following its original plan of issuing Opinions after the Accounting Research Studies were circulated adequately and a consensus watched for, the Accounting Principles Board issued Opinion No. 3 (APB Opinion 3) entitled, "The Statement of Source and Application of Funds", in October 1963. This was the first official pronouncement on the funds statement; however, it left out many of Mason's ideas. The pronouncement recommended that a funds statement be included in corporate annual reports as supplementary information. It avoided the issue of whether or not the funds statement should be covered by the auditor's opinion by making the choice optional.¹⁰ Some of the other major provisions of Accounting Principles Board (APB Opinion 3) are as follows:

1. The concept of funds used should be all financial resources (para. 9).
2. Related items should be shown together. Significant changes in current assets and current liabilities should be reported separately whereas other current items may be shown as one single amount (para. 10).
3. Increases and decreases in capital stock, noncurrent liabilities and noncurrent assets should be shown when they

¹⁰Patrick S. Kemp, "Reporting Changes in Financial Position--Interpretation and Evaluation," The New York Certified Public Accountant (August 1971), p. 559.

are material (para. 12).

4. The presentation of comparative and consolidate statements should conform to the basic policies set for the other statements (para. 13).

Probably the most important contribution of APB Opinion 3 was that it recognized the need for furnishing statement users with supplementary information concerning all the financial resources of the firm, thereby providing a basis for the later development of Accounting Principles Board Opinion No. 19 (APB Opinion 19).¹¹

In 1969 the Securities Exchange Commission issued Release No. 117, "Adoption of Article 11A," an amendment to regulation S-X. The release requires companies to submit cash flow reports with their registration statements after December 31, 1970. Regulation 210.11A-02 of the amendment sets out the following requirements as the minimum information to be included in the registration statement:

- a) Sources of funds:
 - (1) Current operations...
 - (2) Sale of noncurrent assets...
 - (3) Issuance of debt securities or other long-term debt...
 - (4) Issuance or sale of capital stock...
- b) Disposition of funds:

¹¹Oliver, "The Statement of Changes in Financial Position," p. 22.

- (1) Purchase of noncurrent assets...
 - (2) Redemption or repayment of debt securities or other long-term debt...
 - (3) Redemption or purchase of capital stock...
 - (4) Dividends...
- c) Increase (decrease) in net funds or working capital...¹²

Current Position of United States' Statement
of Changes in Financial Position

The foregoing shows that there was a recognized need for a funds statement to bridge the gap between the information provided by the income statement and that shown in the balance sheet. In response to this need the Accounting Principles Board issued APB Opinion 19 in March 1971 to become effective for accounting periods ending after September 30, 1971.

APB Opinion 19 was the second major United States pronouncement on funds statements. It superseded APB Opinion 3 and made it mandatory for all firms to present a statement of changes in financial position as a basic financial statement for all periods in which both the balance sheet and the income statement are presented. Although APB Opinion 19 does not explicitly state that the funds statement should be covered in the independent

¹²Joseph R. Oliver, "The Statement of Changes in Financial Position," The National Public Accountant (August 1972), pp. 22-23, citing Securities and Exchange Commission Accounting Rules (New York, New York: Commerce Clearing House, 1971), p. 3334.

auditor's opinion, the language used implies that it should be covered in the auditor's opinion.¹³

As shown by Table I, the use of funds statements has increased steadily. Their use was stimulated by APB Opinion 3, "The Statement of Source and Application of Funds"--which encouraged its use but did not require its presentation. Under this opinion there was considerable variation in form and content. APB Opinion 19 attempted to provide more guidance concerning format, funds concepts, terminology, and the treatment of some types of transactions. Since its issuance in 1971, there has apparently been full compliance with the requirement for the presentation of the "funds" statement by the large companies included in the AICPA survey.

Current Status of the United States' Statement of
Changes in Financial Position in Relation
to the International Standards

Increasing interdependence among nations due to the expansion of multinational corporations and the increasing importance of the international capital markets has created a need for an international agency oriented toward eliminating

¹³Kemp, "Reporting Changes in Financial Position," p. 560.

Table 1. United States' companies included in American Institute of Certified Public Accountants' annual survey that presented a statement of changes in financial position as part of their annual financial report.

Year	No. of Companies Including Funds Statements (600 companies surveyed)	Percent of Total Companies Surveyed
1963	271	45.2
1964	387	64.5
1965	458	76.3
1966	503	83.8
1967	524	87.3
1968	535	89.2
1969	548	91.3
1970	573	95.5
1971	597	99.5
1972*	600	100.0
1979	600	100.0

*During the years ensuing between 1972 through 1979 there was 100% presentation of a statement of changes in financial position.

SOURCE: American Institute of Certified Public Accountants, Accounting Trends and Techniques, (New York: American Institute of Certified Public Accountants, 1963-79).

conflicting accounting standards and practices in different countries. The International Accounting Standards Committee (IASC) was created in 1973 to bring harmony to international accounting standards by formulating and gaining worldwide acceptance of international accounting standards. Members of the Committee have agreed to use their best efforts to persuade their government and domestic accounting agencies to adopt the International Standards or disclose the extent to which the domestic standards do not comply with the International Standards.

The first attention given to the funds statement on an international level was in June 1976 when IASC issued Exposure Draft 7 entitled, "Statement of Source and Application of Funds." After approval of Exposure Draft 7, in October, 1977 the IASC issued International Accounting Standard 7 (IAS 7) entitled, "Statement of Changes in Financial Position." IAS 7 became operative in member countries for all companies preparing financial statements covering reporting periods ending on or after January 1, 1979.

IASC has no disciplinary power to enforce its standards on member countries. Some countries already have standards established by legislation or by local professional accounting regulatory bodies and these standards will continue to

apply until they are modified by the agencies within that country. Although standards of the IASC do not override the local country's standards, the International Standards are binding on the auditors within the member countries who must refer to the extent of non-compliance within the audit report.

In the United States the American Institute of Certified Public Accountants as a member of the IASC has agreed to work toward adoption of the International Standards; however, the International Standards are not automatically adopted.¹⁴ The portions of the International Standards that require accounting practices which are not required in the United States are pointed out to the Financial Accounting Standards Board (FASB) by the American Institute of Certified Public Accountants. The differences are considered by the FASB whenever the areas in which the differences exist are reconsidered.¹⁵

Concluding Comment

The foregoing review of highlights in the historical

¹⁴The reporting requirements under APB Opinion 19 satisfy the reporting requirements set out in IAS 7; however, IAS 7 has not yet been adopted in the United States.

¹⁵Letter from Mr. Paul Rosenfield, Director of Accounting Standards, American Institute of Certified Public Accountants (February 8, 1980).

development of statements of changes in financial position should provide adequate perspective for interpretation of the analyses in the next section of this dissertation. These analyses start with examination of funds reporting requirements in the United States in the next chapter. A separate chapter is then devoted to a comparison of the reporting standards in Canada, United Kingdom, New Zealand, and Australia. In each instance, the funds statement reporting requirements are compared with those set forth in APB Opinion 19.¹⁶

The following chapters are heavily just a reporting of findings with analysis and detailed comparison being deferred to the last part of the dissertation. However, in order to help the reader build perspective and maintain interest as each chapter is read, interpretive comments that draw on analytical material are inserted at strategic points.

¹⁶This study assumes that funds statement reporting requirements in the countries involved in this study are comparable for the following reasons: (1) the historical development of the accounting profession in the United States and in the United Kingdom has had an influence upon the development of accounting principles in the countries involved in this study, which accounts for the similarity of accounting principles in these countries, and (2) the funds statement is derived from changes reflected in the balance sheet, and assumes that where accounting principles are consistently applied the changes in financial position will be reported in the funds statement even though there may be some differences in the accounting principles.

CHAPTER III

UNITED STATES' STATEMENT OF CHANGES IN FINANCIAL POSITION

Accounting Principles Board Opinion 19 (APB Opinion 19) was issued in 1971.¹ It supersedes Accounting Principles Board Opinion 3 which was issued in 1963. Perhaps the most significant provision of APB Opinion 19 is that since its issuance in 1971 a statement of changes in financial position must be presented as a basic financial report for each period in which both a balance sheet and an income statement are presented. Although APB Opinion 19 does not explicitly state that the statement of changes in financial position is to be covered by the auditor's opinion the language used in APB Opinion 19 implies that the statement should be covered by the auditor's opinion. The reporting requirements set out in APB Opinion 19 satisfy the requirements of International Accounting Standard 7; however, the International Standard has not been implemented in the United States.

¹The major focus of this chapter is on the analysis of the reporting requirements of United States' Accounting Principles Board Opinion 19 (AICPA, 1971), para. 1-15.

Objectives of United States' Statement of
Changes in Financial Position

The statement of changes in financial position is intended as a complementary statement designed to provide information either not provided by the other financial statements or provided by them only indirectly. It utilizes the inflows and outflows of resources in reporting how the activities of an enterprise have been financed and how its financial resources have been used during the period covered by the statement.

Most of the articles on the statement of changes in financial position can be summarized as identifying the objectives of the statement as follows:

1. To provide information on all of an enterprise's financing and investing activities
2. To report the extent to which the entity has generated funds from operations or received funds from other sources
3. To report on the use or application of funds during the period
4. To report all other changes in financial position during the period
5. To provide a link between the income statement and balance sheet.

Taking a cue from the format used in many promulgations, including that used by the Accounting Principles Board in Opinion 19, an interpretive overview of some of the more salient features of APB Opinion 19 precedes the detailed factual analysis of the seven major provisions of APB Opinion 19 in the remainder of this chapter.

Overview of the Form and Content of
the United States' Statement of
Changes in Financial Position
Under APB Opinion 19

A dominant feature of the United States promulgations on the statement of changes in financial position is the considerable flexibility in form, terminology, and content provided. Although this feature is less pronounced in some of the other countries it is one of the characteristics which the United States "funds" statement promulgations have in common with the requirements of the other countries.

Responsibility Constraint

Flexibility in form, content and terminology carries a heavy reporting responsibility in the United States. The Accounting Principles Board (APB) places the burden directly on the issuer by emphasizing that "each entity should adopt the presentation that is most informative in the circumstances" (para. 9). That the Board is serious about this responsibility is unmistakable. The sentence preceding the

above quotation starts with these words: "For example, a working capital format is not relevant to an entity that..."

Guides

Flexibility is not unlimited even within the responsibility constraint. Certain guidelines are expected to be met. Only "provided that these guides are met" can the statement take "whatever form gives the most useful portrayal..." (first sentence of para. 11).

Concept of Funds

Four concepts are mentioned approvingly by the Board in Opinion 19: cash, cash and temporary investments combined, all quick assets, and working capital, but only working capital and cash or its equivalent are given more than passing note (para. 11). Strict interpretation might not allow use of such concepts as net monetary assets or "cash after accounts are collected and bills paid," an informal concept not too different from net quick assets and close to the public conception of cash flow.²

The important thing is that a specific concept must be

²Informal conversation with R. H. Raymond, Professor of Accounting, University of Nebraska, July 1980.

selected and it should be the one which is most informative in the circumstances (para. 9). All captions and explanations must employ terminology consistent with the funds concept selected. If the cash definition is selected the appropriate caption for funds generated from operation of the business is "cash provided from operations for the period" (para. 15 emph. added). But, if the working capital definition is selected, the appropriate caption becomes "working capital provided by operations for the period" (para. 15 emph. added). Neither of the generic terms "funds" nor "resources" are appropriate for use in this caption.

Perhaps the most onerous provision in the entire opinion is the one restricting use of the cash concept of funds to situations in which "all non-cash items have been appropriately adjusted" (para. 15). This means that the increase or decrease in each current asset and each current liability must be reported in the body of the statement whenever the cash concept is used. Small wonder that the working capital concept is the one commonly used in practice in the United States notwithstanding widespread use of an intermediate cash flow concept in financial circles.

All Financial Resources

Irrespective of which concept of funds is selected the

APB included a firm requirement in Opinion 19 that the financial aspects of all significant transactions are to be reported in the statement of changes in financial position (para. 8). This means that some transactions that did not actually affect cash or working capital must be reported in the statement. Examples include acquisitions of property by issuance of securities, acquisition of property in exchange for other property, and conversions of long-term debt or preferred stock to common stock (para. 8). One way of accomplishing this is to include within the statement of changes in financial position a section entitled, "Financial transactions not affecting working capital" in both the provisions and the applications section. Dollar amounts must obviously be the same in each of these sections.

Separate Effects

The effect of significant transactions cannot be combined or netted. It would be difficult to explain this guide more succinctly than is done in the opinion itself:

The effects of other financing and investing activities should be individually disclosed. For example, both outlays for acquisitions and proceeds from retirements of property should be reported; both long-term borrowings and repayments of long-term debt should be reported; and outlays for purchases of consolidated subsidiaries should be summarized in the consolidated Statement by major categories of assets obtained and obligations assumed. Related items should be shown in

proximity when the result contributes to the clarity of the Statement. Individual immaterial items may be combined (para. 13).

Operations

Working capital, or cash provided from (or used in) operations for the period is to be prominently displayed in a way that ties in with the income statement. Three features need to be highlighted for later reference.

1. The starting point is income before extra-ordinary items, not net income
2. Two choices of general format are available:
 - a) Begin with income before extraordinary items and eliminate items recognized in determining that income which did not use or provide working capital (or cash if that concept is used) during the period
 - b) Begin with total revenue that provided working capital (or cash if that concept is used) during the period and deduct operating costs and expenses that required the outlay of working capital or cash during the period (para. 10)

Both formats give the same result but the former is shorter and almost universally used. One wonders, however, whether or not less misunderstanding might have resulted over the years if only the latter had

been recommended.

3. Extra-ordinary items are to be reported separately and, of course, require the same kind of adjustments as does operating income.

Detail of Changes in Composition of Working Capital

At the time APB Opinion 19 was issued, many comments centered on the provision that, irrespective of the concept of funds employed, the increase or decrease in each current asset and current liability should be displayed (para. 12). This display can be part of the statement itself or can be in a separate schedule attached to the statement. The latter is easy to do when the working capital concept is used and only one period's activities are included. A four-column format is common; such as shown in Figure 1.

When two or more periods are included it is impossible to show the beginning and ending balances in this schedule so only increases and decreases are ordinarily included. It is a simple matter for the reader to refer to the statement itself if the beginning and ending balance for the latest year are needed. When a cash concept is used the changes in the individual working capital items must obviously be included in the body of the statement (para. 12a).

Figure 1. Example of a schedule of working capital changes to include with the statement of changes in financial position to satisfy the reporting standards set out in United States APB Opinion 19.

	Beginning Balance	Ending Balance	Working Capital	
			Increase	Decrease
Current Assets				
Cash	\$000	\$000	\$000	\$000
.....
Total Current Assets	\$000	\$000		
Current Liabilities				
Accounts Payable	\$000	\$000	\$000	\$000
.....
Total Current Liabilities	\$000	\$000		
Working Capital	\$000	\$000	\$000	\$000
Net Increase in Working Capital			\$000	\$000

Items to be Disclosed Separately

Several items, which might or might not be covered by the preceding guides, are identified by the Board as items clearly needing separate disclosure in the statement of changes in financial position prepared in conformance with APB Opinion 19. Briefly they are:

1. Purchase of long-term assets (items must be separately identified such as property, investments, and intangibles)
2. Proceeds from the sale of long-term assets (also any working capital or cash provided by the sale),

- separately identified as property, investments and intangibles
3. Conversion of long-term debt or preferred stock into common stock
 4. Issuance, redemption, assumption or repayment of long-term debt
 5. Purchase, issuance or assumption of capital stock for cash or other non-cash assets
 6. The distribution of cash dividends or other distributions to stock holders (except stock dividends or stock splits) (para. 14).

APB Opinion 19 does not include a sample statement; however, the requirements for a statement of changes in financial position is satisfied by the following statement shown in Figure 2 which was taken from a popular intermediate accounting textbook.

A few features presented in Figure 2 deserve special attention because contrasts will be drawn when the statements of other countries are analyzed.

1. Working capital provided by (or used in) operations can be traced into the income statement
2. Everything in the statement makes it clear that the working capital concept is being followed

Figure 2. A textbook illustration of the statement of changes in financial position which meets the reporting requirements of United States APB Opinion 19.

Hanes Corporation		
STATEMENT OF CHANGES IN FINANCIAL POSITION		
For the Year Ended December 31, 1981		
Resources provided by		
Operations:		
Income before extraordinary item		\$109,000
Add (or deduct) items not affecting working capital		
Equity in earnings of Porter Co.	\$(3,500)	
Loss on sale of equipment	1,500	
Depreciation expense	14,600	
Amortization of goodwill	2,400	
Deferred income taxes	3,000	
Amortization of bond premium	(1,000)	17,000
Working capital provided by operations, exclusive of extraordinary item		126,000
Extraordinary item—Condemnation of land, including extraordinary gain of \$8,000 (net of \$2,500 tax)		18,500
Issuance of note payable to purchase land		60,000
Sale of equipment		4,000
Sale of common stock		144,000
Total resources provided		352,500
Resources applied to		
Cash dividends	6,000	
Purchase of land through issuance of note payable	60,000	
Purchase of equipment	53,000	
Major repairs of equipment	11,000	
Purchase of treasury stock	17,000	
Total resources applied		147,000
Increase in working capital		\$205,500

Hanes Corporation
SCHEDULE OF WORKING CAPITAL CHANGES
For the Year Ended 1981

	Working Capital Change	
	Increase	Decrease
<u>Current Assets</u>		
Decrease in cash		\$ 7,000
Increase in accounts receivable (net)	\$ 53,000	
Increase in inventories	152,000	
Decrease in prepaid expenses		500
<u>Current Liabilities</u>		
Increase in accounts payable		1,000
Increase in accrued liabilities		2,500
Increase in dividends payable		1,500
Decrease in income taxes payable	13,000	
Totals	218,000	12,500
Increase in working capital		205,500
	<u>\$218,000</u>	<u>\$218,000</u>

SOURCE: D. Kieso and J. Weygandt, Intermediate Accounting (New York: John Wiley and Sons, 1980), p. 1071.

3. Expenses which affected the reported net income but did not involve a flow of working capital are separately identified and added back to arrive at the working capital provided by operations figure
4. Any non-operating transactions which provided working capital are separately presented
5. Transactions which involved the use of working capital are separately reported
6. Increase (or decrease) in working capital is separately reported along with a working capital schedule which presents the movement in individual working capital items
7. Figure 2 does not show financing or investing activities not affecting working capital; however, if there are any financing or investing activities not affecting working capital they should be presented in a separate section of the statement entitled, "Financial transactions not affecting working capital."

The foregoing overview of the United States statement of changes in financial position under APB Opinion 19 should form a sufficient base for the analytical comparisons with the statement of changes in financial position of certain other countries in later chapters of this dissertation. The full Opinion is reproduced in Appendix A to be referred to

when specifics are required.

Seven Points of Comparison with Promulgations
in Effect in Four Other Countries

Some provisions of APB Opinion 19 seem so self evident as to not warrant analytical attention. However, after several months of study of the provisions in many countries, it appears that seven features of APB Opinion 19 seem to capture the essence of the idea of a statement of changes in financial position. These are the provisions that would impact on the usefulness of the statement if not followed or if implemented in a different way. They are, accordingly, adopted as the base for analytical comparison in the remainder of this dissertation.

Each of the seven provisions are discussed briefly in the following paragraphs even though they have been mentioned generally earlier in this chapter. This is done so as to state them in a format permitting ready comparison.

Applicability of Reporting Requirements

APB Opinion 19 requires that the statement of changes in financial position be prepared as part of the financial reports for each period that both the balance sheet and the income statement are presented (para. 7).

Concept of Funds

APB Opinion 19 indicates that the statement of changes in financial position should be based on a broad concept embracing all changes in financial position (para. 8). Funds should be expressed, "in terms of cash, of cash and temporary investments combined, of all quick assets or of working capital" (para. 11).

Funds from Normal Operations

APB Opinion 19 sets the following three basic requirements:

1. Working capital or cash provided from or used in operations should be clearly disclosed (para 10).
2. The statement should start with an income statement figure and adjust for items which did not use or provide cash or working capital during the period (para. 10). A seldom used alternative, also focusing on income statement items, is also approved.³
3. The results from operations figure should be reported separately from extraordinary items (para. 10).

³An alternative procedure which gives the same result starts with revenue which provides working capital during the period and then deducts operating costs and expenses which required the use of working capital.

Extraordinary Items

APB Opinion 19 sets the following two requirements for extraordinary items:

1. Working capital or cash provided or used by extraordinary items should be shown immediately following funds from normal operations (para. 10).
2. Extraordinary income or loss should be adjusted for items which did not use or provide cash or working capital during the period (para. 10).

Financing Activities

Although the APB in Opinion 19 recognizes that some transactions such as the issuing of equity securities to acquire a building involve both a financing and investing activity, the term, "financing activity" is not explicitly defined. The meaning of the term "financing activity" may be inferred from the context of its usage within the Opinion. For purpose of this study "financing activities" are defined as transactions which affect the firm's long-term capital structure. Financing activities include the issuance, redemption or repayment of debt, reacquisition of preferred or common stock, the conversion of long-term debt into equity; and other non-current exchanges (para. 13 and 14).

APB Opinion 19 states, "to meet its objectives a funds

statement should disclose separately the financing and investing aspects of all significant transactions that affect financial position during a period" (para. 6).

Investing Activities

Although APB Opinion 19 does not explicitly define the term "investing activity" the meaning of the term may be inferred from its usage within the Opinion. For purpose of this study the term "investing activity" is defined as: outlays for the acquisition of long-term assets which can be classified as investments, property and intangibles. Also considered as an "investing activity" for purpose of this study are any outlays for the purchase of consolidated subsidiaries (para. 13 and 14).

APB Opinion 19 sets forth the following requirements for investment activities:

1. The purchase or sale of long-term assets are to be separately identified by category (investments, property, and intangibles. Sources and uses should not be netted against each other nor should major categories of non-current assets be combined (para. 14).
2. Outlays of funds for the acquisition of consolidated subsidiaries should be summarized by major categories of assets and obligations assumed (para. 13).

Noncurrent Exchanges

APB Opinion 19 sets forth the requirement that all financing and investing transactions which significantly affect the financial position of the firm be separately disclosed. These transactions include acquisition or disposal of property in exchange for equity securities and conversion of long-term debt or preferred stock to common stock (para. 14c).

Interpretive Comment

If it did nothing else, APB Opinion 19 made inclusion of a statement of changes in financial position mandatory whenever both an income statement and balance sheet are presented. Since balance sheets are not infrequently submitted alone but income statements alone are rare, the real effect is that a statement of changes in financial position must accompany income statements. Not the least of the contributions made by the statement is to serve as a reminder to users that measured income is something quite different from funds flow.

Not everyone is at ease with such promulgations as APB Opinion 19. Beyond the general guides that must be met, heavy responsibility is placed on the shoulder of the firm to select a concept of funds and a format that are appropri-

ate. There are few specific requirements and that is frustrating to some preparers and users of the statement. Certain practices eventually seem to surface but there is always a danger that they could represent a least common denominator. On the other hand, this kind of opinion leaves open the door for experimentation with potential improvements and makes it relatively easy to concurrently comply with other promulgations such as the International Standard on the topic (International Accounting Standard No. 7).

The approach of APB Opinion 19 is flexible. However, at this point in the research some specific guidelines would have been more than welcomed if they could have been included without destroying the over-all approach. Especially helpful would have been some criteria for determining materiality, handling refinancing, types of noncurrent exchanges that ought to be included, and the amount of netting possible without violating the general guideline. Clarification of technical terms such as "immaterial items," "financial position," "financing and investing activities," and "expenses not requiring an outlay of working capital," would have been helpful.

As indicated in the introductory chapter, the next four chapters are devoted respectively to a comparison of the seven salient features of APB Opinion 19 with the promulgations in Canada, Great Britain, New Zealand and Australia. At the conclusion of this analysis of APB Opinion 19, the researcher still expected to derive two prototype statements at the conclusion of the dissertation--one being a minimally acceptable statement and one a more sophisticated model statement.

CHAPTER IV

CANADA'S STATEMENT OF CHANGES IN FINANCIAL POSITION

Accountants in Canada and the United States have for many years prepared statements of source and application of funds for management's internal use. As the usefulness of this report became more widely recognized this type of data gradually became incorporated into many of the larger corporations annual reports to stockholders. Finally provisions for the statement were included in the Canadian Institute of Chartered Accountants' Handbook. This chapter is devoted to an analysis of the Handbook provisions and a comparison with the seven salient features of our Accounting Principles Board Opinion 19 (APB Opinion 19) that were identified in Chapter III.

In December 1968 the Accounting Research Committee of the Canadian Institute of Chartered Accountants first emphasized the importance of a statement of source and application of funds by introducing the following statement into their Handbook:

In view of the usefulness of the information provided by the statement of source and application

of funds the inclusion of such a statement in the annual report is desirable (emph. added).¹

As shown in Table II, a survey by the Canadian Institute of Chartered Accountants of 325 companies shows that by 1970 an increasing number of firms were presenting statements of source and application of funds.

TABLE II. Canadian companies included in the Canadian Institute of Chartered Accountants survey that presented a statement of source and application of funds as part of their annual financial report.

Fiscal Year	No. of Companies Including Funds Statements (325 Companies Surveyed)	Percent of Total Companies Surveyed
1967	297	91
1968	312	96
1969	317	98
1970	319	98

SOURCE: Financial Reporting in Canada, (Toronto, Canadian Institute of Chartered Accountants, 1971), p. 163.

The results of a similar survey for the most recent years are included in this chapter later when developments since 1970 are discussed.

In August 1974 the Accounting Research Committee of the

¹Canadian Institute of Chartered Accountants, Handbook, Section 1540, 1968, para. .01, quoted in Financial Reporting in Canada, (Toronto: Canadian Institute of Certified Public Accountants, 1971), p. 163.

Canadian Institute of Chartered Accountants issued a new Section 1540 for their Handbook, effective for fiscal years commencing on and after September 1, 1974, with a title corresponding to that recommended in APB Opinion 19, "Statement of Changes in Financial Position." This section replaced the old Section 1540 entitled, "Statement of Source and Application of Funds," and expanded the scope of the funds statement to include items involving financing and investing activities. Although the new Section 1540 still did not require the preparation of a funds statement as part of the annual financial report, it did indicate that the funds statement is considered a basic financial statement. The specific wording was:

Financial statements normally include the balance sheet, income statement, statement of retained earnings and statement of changes in financial position.²

Current Position of Canada's Statement
of Changes in Financial Position

At present Canadian companies are not required to provide a statement of changes in financial position to satisfy promulgations of the Institute; however, unlike the United

²Canadian Institute of Chartered Accountants, Handbook, Section 1500, para. .03, August 1974, quoted in Financial Reporting in Canada (Toronto, Canadian Institute of Certified Public Accountants, 1975), p. 196.

States, Canada has a Companies Act and it includes accounting requirements that must be satisfied. Canadian companies have to provide a funds statement to conform with the requirements of Section 46(1) of the Act which states that:

The financial statements referred to in Section 149 of the Act shall include at least

- (a) a balance sheet
- (b) a statement of retained earnings
- (c) an income statement; and
- (d) a statement of changes in financial position

Section 46(2) of the Act allows for other titles for these statements: "Financial statements need not be designated by the names set out in paragraphs 1(a) to (d)."³

The Canada Business Corporations Act provisions are not the only requirements that must be met. Securities commissions within the provinces generally require companies listed on Canadian stock exchanges to file statements of changes in financial position as part of their annual financial reporting requirements. There are, however, limited provisions for exemption from filing the statement under some of the province statutes. A continuation of the study summarized in Table II shows that beginning shortly before the 1974 revision of the Handbook, 100 percent of the 325

³Canada Business Corporation Act, of 1975, quoted in comments received from D. J. Moore, Senior Research Manager Canadian Institute of Chartered Accountants, March 31, 1980.

companies surveyed have been including a statement of changes in financial position in their annual reports. Table III documents this.

TABLE III. Canadian companies included in the Canadian Institute of Chartered Accountants' survey that presented a statement of changes in financial position as part of their annual financial report.

Fiscal Year	No. of Companies Including Funds Statements (325 Companies Surveyed)	Percent of Total Companies Surveyed
1971	323	99
1972	324	100
1973	324	100
1974	324	100
1975	324	100
1976	324	100
1977	324	100
1978	324	100

SOURCE: Financial Reporting in Canada (Toronto, Canadian Institute of Chartered Accountants, 1979), p. 163.

Current Status of Canada's Statement of Changes
in Financial Position in Relation to
the International Standards

Canada is a member of the International Accounting Standards Committee (IASC) and is represented on the Committee by its professional accounting body, the Canadian Institute of Chartered Accountants (CICA). Members of the IASC have agreed to support the standards promulgated by the Committee and to use their best efforts to secure their

general acceptance and observation.⁴

The following procedures were established by the CICA to be followed when an International Accounting Standard is issued:

1. The standard is compared with present Canadian practice
2. Issued standards are listed in the CICA Handbook along with an indication as to whether or not there are any significant differences between the International Standard and Canadian practice
3. If there are significant differences:
 - a) The Handbook will be modified to incorporate the International Standard unless there is fundamental disagreement between the position taken by the IASC and the Accounting Research Committee or there are particular Canadian circumstances which require a different position
 - b) Until the Accounting Research Committee issues a new or revised Handbook the existing Canadian practice prevails.⁵

⁴Dorothy Cooper, "Nine Countries Launch International Standards," CA Magazine, September 1973, p. 15.

⁵International Accounting Standards, CICA Handbook Section 1501 (Toronto: Canadian Institute of Chartered Accountants, 1979), para. .03.

International Accounting Standard 7 (IAS7) entitled, "Statement of Changes in Financial Position," was issued by the IASC in October 1977 and is analyzed in detail in Chapter IX. It provides that all companies preparing financial reports covering periods ending on or after January 1, 1979 should present a statement of changes in financial position as an integral part of their financial statements for each period in which an income statement is presented.

The CICA Handbook Section on "International Accounting Standards," refers to IAS7 and states that, "Adherence to Canadian practice will ensure compliance with this International Standard."⁶ Even though the requirement for presentation of the statement is tied to presentation of an income statement the practical effect is essentially the same as the United States' requirement which is tied to the presentation of both a balance sheet and an income statement, for the reasons pointed out in Chapter III.

In summary, there currently is no domestic professional accounting promulgation which absolutely requires all Canadian companies to include a statement of changes in financial position in their financial reports; however, public companies must present a statement of changes in financial position to satisfy the requirements of the Canada

⁶Ibid., para. .06.

Business Corporations Act. Also companies listed on Canadian stock exchanges must present a statement of changes in financial position as a part of their annual reporting requirements.

Objectives of Canada's Statement of Changes
in Financial Position as Recommended by
Handbook Section 1540

In common with the overall objectives of the United States' statement of changes in financial position the Accounting Research Committee of the CICA regards the objectives of Canada's statement of changes in financial position as one of providing information not provided by the other statements concerning how a firm's activities were financed and how its financial resources were used during the period. It does this by showing the following:

1. The sources used to finance the firm's activities, including the amount of funds generated by operations.
2. How the financial resources were utilized during the period.
3. The effect of these activities on enterprise funds (para. 1540.0).

Form and Content of Canada's Statement of Changes
in Financial Position as Recommended by
Handbook Section 1540

Just as did the Accounting Principles Board in the United

States, the Canadian Institute of Chartered Accountants' Accounting Research Committee left wide room for flexibility, form, content, and terminology in the statement of changes in financial position. They simply indicate that the form of the statement should be one which discloses the firm's financing and investing activities in an informative and appropriate manner.

In contrast with APB Opinion 19 which allows free choice of concept of funds to use, the Canadian statement indicates that the appropriate definition for funds varies according to the nature of the enterprise. Where current assets and liabilities are segregated in the balance sheet, the term "funds" refers to working capital. Where working capital is not considered appropriate or current assets and current liabilities are not segregated, the term "funds" refers to cash and cash equivalents or cash, cash equivalents, and other assets less liabilities which are current resources. Rather than emphasizing wording within the statement to leave no doubt as to the definition of funds being used, as did the APB, the Canadians simply require that the concept of funds used be disclosed within the statement or in a note to the statement (para. 1540.07-.13).

The Canadian provisions reflect awareness of misinter-

pretation that is common under the United States' method of presenting funds provided by operations. Both Canada and the United States recommend that the funds statement show funds from operations as a single figure; however, the United States' recommendation that is most widely used provides for reporting income or loss before extraordinary items and then adjusting for those items which did not involve working capital or cash during the period. Canada recommends that funds provided from or used in operations be presented as a single amount without showing any adjustment for those items which did not use or provide funds during the period because, "... a user of financial statements might regard the reconciling items as sources or application of funds..." (para. 1540.31). However, Canada does allow the presentation of items which did not use or provide funds if there is a desire to show a link between income before extraordinary items and funds from operations. If this option is followed, then the presentation of funds from operations would be the same in both Canada and the United States (para. 1540.31).

The Canadian statement of changes in financial position is expected to also explicitly disclose the following items:

1. Funds provided from or used in operations of the period
2. Outlays for the purchase of non-fund assets

3. Proceeds from the sale of non-fund assets
4. Conversion of non-fund debt to preferred or common stock
5. Issuance, assumption, reduction and redemption of non-fund debt
6. Issuance, repurchase or redemption of capital stock
7. Dividends paid in cash or kind to stockholders
8. Dividends paid by subsidiaries to minority interests
9. Increase or decrease in funds (1540.16).

When acquiring a subsidiary which is to be consolidated, the statement of changes in financial position should show the increase or decrease in consolidated funds resulting from the acquisition. The assigned cost of the non-fund assets and non-fund liabilities should be disclosed and grouped in the statement or in a note to the statement (para. 1540.35).

The Accounting Research Committee of the Canadian Institute of Chartered Accountants did not provide an example of a statement of changes in financial position in their Handbook because they wanted to avoid the possibility that the example might be interpreted as implying that only the form of statement shown would be appropriate. However, rather than relying on a textbook example or surveying company annual reports, as must be done by United States' accountants,

the Canadian Chartered Accountants have been given unofficial guidance with examples which presumably satisfy the reporting requirements for Canada's statement of changes in financial position. One such example from the annual book, "Financial Reporting in Canada," is shown in Figure 3.

Figure 3: An example of a statement of changes in financial position which meets the reporting standards set out in Canada's CICA Handbook Section 1540.00.

WESTINGHOUSE CANADA LTD.

Consolidated Statement of Changes in Financial Position

Years Ended December 31
(expressed in thousands)

	1976	1975
Source of funds:		
Operations —		
Net income before extraordinary item	\$ 13,831	\$ 15,703
Depreciation	5,239	5,339
Deferred income taxes	1,237	359
Funds provided from operations	20,307	21,401
Decrease in other assets and investments	326	1,613
Proceeds from the issue of common shares	205	177
	20,838	23,191
Use of funds:		
Plant and equipment additions	7,747	6,516
Less net book value of disposals	235	593
	7,512	5,923
Extraordinary item	3,360	
Dividends paid	2,678	1,331
Sinking fund requirements on long term debt	667	667
	14,217	7,921
Increase in working capital	6,621	15,270
Working capital beginning of year	94,208	78,938
Working capital end of year	\$100,829	\$ 94,208

SOURCE: Financial Reporting in Canada, 12 ed., Toronto: CICA, 1977, p. 226.

The foregoing overview of the Canadian statement of changes in financial position should give most readers of this dissertation sufficient data to enable them to understand and evaluate the comparative analyses that comprise the heart of the research. However, occasional reference to certain specific features is made; therefore, the entire official recommendations for the presentation of Canada's statement of changes in financial position as set out in the CICA Handbook Section 1540 is reproduced in Appendix B.

Comparison of Canada's Statement of Changes in Financial
Position with the United States' Statement of
Changes in Financial Position

The seven salient provisions of APB Opinion 19 are compared with the corresponding recommendations of the Canadian Institute of Chartered Accountants' Accounting Research Committee as set out in Section 1540 of their Handbook in this section. Those provisions deal with: (1) applicability of reporting requirements, (2) concept of funds, (3) funds from normal operations, (4) extraordinary items, (5) financing activities, (6) investing activities, and (7) noncurrent exchanges. Comments about APB Opinion 19 are identical to the comments in the chapter on the United States but are repeated here for the convenience of the reader.

Applicability of Reporting Requirements

United States

APB Opinion 19 requires that the statement of changes in financial position be prepared as part of the financial reports for each period that both the balance sheet and the income statement are presented (para. 7).

Canada

The position of the Canadian Institute of Chartered Accountants' Accounting Research Committee as reflected in the Canadian Institute of Chartered Accountants' Handbook is that inclusion of the statement of changes in financial position is highly desirable and required by most regulatory authorities, but it is not required by promulgation of the Canadian Institute of Chartered Accountants (para. 1540.01).

Concept of Funds

United States

APB Opinion 19 indicates that the statement of changes in financial position should be based on a broad concept embracing all changes in financial position (para. 8). Funds should be expressed "in terms of cash, cash and temporary investments combined, of all quick assets or of working capital" (para. 11).

Canada

The recommendations set out in Section 1540 of the Canadian Institute of Chartered Accountants' Handbook shows that the statement of changes in financial position should embrace all the financing and investing activities of the enterprise (para. 1540.05). Funds may be expressed in terms of working capital, cash and cash equivalents, or cash, cash equivalents, and other assets less liabilities considered current resources but constraints are placed on selection of some of these in certain circumstances (para. 1540.07-.13).

Funds from Normal Operations

United States

APB Opinion 19 sets forth the following three basic requirements:

1. Working capital or cash provided from or used in operations should be clearly disclosed (para. 10).
2. The statement should begin with income or loss before extraordinary items and adjust for items which did not use or provide cash or working capital during the period. An optional method is also allowed.⁷

⁷An alternative method which provides the same results is to begin with revenues that provide funds during the period and deduct costs and expenses that required the use of funds.

3. The results from operations figure should be reported separately from the influence of extraordinary items (para. 10).

Canada

The Accounting Research Committee sets out the following recommendations in the Canadian Institute of Chartered Accountants' Handbook:

1. The statement of changes in financial position should present funds provided from or used in operations as a separate item in the statement (para. 1540.21)
2. The reported figure should exclude extraordinary items (para. 1540.22). It may be shown as a single figure within the statement, or the funds from operations may be shown to reconcile with income before extraordinary items by presenting the items which did not use or provide funds as one net reconciling amount or in detail either within the statement, in a separate tabulation, or in a note attached to the statement (para. 1540.31).
3. Gains or losses on the sale of fixed assets, the retirement of long-term debt or the settlement of non-fund liabilities, should be eliminated from the funds from operations figure (para. 1540.26).

Extraordinary Items

United States

APB Opinion 19 sets the following two requirements for the treatment of extraordinary items in the statement:

1. Working capital or cash provided or used by extraordinary items should be shown immediately following funds from normal operations (para. 10).
2. Extraordinary income or loss should be adjusted for items which did not use or provide cash or working capital during the period (para. 10).

Canada

Extraordinary items should be excluded from funds from operations and shown separately (para. 1540.21).

Financing Activities

Although the Accounting Principles Board in Opinion 19 recognizes that some transactions such as the issuing of equity securities to acquire a building involve both a financing and investing activity, the term, "financing activity" is not explicitly defined. The meaning of the term "financing activity" may be inferred from the context of its usage within the Opinion. For purpose of this study "financing activities" are defined as transactions which affect the firm's long-term capital structure. Financing activities

include the issuance, redemption or repayment of debt, reacquisition of preferred or common stock, the conversion of long-term debt into equity; and other non-current exchanges (para. 13 and 14).

United States

APB Opinion 19 states, "to meet its objectives a funds statement should disclose separately the financing and investing aspects of all significant transactions that affect financial position during a period" (para. 6).

Canada

The Canadian Institute of Chartered Accountants' Accounting Research Committee recommends that the statement of changes in financial position should portray all aspects of the firm's financing and investing activities for the period in the manner which is most informative and appropriate for the particular industry (para. 1540.14). Any prior period adjustment would also require the statement of changes in financial position to be restated to show the appropriate investing and financing activity for the periods presented (para. 1540.19-.20).

Investing Activities

Although APB Opinion 19 does not explicitly define the term "investing activity" the meaning of the term may be

inferred from its usage within the Opinion. For purpose of this study the term "investing activity" is defined as outlays for the acquisition of long-term assets which can be classified as investments, property and intangibles. Also considered as an "investing activity" for purpose of this study are any outlays for the purchase of consolidated subsidiaries (para. 13 and 14).

United States

APB Opinion 19 sets forth the following requirements for investment activities:

1. The purchase or sale of long-term assets is to be separately identified by category (investments, property, and intangibles). Sources and uses should not be netted against each other nor should major categories of non-current assets be combined (para. 14).
2. Outlays of funds for the acquisition of consolidated subsidiaries should be summarized by major categories of assets and obligations assumed (para. 13).

Canada

1. The purchase or sale of non-fund assets such as investments, fixed assets, and intangibles should be identified separately (para. 1540.16b-c).
2. The acquisition of an entity to be consolidated should

be presented in the statement of changes in financial position by showing the increase or decrease in consolidated funds resulting from the acquisition. The assigned costs of the non-fund assets and non-fund liabilities should be grouped and disclosed either in the body of the statement or in a note to the statement (para. 1540.36).

Noncurrent Exchanges

United States

APB Opinion 19 requires that all financing and investing transactions which significantly affect the financial position of the firm be separately disclosed. These transactions include acquisition or disposal of property in exchange for equity securities and conversion of long-term debt or preferred stock to common stock (para. 14c).

Canada

The objective of the statement of changes in financial position is to show how the activities of the enterprise have been financed and how its resources have been used during the period (para. 1540.03). In order to accomplish this objective it is necessary to disclose both the financing and investing aspects of all transactions which affect the financial resources of the enterprise, such as the acquisition of

a subsidiary by issuing shares, the acquisition of property in exchange for long-term debt, and the conversion of non-fund debt into preferred or common stock (para. 1540.03, .05, .16d).

When transactions such as the issuing of shares in exchange for land form one economic event, the figures may be netted to show one amount, but the transactions should be individually disclosed to show both the financing and investing aspects, along with a narrative description of the items to indicate their relationship (para. 1540.18).

Contrast of Reporting Requirements

The foregoing comparative analysis of Canada's statement of changes in financial position reporting requirements is classified in Table IV in terms of the extent of their variance from the reporting requirements for the United States' statement of changes in financial position as set out in APB Opinion 19.

The foregoing analysis compares the reporting provisions of Canada's Handbook Section 1540 in seven major areas with the corresponding provisions set out in the United States' APB Opinion 19 to provide a general overview of the significant variances in each area. There are some unique contrasts between Canada and the United States which are

TABLE IV. Comparative analysis of seven reporting provisions of the statement of changes in financial position in the United States and Canada.

Fund Statement Requirements	United States	Canada
Applicability of Reporting Requirements	A	X
Concept of Funds	A	S
Funds from Normal Operations	A	S
Extraordinary Items	A	S
Financing Activities	A	S
Investing Activities	A	S
Noncurrent Exchanges	A	S-E

SOURCE: Analysis presented in this chapter.

NOTE: One of the following descriptions is assigned to each item in Table IV:

- A. APB Opinion 19 sets forth the requirement for this item
- S. The reporting requirement for this item is similar to that of APB Opinion 19
- E. May be shown as an equivalent item
- X(b). The item need not be separately disclosed but can be included in another account
- X(c). The item may be calculated from the data shown.
- X. There is no requirement for this item set by the accounting body of this country
- S-E. When combinations such as S-E are presented, the first letter indicates the main requirement, and the second letter indicates the alternative less-used procedure

presented in the next section.

Funds Statement Disclosure Requirements
Unique to One Country

Unique to the United States

1. Working capital or cash provided by operations should be disclosed in the statement of changes in financial position. One acceptable procedure is to begin with income or loss before extraordinary items and add back (or deduct) items utilized to determine income which did not use (or provide) working capital or cash during the period. An alternative procedure which gives the same result starts with total revenue which provides working capital or cash during the period and then deducts operating costs and expenses which required the use of working capital or cash during the period (APB Opinion 19, para. 10).
2. Net changes in each element of working capital should be disclosed for the current period, and each change should be analyzed in detail in a tabulation accompanying the statement (APB Opinion 19, para. 12).

Unique to Canada

1. Prior period adjustments will require a restatement of

- the comparative statements of changes in financial position to show the appropriate financing and investing activity for the periods presented (para. 1540.20).
2. The dividends paid by subsidiaries to minority interests should be disclosed within the statement of changes in financial position (para. 1540.16h).
 3. Transactions which do not involve financing and investing activities would be excluded from the statement of changes in financial position, for example:
 - (a) Transfers from and to reserve accounts
 - (b) Stock dividends and stock splits
 - (c) Appraisal adjustments
 4. Closely related transactions may be shown as a net amount, but the financing and investing aspects should be individually disclosed along with a narrative description of the items indicating their relationship (para. 1540.18).
 5. The statement of changes in financial position should separately disclose any increase or decrease of an investor company's interest in a consolidated entity (para. 1540.40).

Interpretive Comment

The statement of changes in financial position in Canada is similar in many respects to the United States' statement

of changes in financial position. Both countries' statement of changes in financial position evolved in response to user needs and both provide for the presentation of similar useful information in the major reporting areas.

The only significant difference in reporting requirements between countries is that in the United States the accounting profession represented by the Accounting Principles Board issued APB Opinion 19 requiring companies to present a statement of changes in financial position whenever both a balance sheet and an income statement are presented. Whereas, in Canada the accounting profession represented by the Accounting Research Committee of the Canadian Institute of Chartered Accountants recommends but does not require the presentation of a statement of changes in financial position as a basic financial statement. However, the presentation of a statement of changes in financial position is required by the Canada Business Corporations Act. All companies surveyed in both Canada and the United States are now presenting a statement of changes in financial position with their annual financial reports.

Both Canada and the United States are members of the IASC and as such have agreed to support the standards issued by them. Preparation of the statement of changes in finan-

cial position in Canada in accordance with the recommendations provided by the Canadian Institute of Chartered Accountants ensures compliance with International Accounting Standard No. 7.

The Canadian statement of changes in financial position is also similar to the United States' statement of changes in financial position in the respect that there are some areas in the statement which could be improved.

Notwithstanding the validity of the reasons for the omission of information about the adjustments for non-fund items in reporting funds from operations, the omission of information could cause some lack of comparability between firms which utilize the option of disclosing non-fund items and those firms which choose not to disclose non-fund items.

There is a general lack of specific definitions and guidelines concerning the actual construction of the statement. The development of explicit terminology and definitive guidelines would likely benefit the implementation and interpretation of the statement (para. 1540.07, .10, .13, .14 and .23).

Concluding Observation

The Canadian statements of changes in financial position are similar in function and composition to those pre-

pared in the United States; however, in some areas the "funds" statement recommendations of the CICA are slightly broader in scope than the provisions under APB Opinion 19 in that the Canadian recommendations discuss the equity method, prior period adjustments and business combinations.

Further analysis of Canada's statement of changes in financial position reporting requirements is discussed in relation to the reporting requirements of the other countries involved in this study in Chapter IX after each country's requirements have been compared with APB Opinion 19. Accordingly, the next chapter analyzes another country's provisions--the United Kingdom's reporting requirements.

CHAPTER V

THE UNITED KINGDOM'S STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Suggestions were made as far back as 1938 that British industrial companies publish statements which emphasize fund movements. However, only a few companies were publishing "fund" statements by the mid 1950's and even though investment analysts were also beginning to request "fund" statements by the 1960's, it was into the early 1970's before a significant number of major British companies began presenting such statements.

Prior to the issuance of the Accounting Standards Steering Committee's Exposure Draft 13 (ED 13) in April, 1974, the objective of which was "... to establish the practice of providing source and application of fund statements as part of the audited accounts and to lay down a minimum standard of disclosure in such statements," the Institute of Chartered Accountants in England and Wales had not discussed the preparation or presentation of a "funds" statement.¹

¹Institute of Chartered Accountants in England and Wales, "Exposure Draft 13--Statements of Source and Application of Funds," reprinted in Accountancy, (Eng) (June 1974), pp. 102-103. The wording "audited accounts" within this context refers to the firm's annual financial statements.

ED 13 described the funds statement as providing a link between the balance sheet and the profit and loss account.² The position expressed in ED 13 was that the statement's objective was to show the manner in which company operations were financed and how its financial resources were utilized. ED 13 was later enacted as, Statement of Standard Accounting Practice No. 10.

A 1974 survey published by the International Center for Research in Accounting (ICRA) found that in 1968-69 only 21 of 300 companies presented "funds" statements, whereas by 1972-73 the number of companies presenting such statements increased to 117.³ Table V shows additional detail of the accelerating trend reported in the study. A similar survey for the most recent years is included later in Table VI to show the trend of "funds" statement presentation since 1973.

Current Position of the United Kingdom's Statement
of Source and Application of Funds

On July 15, 1975 the Council of the Institute of Chartered Accountants in England and Wales approved the

²Ibid.

³R. C. Morris, "Funds Statement Practices in the United Kingdom," International Center for Research in Accounting Occasional Paper No. 6, (University of Lancaster, England: International Center for Research in Accounting, 1974), pp. 1-13.

TABLE V. United Kingdom companies included in the International Center for Research in Accounting survey that presented a statement of source and application of funds as part of their annual financial report.

Fiscal Year	No. of Companies Including Funds Statements (300 Companies Surveyed)	Percent of Total Companies Surveyed
1968-69	21	7
1969-70	41	14
1970-71	61	20
1971-72	90	30
1972-73	117	39

SOURCE: R. C. Morris, "Funds Statement Practices in the United Kingdom," International Center for Research in Accounting Occasional Paper No. 6 (University of Lancaster, England: International Center for Research in Accounting, 1974), pp. 1-13.

issuance of Statement of Standard Accounting Practice No. 10 (SSAP 10) entitled, "Statements of Source and Application of Funds." The statement became effective for accounting periods beginning on or after January 1, 1976.⁴

SSAP 10 requires that enterprises other than small firms with a gross income of less than £25,000 per year prepare a "funds" statement as part of the annual audited reports. However, even those firms earning less than £25,000 income per year should prepare "funds" statements if it is considered desirable under the particular circumstances of the firm. If the company is required to provide a "funds" statement and fails to do so, the auditor must qualify his report by indicating that the Standard has not been complied with. SSAP 10 also applies to all subsidiary companies.

Since the issuance of SSAP 10 there has been full compliance with the requirement for presentation of a statement of source and application of funds, as indicated by Table VI.⁵

⁴Accounting Standards Committee, Statement of Standard Accounting Practice No. 10: Statement of Source and Application of Funds, (London: Institute of Chartered Accountants in England and Wales, July, 1975), pp. 1-7. Although this study focuses on SSAP 10 in England and Wales, Ireland and Scotland have implemented an identical Standard.

⁵Institute of Chartered Accountants in England and Wales, Survey of Published Accounts, (London: Institute of Chartered Accountants in England and Wales, 1978), pp. 179-187.

TABLE VI. United Kingdom companies included in the International Center for Research in Accounting survey that presented a statement of source and application of funds as part of their annual financial report.

Fiscal Year	No. of Companies Including Funds Statements (300 Companies Surveyed)	Percent of Total Companies Surveyed
1973-74	153	51
1974-75	219	73
1975-76	256	85
1976-77	289	96
1977-78	300	100

SOURCE: Institute of Chartered Accountants in England and Wales. Survey of Published Accounts, (London: Institute of Chartered Accountants in England and Wales, 1978), pp. 179-187.

Current Position of the United Kingdom's Statement of
Source and Application of Funds in Relation
to the International Standards

The Institute of Chartered Accountants in England and Wales is a council member of the Consultive Committee of Accounting Bodies (CCAB) that collectively set the Accounting Standards in the United Kingdom. The Institute of Chartered Accountants in England and Wales is also a member of the International Accounting Standards Committee (IASC) that in its efforts to harmonize accounting standards throughout the world formulates and publishes accounting standards for worldwide application without attempting to override domestic accounting regulations in the member countries. As a member of IASC the Institute of Chartered Accountants in England and Wales has agreed to use its best efforts to support the implementation of the International Standards in the United Kingdom. As a member of United Kingdom's CCAB the Institute of Chartered Accountants in England and Wales has agreed to use the following procedures to deal with the International Standards.

1. The Councils of the CCAB determine the date the International Standards apply in the United Kingdom.
2. The requirements of the International Standards are incorporated into the SSAPs as much as appropriate. If an

International Accounting Standard (IAS) is consistent with the United Kingdom's legislation and their SSAPs, a commentary is issued indicating that compliance with existing law and SSAPs automatically ensures compliance with the relevant IAS

3. If the IAS goes beyond or conflicts with the United Kingdom's legislation or SSAPs the Council normally issues a new SSAP or amendment to bring the United Kingdom's practice into agreement with the IAS, or distinguishes between those provisions which are accepted as amendments to the United Kingdom's practice and those which are not accepted
4. If certain provisions of an International Standard are not accepted for incorporation into the United Kingdom's Standards that fact would be published by the Councils of the CCAB. This may lead to noncompliance with an International Standard even though the United Kingdom's Standards had been followed. Any noncompliance should be disclosed by the directors in a note to the financial statements or if not disclosed the noncompliance should be cited in the audit report.⁶

⁶Institute of Chartered Accountants in England and Wales, Accounting Standards 1979 (England, 1979), pp. 1-60.

International Accounting Standard No. 7 (IAS 7) entitled "Statement of Changes in Financial Position" was issued by the IASC in October 1977. IAS 7 indicates that all companies preparing financial reports covering reporting periods ending on or after January 1, 1979 should present a statement of changes in financial position as an integral part of their financial statements for each period in which an income statement is presented. IAS 7 was approved by the Council of the Institute of Chartered Accountants in England and Wales and republished with effect beginning June 8, 1978, along with the following commentary:

Compliance with the requirements of Statement of Standard Accounting Practice No. 10 Statements of Source and Application of Funds will automatically ensure compliance with International Accounting Standard No. 7 Statement of Changes in Financial Position.⁷

In summary, at the present time United Kingdom companies with a gross income of £25,000 or more must present a statement of source and application of funds as part of their annual financial reports to satisfy the requirements of SSAP 10. In addition, companies preparing financial reports covering reporting periods ending on or after January 1, 1979

⁷Accounting Standards Committee, "International Accounting Standards No. 7, SSAP 10: Statement of Changes in Financial Position," Accountancy, (Eng) v89 (August 1978) pp. 89-90.

should present a funds statement for each period in which an income statement is presented to satisfy the reporting requirements set out in IAS 7.⁸

Objectives of United Kingdom's Statement
of Source and Application of Funds
Under SSAP 10

The objectives of the statement of source and application of funds under SSAP 10 is to show the manner in which the operations of a company have been financed and how its financial resources were used (para. 2). It accomplishes its objectives by showing the amount of earnings generated by operations or received from other sources, identifying movements in assets, liabilities and capital during the year, and indicating the effect on net liquid funds (para. 1 and 3).

Form and Content of the Statement of Source
and Application of Funds under SSAP 10

Just as in the United States and Canada, the need for flexibility in form, terminology, and content in the statement of source and application of funds is recognized in the United Kingdom's SSAP 10. Under this standard, funds are

⁸This study assumes that compliance with IAS 7 is within the context of paragraphs 1-23 of this standard. A detailed analysis of the reporting requirements of IAS 7 is located in Chapter IX.

referred to as "net liquid funds, cash at bank and in hand, and cash equivalents (investments held as current assets) less bank overdrafts and other borrowings repayable within one year of the accounting date" (para. 8).

In a discussion paper written for the Australian Accounting Research Foundation, R. C. Clift pinpoints an item essential to the proper understanding of SSAP 10 when he states:

It ought to be noted that 'net liquid funds' is perhaps not a concept of funds in the sense used in this study. Although SSAP 10 contains a definition of the phrase and requires 'disclosure of movements in net liquid funds' the funds statements given as examples are really 'working capital' statements.⁹

In contrast to APB Opinion 19 which provides for alternative methods in reporting funds provided by operations, SSAP 10 does not provide for an alternative method but states that, "The statement should show the profit or loss for the period together with the adjustments required for items which did not use (or provide) funds in the period" (SSAP 10, para. 11). Thus, it is fair to say that the most used method in the United States is also used in Great Britain, whereas Canada's method of showing one figure for funds

⁹R. C. Clift, "The Funds Statement", Discussion Paper No. 2 (Melbourne: Australian Accounting Research Foundation, 1979), p. 14.

provided by operations without detailing the adjustments for nonfund items is seldom used in Great Britain.

Under SSAP 10 the statement of source and application of funds should also disclose the following items:

1. Manner of usage of any surplus of "liquid funds" or how any deficiency of such assets were financed distinguishing between short-term and long-term (para. 3)
2. Where material, the following other sources and application of funds should also be explicitly shown:
 - a) Dividends paid
 - b) Acquisition or disposal of fixed and other noncurrent assets
 - c) Funds raised or expended by increasing or decreasing long-term debt or issued capital
 - d) Increase or decrease in working capital and movements in net liquid funds (para. 11).

Although both the United States' APB Opinion 19 and the United Kingdom's SSAP 10 indicate that the "funds" statement should report the acquisition of a subsidiary there appears to be considerable variation in the method of presentation. APB Opinion 19 indicates that outlays for the purchase of consolidated subsidiaries should be reported by major categories of assets obtained and obligations assumed. SSAP 10

states that if the enterprise has subsidiaries, the statement should present any purchase or disposal of a subsidiary in either of two ways: (1) as a separate item, or (2) the effects of the individual assets and liabilities acquired can be shown as sources or uses of funds (para. 5). In contrast to APB Opinion 19 the United Kingdom's SSAP 10 includes a sample statement that shows the acquisition of a subsidiary. It is reproduced as Figure 4.

The foregoing general discussion of the reporting standards for United Kingdom's statement of source and application of funds should provide the necessary foundation to enable most readers of this dissertation to understand and evaluate the comparative analysis that is the heart of this research. However, occasional references are made to more specific features of the promulgation; therefore the entire recommendations for the presentation of the United Kingdom's statement of source and application of funds as set out in their SSAP 10 is reproduced in Appendix C.

Comparison of the United Kingdom's Statement of Source
and Application of Funds with the United States'
Statement of Changes in Financial Position

The seven significant provisions of our APB Opinion 19 and the United Kingdom's SSAP 10 that were identified as

Figure 4. An example of a statement of source and application of funds which meets the reporting standards set out in United Kingdom's SSAP 10.

GROUPS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(based on the accounts of the Group and showing the effects of acquiring a subsidiary on the separate assets and liabilities of the Group).

	This Year		Last Year	
	£'000	£'000	£'000	£'000
SOURCE OF FUNDS				
Profit before tax and extraordinary items, less minority interests			2,025	2,610
Extraordinary items			450	(170)
			<u>2,475</u>	<u>2,440</u>
Adjustments for items not involving the movement of funds:				
Minority interests in the retained profits of the year			25	30
Depreciation			345	295
Profits retained in associated companies			(40)	—
			<u>2,805</u>	<u>2,765</u>
TOTAL GENERATED FROM OPERATIONS				
FUNDS FROM OTHER SOURCES				
Shares issued in part consideration of the acquisition of subsidiary*			290	—
Capital raised under executive option scheme			100	80
			<u>3,195</u>	<u>2,845</u>
APPLICATION OF FUNDS				
Dividends paid	(650)		(650)	
Tax paid	(770)		(970)	
Purchase of fixed assets*	(660)		(736)	
Purchase of goodwill on acquisition of subsidiary*	(30)		—	
Debentures redeemed	(890)		—	
			<u>(3,000)</u>	<u>(2,358)</u>
			<u>195</u>	<u>489</u>
INCREASE/DECREASE IN WORKING CAPITAL				
Increase in stocks*	120		166	
Increase in debtors*	100		122	
Decrease in creditors — excluding taxation and proposed dividends*	75		17	
Movement in net liquid funds:				
Increase (decrease) in cash balance*	(35)		10	
Increase (decrease) in short-term investments	(65)		174	
			<u>195</u>	<u>184</u>
			<u>195</u>	<u>489</u>

*SUMMARY OF THE EFFECTS OF THE ACQUISITION OF SUBSIDIARY LIMITED

NET ASSETS ACQUIRED		DISCHARGED BY	
Fixed assets	290	Shares issued	290
Goodwill	30	Cash paid	60
Stocks	40		
Debtors	30		
Creditors	(40)		
	<u>350</u>		<u>350</u>

SOURCE: Appendix to SSAP 10, the Institute of Chartered Accountants in England and Wales, 1975, p. 7.

those that should be compared between countries in Chapter III, are compared in this section. It should be kept in mind that SSAP 10 is intended to set the minimum standard of disclosure (intro to SSAP 10).

The comments about United States' APB Opinion 19 are identical to the comments in the chapter on the United States but are repeated here for the convenience of the reader.

Applicability of Reporting Requirements

United States

APB Opinion 19 requires that the statement of changes in financial position be prepared as part of the financial reports for each period that both the balance sheet and the income statement are presented (para. 7).

United Kingdom

SSAP 10 requires that a statement of source and application of funds be prepared as part of the financial reports of all enterprises with a gross income of £25,000 or more per annum (para. 7).

The more stringent standard is set by IAS 7 which indicates that all companies preparing financial reports covering periods beginning on or after January 1, 1979 should present a statement of changes in financial position as an integral part of their financial statements for each period in which

an income statement is presented (IAS 7, para. 20, 23).

Concept of Funds

United States

APB Opinion 19 indicates that the statement of changes in financial position should be based on a broad concept embracing all changes in financial position (para. 8). Funds should be expressed, "in terms of cash, cash and temporary investments combined, of all quick assets or of working capital" (para. 11).

United Kingdom

Funds should be expressed as cash and cash equivalents less any borrowings or overdrafts payable within one year. Also, the appendix to the Standard shows working capital being used as a concept of funds (para. 8 and appendix to SSAP 10).

Funds from Normal Operations

United States

APB Opinion 19 sets the following three basic requirements:

1. Working capital or cash provided from or used in operations should be clearly disclosed (para. 10).
2. The statement should begin with income or loss before

extraordinary items and adjust for items which did not use or provide cash or working capital during the period (para. 10). An optional method is also allowed.¹⁰

3. The results from operations figure should be reported separately from the influence of extraordinary items (para. 10).

United Kingdom

The statement of source and application of funds should clearly show the funds generated or absorbed by operations of the business (para. 3). An adjustment should be made for those items which did not use (or provide) funds during the period (para 11).

Extraordinary Items

United States

APB Opinion 19 sets the following two requirements for extraordinary items:

1. Working capital or cash provided or used by extraordinary items should be shown immediately following funds from normal operations (para. 10).
2. Extraordinary income or loss should be adjusted for items which did not use or provide cash or working

¹⁰An alternative method which provides the same results is to begin with revenues that provide funds during the period and deduct costs and expenses that involve a movement of funds.

capital during the period (para. 10).

United Kingdom

SSAP 10 does not explicitly state that extraordinary items are to be presented separately from normal operating funds; however, this concept seems to be implied in the sentence, "The figures from which a funds statement is constructed should generally be identifiable in the profit and loss account, balance sheet and related notes" and that the funds statement, "...should show clearly the funds generated or absorbed by the operations of the business" (para. 3 and 4).

Financing Activities

Although the Accounting Principles Board in Opinion 19 recognizes that some transactions such as the issuing of equity securities to acquire a building involve both a financing and investing activity, the term, "financing activity" is not explicitly defined. The meaning of the term "financing activity" may be inferred from the context of its usage within the Opinion. For purpose of this study, "financing activities" are defined as transactions which affect the firm's long-term capital structure. Financing activities include the issuance, redemption or repayment of debt,

reacquisition of preferred or common stock, the conversion of long-term debt into equity; and other non-current exchanges (para. 13 and 14).

United States

APB Opinion 19 states: "to meet its objectives a funds statement should disclose separately the financing and investing aspects of all significant transactions that affect financial position during a period" (para. 6).

United Kingdom

SSAP 10 indicates that it is necessary to identify movements in assets, liabilities, and capital and to show the manner in which the operations of the company were financed with a minimum of "netting off" (para. 2, 3).

Investing Activities

Although APB Opinion 19 does not explicitly define the term "investing activity" the meaning of the term may be inferred from its usage within the Opinion. For purpose of this study the term "investing activity" is defined as outlays for the acquisition of long-term assets which can be classified as investments, property and intangibles. Also considered as an "investing activity" for purpose of this study are any outlays for the purchase of consolidated

subsidiaries (para. 13 and 14).

United States

APB Opinion 19 sets forth the following requirements for investment activities:

1. The purchase or sale of long-term assets are to be separately identified by category (investments, property, and intangibles). Sources and uses should not be netted against each other nor should major categories of non-current assets be combined (para. 14).
2. Outlays of funds for the acquisition of consolidated subsidiaries should be summarized by major categories of assets and obligations assumed (para. 13).

United Kingdom

SSAP 10 indicates that the statement of source and application of funds should disclose movements in assets, liabilities, and capital. It should distinguish short-term from long-term assets, show the application of surplus liquid assets, and show the financing of any deficiency in such assets (para. 1, 3).

The purchase or disposal of a subsidiary may be presented in the statement as a separate item or the effects of the transaction may be reflected in the separate assets and liabilities presented in the statement. A footnote

should summarize the effects of the acquisition or disposal and show how much of the purchase price was paid by cash and how much with the issue of shares (para. 5).

Noncurrent Exchanges

United States

APB Opinion 19 sets forth the requirement that all financing and investing transactions which significantly affect the financial position of the firm be separately disclosed. These transactions include acquisition or disposal of property in exchange for equity securities and conversion of long-term debt or preferred stock to common stock (para. 14c).

United Kingdom

SSAP 10 requires the reporting of noncurrent exchanges as indicated by the following sentence: "However, for a fuller understanding of a company's affairs it is necessary also to identify the movements in assets, liabilities and capital which have taken place during the year..." (para. 1).

Contrast of Reporting Requirements

The foregoing comparative analysis of the United Kingdom's statement of source and application of funds reporting requirements is classified in Table VII in terms of the extent of their variance from the reporting requirements

for the United States' statement of changes in financial position as set out in APB Opinion 19.

TABLE VII. Comparative analysis of seven reporting provisions of the statement of source and application of funds in the United States and the United Kingdom.

<u>Fund Statement Requirements</u>	<u>United States</u>	<u>United Kingdom</u>
Applicability of Reporting Requirements	A	S-E
Concept of Funds	A	S-E
Funds from Normal Operations	A	S-E
Extraordinary Items	A	S-E
Financing Activities	A	S-E
Investing Activities	A	S-E
Non-Current Exchanges	A	S-E

SOURCE: Analysis presented in this chapter.

NOTE: One of the following descriptions is assigned to each item in Table VII:

- A. APB Opinion 19 sets forth the requirement for this item.
- S. The reporting requirement for this item is similar to that of APB Opinion 19.
- E. May be shown as an equivalent item.
- X(b). The item need not be separately disclosed but can be included in another account.

X(c). The item may be calculated from the data shown.

X. There is no requirement for this item set by the accounting body of this country.

S-E. When combinations such as S-E are presented, the first letter indicates the main requirement, and the second letter indicates the alternative less used procedure.

The foregoing analysis compares the reporting provisions of the United Kingdom's SSAP 10 in seven major areas with the corresponding provisions set out in the United States' APB Opinion 19 to provide a general overview of the significant variances in each area. There are some unique contrasts between the United Kingdom and the United States which are presented in the next section.

Funds Statement Disclosure Requirements
Unique to One Country

Unique to the United States

1. Working capital or cash provided by operations should be disclosed in the statement of changes in financial position. One acceptable procedure is to begin with income or loss before extraordinary items and add back (or deduct) items utilized to determine income which did not use (or provide) working capital or cash during the

period. An alternative procedure which gives the same result starts with total revenue which provides working capital or cash during the period and then deducts operating costs and expenses which required the use of working capital or cash during the period (APB Opinion 19, para. 10).

2. Net changes in each element of working capital should be disclosed for the current period, and each change should be analyzed in detail in a tabulation accompanying the statement (APB Opinion 19, para. 12).

Unique to the United Kingdom

1. Financial statements should include a statement of source and application of funds both for the current period and the corresponding previous period (SSAP 10, para. 10).

Interpretive Comment

The United Kingdom's "funds" statement reporting standards set out in SSAP 10 are similar in scope and content to those set out in United States' APB Opinion 19. Neither country's promulgations explicitly indicate why a funds statement should be prepared or how to prepare one.

In common with APB Opinion 19 there is a need in SSAP

10 for more definitive terminology such as "net liquid funds," "where material," and "netting off." Also, there is a lack of explicit guidelines concerning format and content. Unlike APB Opinion 19, which indicates that management has the responsibility to select the definition of funds and format appropriate for the firm, SSAP 10 is surprisingly silent in this regard.

Concluding Observation

The United Kingdom's statement of source and application of funds is similar to those in the United States; however, the United Kingdom's statement appears to allow even more variability in format. It is fair to say that SSAP 10 is somewhat vague and indirect in its requirements. More definitive rules and illustrative guidelines should be of benefit for more standardization and comparability among countries.

Further analysis of the United Kingdom's SSAP 10 is discussed in relation to the other countries involved in this study in Chapter IX. The following chapter analyzes New Zealand's "funds" statement reporting standards and compares them with the United States' standards set out in APB Opinion 19.

CHAPTER VI

NEW ZEALAND'S STATEMENT OF CHANGES IN FINANCIAL POSITION

Prior to March 31, 1980 there was no effective domestic professional accounting standard, legal regulation, or stock exchange listing requirement which required New Zealand firms to present a funds statement in their financial reports.¹ New Zealand companies will have a firm Standard regarding inclusion of a statement of changes in financial position the next time they issue their annual financial report, but it will probably not be a new experience for them. Many of the firms have been including a statement of changes in financial position in their annual report voluntarily. Furthermore, for a short period they should have included the statement with their firm's financial report to comply with International Accounting Standard 7.²

¹Letter from E. P. Akins, Assistant Secretary of the International Accounting Standards Committee, London, November 26, 1979.

²International Accounting Standards Committee, International Accounting Standard 7 (London 1977), para. 23.

The voluntary presentation of funds statements became increasingly widespread in New Zealand due in part to managements' efforts to aid stockholders in interpreting the firms' financial affairs.³ By 1971 a statement entitled "Statement of Source and Application of Funds," was widely accepted as a useful addition to company's annual reports. At this time a subcommittee of the New Zealand Society of Accountants issued Research Bulletin R-103 which strongly recommended that a statement of source and application of funds be included in company reports.⁴ This recommendation was not; however, developed into a Statement of Standard Accounting Practice.

Current Status of New Zealand's Statement
of Changes in Financial Position

In April 1977 the New Zealand Society of Accountants issued Exposure Draft 18: "Statement of Source and Application of Funds." They intended to use this exposure draft as a basis for a discussion leading to the formulation of a Statement of Standard Accounting Practice on the funds

³John K. Curtis, "The Flow of Resources Statement," Accountants Journal (September 1971), p. 269.

⁴T. K. Cowan, "The Statement of Source and Application of Funds," Research Bulletin R-103 (New Zealand Society of Accountants; July 1971), p. 3.

statement which was to be implemented July 1, 1978.⁵ Comments received on this exposure draft resulted in the New Zealand Society of Accountants issuing a revised Proposed Statement of Standard Accounting Practice in May 1978 so that a Statement of Standard Accounting Practice on the statement of changes in financial position could become operative for statements covering reporting periods beginning on or after March 31, 1979.⁶

In October 1977 the International Accounting Standards Committee issued IAS 7 to become operative for accounting periods beginning on or after January 1, 1979. IAS 7 influenced the timing and final provisions of the New Zealand Standard which was finally issued by the New Zealand Society of Accountants in July, 1979 as Statement of Standard Accounting Practice No. 10 (SSAP 10). SSAP 10 indicates that companies preparing financial statements covering reporting periods ending on or after March 31, 1980 should include a statement of changes in financial position as an integral

⁵Exposure Draft No. 18 of a Proposed Statement of Standard Accounting Practice, "Statement of Source and Application of Funds," (New Zealand Society of Accountants; April 1977), pp. 1-11.

⁶Proposed Statement of Standard Accounting Practice, "Statement of Changes in Financial Position," (New Zealand Society of Accountants April 1977), pp. 1-5.

part of the financial report for each period in which a "profit and loss" account is presented.⁷

Table VIII shows the results of an informal survey of New Zealand companies which indicates that the percent of companies presenting a statement of changes in financial position has remained relatively stable since 1975.

TABLE VIII. New Zealand companies included in a survey that presented a statement of changes in financial position as part of their annual financial report.

Fiscal Year	Financial Statements Available for Examination (40 Companies Surveyed)	No. of Companies		Percent of Total Financial Statements Examined
		Including Funds Statements as Part of Financial Report		
1975	37	31		83.7
1976	37	32		86.4
1977	36	30		85.3
1978	36	31		86.1
1979	28	24		85.7

SOURCE: A survey done by Ashley Burrows, Faculty, Massey University, Palmerston North, New Zealand, Spring 1980.

Current Status of New Zealand's Statement of Changes
in Financial Position in Relation to the
International Standards

The New Zealand Society of Accountants is a member of the International Accounting Standards Committee. As a member it has agreed to support the standards promulgated by

⁷Statement of Standard Accounting Practice No. 10: "Statement of Changes in Financial Position," reprinted in the Accountants Journal (New Zealand Society of Accountants; July 1979), pp. 225-227.

the Committee and to use their best efforts to secure general acceptance and observation of these standards. The New Zealand Society of Accountants implements the International Accounting Standards by incorporating them within the body of their "Statements of Standard Accounting Practice" through a three stage process:

1. Following the issue of an International Accounting Standard it is published by the Society for the information of its members.
2. The International Accounting Standard is compared with present New Zealand practice (whether or not covered by a Statement of Standard Accounting Practice) to determine if there are significant differences, until the Society issues a new or revised Statement of Standard Accounting Practice, the existing New Zealand practices prevails.⁸

In accordance with the above procedures, the New Zealand Society of Accountants published IAS 7 in October, 1977. The publishing of IAS 7 implemented this standard in New Zealand for accounting periods beginning on or after January 1, 1979.⁹

⁸Explanatory Forward to Statements of Standard Accounting Practice, New Zealand Society of Accountants, 1979, para. 5.2.

⁹International Accounting Standard 7, "Statement of Changes in Financial Position," reprinted in the Accountants Journal (October 1977), pp. 342-343.

In summary, prior to March 31, 1980 there was no domestic accounting standard, legal regulation, or listing requirement which required New Zealand companies to present a statement of changes in financial position. However, New Zealand companies preparing financial statements for reporting periods ending on or after January 1, 1979 should have presented a statement of changes in financial position for each period that an income statement was prepared in order to comply with the provisions of IAS 7. Companies preparing financial statements covering periods ending on or after March 31, 1980 must present a statement of changes in financial position to comply with SSAP 10 which will "automatically ensure compliance with IAS 7."¹⁰

Objectives of New Zealand's Statement of Changes
in Financial Position under SSAP 10

The position taken by the New Zealand Society of Accountants as set out in their SSAP 10 is that the objectives of the statement of changes in financial position are:

1. To summarize the financing and investing activities of the entity, including the extent to which the enterprise has generated funds from operations during the period

¹⁰Statement of Standard Accounting Practice No. 10, reprinted in Accountants Journal, July 1979, p. 225.

(para. 1.2a).

2. To complete the disclosure of changes in financial position during the period (para. 1.2b).

Form and Content of the Statement of Changes
in Financial Position under SSAP 10

New Zealand's promulgation SSAP 10 is similar to the United States' Accounting Principles Board Opinion 19 (APB Opinion 19) in the respect that it too recognizes the need for flexibility in form, content, and terminology in the statement of changes in financial position (para. 3.3).

Although the term "funds" is not specifically defined in SSAP 10, the presentation of funds within the statement of changes in financial position appears to embrace a concept of funds similar to that in the United States' promulgation APB Opinion 19 which lists four acceptable funds concepts but uses only cash (or equivalent) and working capital throughout the discussion.

Under SSAP 10 three main formats may be used to present the information within the statement of changes in financial position (para. 5.1):

1. The source and use of funds can be shown separately but with equal totals
2. The use of funds can be shown as a deduction from the

source of funds with the residual balance representing the net change in working capital or cash

3. The source of funds can be added to the beginning working capital balance and the use of funds deducted from this total leaving a residual working capital balance.

The statement should clearly show the funds derived from or used in operations of the business. The recommended method is to show net profit after tax and extraordinary items and then adjust this figure for items of income or expense which did not require the use of funds in the current period (para. 3.4).¹¹ This method is somewhat different from APB Opinion 19 which shows income before extraordinary items and then adjusts for items which did not use or provide funds during the period. The statement should also show all other financing and investing activities and changes in working capital (para. 3.3, 3.4).

The statement of changes in financial position should also disclose the following items:

1. Dividends appropriated during the period
2. Acquisitions and disposals of fixed and other noncurrent

¹¹New Zealand is similar to the United States in that it allows an alternative method which provides the same results by showing gross income which provides funds and deducting gross expenses which involve the use of funds.

assets

3. The issue, redemption, and repayment of long-term debt
4. Funds raised by issuing capital stock.

APB Opinion 19 indicates that any outlays for the purchase of a consolidated subsidiary should be summarized in the consolidated statement of changes in financial position by major asset and obligation categories whereas New Zealand's SSAP 10 more specifically indicates that when the financial statements are prepared on a consolidated basis, then the statement of changes in financial position should also be prepared on a consolidated basis. The acquisition or disposal of a subsidiary can be presented in either of two ways: (a) if the amount is material, the movement in individual assets and liabilities should be shown separately, or (b) if the amount is immaterial, the purchase price or proceeds from disposal may be shown separately (para. 4).

The statement of changes in financial position shown in Figure 5 is provided in the Appendix to SSAP 10 as an acceptable example of a funds statement for a company with a subsidiary.¹²

The foregoing general discussion of New Zealand's

¹²For another example of a statement of changes in financial position, see Appendix D.

Figure 5. An example of a statement of changes in financial position which meets the reporting standards set out in New Zealand's SSAP 10.

PARENT COMPANY WITH ASSOCIATED COMPANY SHOWING ACQUISITION OF SUBSIDIARY—EXAMPLE B

Statement of Changes in Financial Position

Funds were provided:

From operations—

Net profit after tax and extraordinary items and less minority interests†	4,130
Adjustments for items not involving movement of funds:	
Depreciation	1,485
Minority interests in retained profits	75

Total funds from operations 5,690

From other sources—

Shares issued for cash	2,000
Shares issued in part consideration of the acquisition of subsidiary*	2,350
Long term debt issued	5,650

\$15,690

Funds were applied to:

Purchase of fixed assets	12,700
Purchase of investments	200
Dividends appropriated	240
Purchase of goodwill on acquisition of subsidiary*	500
Re-investment in associated companies	140
Increase in working capital	1,910

\$15,690

Increase/(decrease) in working capital

Stocks	1,450
Debtors	1,950
Creditors	(460)
Cash Balances	(1,030)

\$1,910

*** Summary of the effects of the acquisition of subsidiary.**

	Net assets acquired		Consideration
Fixed assets	2,000		
Goodwill	500		
Stocks	1,000		
Debtors	800	Share issued	2,350
Creditors	(400)	Cash paid	1,550
	<u>\$3,900</u>		<u>\$3,900</u>

† Includes profits retained in Associated Companies. □

HUTCHESON, BOWMAN & STEWART LTD.
WELLINGTON, N.Z.

SOURCE: Appendix to SSAP 10, reprinted in the Accountants Journal (July 1979), p. 227.

statement of changes in financial position should provide the necessary foundation to enable most readers to understand and evaluate the comparative analysis presented in the following section of this study. The paragraphs of SSAP 10 that comprise the detailed provisions of the Standard are reproduced in Appendix D.

Comparison of New Zealand's Statement of Changes
in Financial Position with the United States'
Statement of Changes in
Financial Position

The seven significant provisions of United States' APB Opinion 19 that were identified in Chapter III and the corresponding provisions of New Zealand's SSAP 10 will be compared in this section. These seven areas are: (1) applicability of reporting requirements, (2) concept of funds, (3) funds from normal operations, (4) extraordinary items, (5) financing activities, (6) investing activities, and (7) non-current exchanges. Comments about APB Opinion 19 are identical to the comments in the chapter on the United States but are repeated here for the convenience of the reader.

Applicability of Reporting Requirements

United States

APB Opinion 19 requires that the statement of changes in financial position be prepared as part of the financial

reports for each period that both the balance sheet and the income statement are presented (para. 7).

New Zealand

The position of New Zealand's Society of Accountants as reflected in their SSAP 10 is that a statement of changes in financial position should be presented as an integral part of the audited financial statements "...for each period for which the profit and loss account is presented" (para. 6.1).

Concept of Funds

United States

APB Opinion 19 indicates that the statement of changes in financial position should be based on a broad concept embracing all changes in financial position (para. 8). Funds should be expressed "in terms of cash, cash and temporary investments combined, of all quick assets or of working capital" (para. 11).

New Zealand

SSAP 10 states that the statement of changes in financial position should show:

- (1) Funds provided from or used in operations (para. 6.2)
- (2) All other financing and investing activities (para. 6)
- (3) Changes in working capital (para. 6.2).

Although SSAP 10 does not specifically define the term "funds",

the concept implied in the directive is that funds may be considered cash, cash equivalent, or working capital as seen in the following example: The portion of a subsidiary's "purchase or disposal price discharged by cash and cash equivalent should be shown" (para. 4.3b). One method of presentation is to deduct the total use of funds from the total source, "leaving a residual representing the net change in working capital or cash" (para. 5.1b).

Funds from Normal Operations

United States

APB Opinion 19 sets the following three basic requirements:

1. Working capital or cash provided from or used in operations should be clearly disclosed (para. 10).
2. The statement should begin with income or loss before extraordinary items and adjust for items which did not use or provide cash or working capital during the period (para. 10). An optional method is also allowed.¹³
3. The results from operations figure should be reported separately from the influence of extraordinary items

¹³An alternative procedure which gives the same result starts with revenue which provides working capital during the period and then deducts operating costs and expenses which required the use of working capital.

(para. 10).

New Zealand

The statement of changes in financial position should show funds provided by or used in operations. The preferred method of showing funds provided by operations is to show the net profit (or loss) after tax and extraordinary items and then adjust for items that did not involve a movement of funds (para. 3.4). An alternative method is also allowed.¹⁴

Extraordinary Items

United States

APB Opinion 19 sets the following two requirements for extraordinary items:

1. Working capital or cash provided or used by extraordinary items should be shown immediately following funds from normal operations (para. 10).
2. Extraordinary income or loss should be adjusted for items which did not use or provide cash or working capital during the period (para. 10).

New Zealand

As previously discussed, SSAP 10 indicates that funds

¹⁴An alternative method which provides the same result is to show the gross amount of income and expense which involved a movement of funds during the period (para. 3.4).

provided by operations is shown net after tax and extraordinary items. However, the directive is silent concerning whether or not working capital or cash provided by or used by extraordinary items should be separately disclosed in the statement.

Financing Activities

Although the Accounting Principles Board in Opinion 19 recognizes that some transactions such as the issuing of equity securities to acquire a building involve both a financing and investing activity, the term, "financing activity" is not explicitly defined. The meaning of the term "financing activity" may be inferred from the context of its usage within the Opinion. For purpose of this study "financing activities" are defined as transactions which affect the firm's long-term capital structure. Financing activities include the issuance, redemption or repayment of debt, reacquisition of preferred or common stock, the conversion of long-term debt into equity; and other non-current exchanges (para. 13 and 14).

United States

APB Opinion 19 states: "to meet its objectives a funds statement should disclose separately the financing and investing aspects of all significant transactions that affect

financial position during a period" (para. 6).

New Zealand

SSAP 10 indicates that in addition to presenting funds derived or used in operations that the statement of changes in financial position should also show "all other financing and investing operations" (para. 3.3b).

Examples of financing activities which should be presented in the statement of changes in financial position are:

- (1) Dividends appropriated during the period
- (2) Issue, redemption and repayment of long-term debt
- (3) Funds raised by issuing capital stock (para. 3.5).

Investing Activities

Although APB Opinion 19 does not explicitly define the term "investing activity" the meaning of the term may be inferred from its usage within the Opinion. For purpose of this study the term "investing activity" is defined as outlays for the acquisition of long-term assets which can be classified as investments, property and intangibles. Also considered as an "investing activity" for purpose of this study are any outlays for the purchase of consolidated subsidiaries (para. 13 and 14).

United States

APB Opinion 19 sets forth the following requirements for investment activities:

- (1) The purchase or sale of long-term assets are to be separately identified by category (investments, property, and intangibles). Sources and uses should not be netted against each other nor should major categories of non-current assets be combined (para. 14).
- (2) Outlays of funds for the acquisition of consolidated subsidiaries should be summarized by major categories of assets and obligations assumed (para. 13).

New Zealand

The statement of changes in financial position should show the acquisition and disposal of fixed and noncurrent assets (para. 3.5b).

The statement should present the acquisition or disposal of a subsidiary by showing the movement in individual assets and liabilities, or if the amount is not material, the total purchase price or sales proceeds may be reported separately (para. 4.2). The following information should be shown in aggregate either within the statement or by a note:

- (1) The total purchase or disposal price
- (2) The portion of the purchase or disposal price discharged

- by cash or cash equivalent
- (3) The total assets and liabilities in the subsidiary acquired or sold, summarized by major category (para. 4.3).

Noncurrent Exchanges

United States

APB Opinion 19 sets forth the requirement that all financing and investing transactions which significantly affect the financial position of the firm be separately disclosed. These transactions include acquisition or disposal of property in exchange for equity securities and conversion of long-term debt or preferred stock to common stock (para. 14c).

New Zealand

Activities involving the exchange of one form of security for another, such as the conversion of long-term debt into ordinary share capital, is an exchange which is considered equivalent to the issue of one security and redemption of the other and therefore considered part of the financing and investing activities of the enterprise which should be presented in the statement of changes in financial position (para. 3.6). Netting of items should be held to a minimum (para. 3.8).

Contrast of Reporting Requirements

The foregoing comparative analysis of New Zealand's

statement of changes in financial position reporting requirements is classified in Table IX in terms of the extent of their variance from the reporting requirements for the United States' statement of changes in financial position as set out in APB Opinion 19.

TABLE IX. Comparative analysis of seven reporting provisions of the statement of changes in financial position in the United States and New Zealand.

<u>Fund Statement Requirements</u>	<u>United States</u>	<u>New Zealand</u>
Applicability of Reporting Requirements	A	S
Concept of Funds	A	S
Funds from Normal Operations	A	X(c)
Extraordinary Items	A	X
Financing Activities	A	S
Investing Activities	A	S-E
Non-Current Exchanges	A	S

SOURCE: Analysis presented in this chapter.

NOTE: One of the following descriptions is assigned to each item in Table IX:

- A. APB Opinion 19 sets forth the requirement for this item.
- S. The reporting requirement for this item is similar to that of APB Opinion 19.
- E. May be shown as an equivalent item.
- X(b). The item need not be separately disclosed but can be included in another account.

- X(c). The item may be calculated from the data shown.
- X. There is no requirement for this item set by the accounting body of this country.
- S-E. When combinations such as S-E are presented, the first letter indicates the main requirement, and the second letter indicates the alternative less-used procedure.

The foregoing analysis compares the reporting provisions of New Zealand's SSAP 10 in seven major areas with the corresponding provisions set out in the United States' APB Opinion 19 to provide a general overview of the significant variances in each area. There are some unique contrasts between New Zealand and the United States which are presented in the next section.

Funds Statement Disclosure Requirements
Unique to One Country

Unique to the United States

1. The United States' statement of changes in financial position reports extraordinary items separately immediately following funds from normal operations; whereas, New Zealand's statement does not require the disclosure of the effects of extraordinary items (APB Opinion 19, para. 10, and SSAP 10, para. 3.4).

Unique to New Zealand

1. Transfers to or from reserves and revaluations of assets are not considered financing and investing activities and should not be included in the statement of changes in financial position (para. 3.7).
2. When a subsidiary is acquired or sold, any material movement in the individual assets and liabilities should be presented separately. If the amount is immaterial, the purchase price or proceeds from their sale may be shown in total as a separate item (para. 4.2). The following information should be provided either in the statement or by note:
 - (a) The total purchase or disposal price
 - (b) The share of the purchase or disposal price paid by cash or cash equivalent
 - (c) The amount of total assets and liabilities in the subsidiary, summarized by major category (para. 4.3).
3. A parent company's interest in the earnings of an associated company may be reported by including the investor's interest in the associated company's earnings as part of funds provided from operations with the retained portion of the earnings shown as a reinvestment (para. 4.4).

4. The following three main format methods are used to present the statement of changes in financial position:
- a) The balanced format which shows sources and uses separately but with equal totals
 - b) The remainder format which shows uses subtracted from sources leaving a residual balance which represents the net change in working capital or cash
 - c) The reconciling format which adds sources to the beginning working capital balance and deducts uses to arrive at an ending working capital balance (para. 5.1).

Interpretive Comment

The usefulness of the statement of changes in financial position has been recognized by many New Zealand companies for a number of years. SSAP 10 can be regarded as a significant development, if for no other reason than it requires New Zealand companies to present a statement of changes in financial position as an integral part of their financial statements for each period that a "profit and loss account is presented" (para. 6.1).

SSAP 10 is similar to the "funds" statement reporting

promulgations in the United States, Canada, and the United Kingdom in the respect that the guidelines are broad but lack definitive implementation suggestions. There is a need for explicit clarification of terms such as "netting" and "immaterial".

SSAP 10 is also similar to the other countries' promulgations in the respect that it permits a great amount of flexibility in content and presentation within the statement which could result in some lack of uniformity for comparison purposes between countries. Some items are missing from SSAP 10 such as guidelines on how to present extraordinary items. Also, there appears to be some question concerning how to present the sale of a long-term asset.

Concluding Observation

In the United States APB Opinion 19 requires all companies which prepare both the balance sheet and the income statement to also prepare a statement of changes in financial position. This requirement is similar to New Zealand's SSAP 10 which requires companies preparing financial statements covering reporting periods ending on or after March 31, 1980 to present a statement of changes in financial position for each period that a "profit and loss account" is presented

(para. 6.1). Compliance with the requirements set out in SSAP 10 automatically ensures compliance with IAS 7.

Although there is some need for more definitive guidelines, explicit terminology and useful illustrations, the statement is well written. It should make a positive contribution to the reporting practices in this area.

CHAPTER VII

AUSTRALIA'S STATEMENT OF SOURCE AND APPLICATION OF FUNDS

The Australian accounting profession gave recognition to the usefulness of funds statements as far back as 1966 in a report by the General Council of the Australian Society of Accountants entitled, "Accounting Principles and Practices Discussed in Reports on Company Failures," which stated:

The general question of the adequacy of financial statements prepared in accordance with generally accepted accounting principles has already been discussed on page 6, and the General Council is of the view that the general standard of company reporting and disclosure is in urgent need of improvement... As an example of improved reporting it is suggested that funds statements can usefully be included with published financial statements, although these statements should not be required by legislation.¹

Current Position of Australia's Statement of Source and Application of Funds

In January 1971 the Institute of Chartered Accountants

¹Letter from W.J. Kenley, National Technical Director of the Australian Accounting Research Foundation, Sydney, Australia, April 4, 1979.

in Australia issued Technical Bulletin Fl. entitled "Statements of Source and Application of Funds." This bulletin, which is still in effect, recommends "that a statement of source and application of funds should be presented to shareholders as supplementary information with the annual accounts of companies."²

At the present time there is no professional promulgation, statutory regulation, or other legal requirement in Australia for public companies to present a "Source and Application of Funds Statement" as part of their annual financial statements. Section 161 of the Companies Act states "Accounts mean profit and loss accounts and balance sheets and includes notes (other than auditors' reports or directors' reports) attached to or intended to be read with any of those profit and loss accounts or balance sheets." A funds statement is not included in what is defined as "accounts" under the provisions of the Companies Acts. This is a narrower definition of the term "financial statements" than is understood in general usage within the United States, Canada, United Kingdom, New Zealand, or by the International

²The Institute of Chartered Accountants in Australia, Statements of Source and Application of Funds, Technical Bulletin Fl (Sydney : Institute of Chartered Accountants in Australia, 1971), p. 1.

Accounting Standards Committee.³

Although statements of source and application of funds are not required by law or professional promulgation, they are required for listed companies by the Australian Associated Stock Exchanges Official Listing Requirements, Section 3.C(9) which requires a listed company to "include in its published accounts a Statement of Source and Application of Funds with comparative figures for the previous year."⁴

A survey made by J. B. Ryan, C. T. Heazlewood and B. H. Andrew from the University of Wollongong examined the 1975 financial reports of 250 Australian public companies. This survey disclosed that 236 or 94 percent of these companies presented a funds statement. It is fair to assume that the percentage of companies presenting a funds statement has probably increased since this period.⁵

In March, 1980 the Australian Accounting Research Foundation of the Institute of Chartered Accountants in Australia and the Australian Society of Accountants prepared

³Letter from W. J. Kenley, April 4, 1979.

⁴Ibid.

⁵"Australian Company Financial Reporting", Table 5.1 in a letter from W. J. Kenley, National Technical Director of the Australian Accounting Research Foundation, Sydney, Australia, April 4, 1979.

a confidential Exposure Draft for discussion entitled "Statement of Sources and Application of Funds." If this Exposure Draft is adopted as an Accounting Standard it should have a beneficial effect on the reporting provisions in this area.⁶

Current Position of Australia's Statement of Source
and Application of Funds in Relation
to the International Standards

Australia is a member of the International Accounting Standards Committee (IASC) and is represented on the committee by its two professional accounting bodies, the Institute of Chartered Accountants in Australia and the Australian Society of Accountants. As a member of the IASC, Australia's professional accounting bodies have agreed to use their best efforts to secure general acceptance and observation of the Committee's standards.

The Councils of the two Australian Accounting bodies utilize the following procedure when dealing with the International Accounting Standards:

1. The International Accounting Standards (IAS) serve as the minimum reporting requirements for existing Australian Accounting Standards (AAS).

⁶Exposure Draft, Proposed Statement of Accounting Standards, "Statement of Sources and Application of Funds", received with letter from K. M. Stevenson, Technical Director, Australian Accounting Research Foundation, Melbourne, Australia; April 1, 1980.

2. If an AAS doesn't cover the subject of the IAS the IAS should be reissued as an Australian Standard or used as the basis for an AAS.
3. If the IAS is consistent with the AAS but falls short of its provisions then the AAS should be endorsed to indicate that it is consistent with the IAS and that compliance with the Australian Standard ensures compliance with the IAS:

The Standards set out in this Statement are not inconsistent with those set out in IAS ..issued by the International Accounting Standards Committee. Members should note that compliance with this Australian Standard will ensure compliance with IAS...

4. If the IAS varies in substance from the AAS and is not considered appropriate for Australian practice then the Australian Standard should be endorsed:

The Standards set out in this Statement are inconsistent with those set out in IAS... issued by the International Accounting Standards Committee in that:

- (i)...
- (ii)...

Also, if the IAS is not considered appropriate for Australian practice it is necessary for members to disclose in their statements the extent of variance from the International Standard, such as:

The accounts although in conformity with Australian Accounting Standards do not

comply with International Accounting Standards as provided in AAS...⁷

International Accounting Standard 7 (IAS 7) was issued by the International Accounting Standards Committee in October, 1977 to be effective for accounting periods beginning on or after January 1, 1979. Australia's professional accounting bodies have not yet adopted IAS 7; however, its contents were considered in the preparation of a recent Exposure Draft which is now being considered in Australia but has not yet been issued to the general public. Since an advance copy of this exposure draft was reviewed on a confidential basis, specifics can not be revealed in this study even though access to that preliminary draft did help identify items deserving special analysis.⁸

In summary, both of Australia's professional accounting bodies encourage the presentation of a statement of source and application of funds. Although the presentation of a statement of source and application of funds is not required by domestic professional promulgation or statutory law, the presentation of such a statement is required of all public listed companies by the Associated Stock Exchanges.

⁷Accounting Policy Statement 3, "Compatibility of Australian Accounting Standards and International Accounting Standards" (Sydney: Australian Society of Accountants and the Institute of Chartered Accountants in Australia, 1976) p. 5005.

⁸Exposure Draft, received from K. M. Stevenson, April 1, 1980.

Objectives of Australia's Statement of Source and
Application of Funds as Recommended in
Technical Bulletin Fl.

The position taken by the Institute of Chartered Accountants in Australia as set out in their Technical Bulletin Fl. is that a statement of source and application of funds,

...can materially assist the reader to appreciate the meaning and significance of the reported financial results and the deployment of the resources of the company for the period under review" (para. 2).

Form and Content of Australia's Statement of Source
and Application of Funds as Recommended
in Technical Bulletin Fl.

Just as in the Standards of the other countries studied, the need for flexibility in form, content, and terminology is recognized in Australia's Technical Bulletin Fl. The form of the statement depends on the circumstances of each particular case. Significant information should be arranged in such a manner so that important highlights are emphasized, and explanatory notes should be used to provide the necessary detail for important items (para. 10, 11, and 12).

Funds are defined as cash (or like) resources generated by some transactions and applied through others. Included in this definition of funds is cash constructively received or applied such as when an asset is paid for through the

issue of securities (para. 7). Inclusion of this definition of funds as cash "notionally received" is a major departure from the definition of funds used in the other countries of this study.

Funds provided by operations start with profit before extraordinary items to which is added any non-cash items which were previously deducted (para. 13a).⁹

Other non-cash transactions which "...reflect a change in the way in which the funds of the company have been provided" should be included in the funds statement (para. 13b). However, some transactions do not represent a source of application of funds and therefore are not presented in the funds statement but may be shown in an explanatory note, such as:

1. The issue of Bonus shares
2. Reserve transfers
3. Asset revaluations (para. 13b).

Technical Bulletin F1. indicates that the statement of source and application of funds should also disclose the following items:

⁹An alternative method which is similar to that allowed in the United States provides that the statement may disclose gross sales and other revenue from which expenses are deducted.

1. Increase in paid-up capital
2. Increase in borrowings
3. Reduction in asset investment
4. Repayment of capital
5. Losses incurred in operations
6. Reduction in borrowings
7. Investment in current and non-current assets
8. Dividend distributions.

The statement of source and application of funds prepared for a group of companies should be prepared on a consolidated basis (para. 5).

Figure 6 shows the statement of source and application of funds provided in the Appendix to Technical Bulletin Fl. as an acceptable example of a funds statement for a company with a subsidiary.

The foregoing general discussion of the reporting standards for Australia's statement of source and application of funds should provide the necessary foundation to enable most readers of this study to understand and evaluate the following comparative analysis. However, occasional references are made to more specific features of the promulgation, therefore the entire provisions for the presentation of Australia's statement of source and application of funds as

Figure 6. An example of a statement of source and application of funds which meets the reporting standards set out in Australia's Technical Bulletin F1.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS		5 YEARS TO 19..		
YEARS ENDED 30 JUNE	19..	19..	TO 19..	
During the year the following funds became available:				
1. Consolidated profit for year before extraordinary items	x	x	x	
<i>Add Items not involving the outlay of funds in the current period —</i>				
Depreciation and amortisation of fixed assets	x	x	x	
Amount provided for deferred income tax	x x	x x	x x	
	<hr/>	<hr/>	<hr/>	
Funds derived from operations ..	x	x	x	
2. Increase in long-term liabilities ..	x	x	x	
3. Proceeds of capital issues	x	x	x	
	<hr/>	<hr/>	<hr/>	
	\$ x	x	x	
These funds were applied as follows:				
1. Increase in working capital ..	x	x	x	
2. Purchase of fixed assets	x	x	x	
3. Payment of long-term liabilities ..	x	x	x	
4. Payment of dividends —				
Shareholders	x	x	x	
Minority interests in subsidiary companies	x	x	x	
	<hr/>	<hr/>	<hr/>	
	\$ x	x	x	

SOURCE: Appendix to Australia's Technical Bulletin F1.
(The Institute of Chartered Accountants in Australia, 1971),
p. 7.

set out in their Technical Bulletin Fl. is reproduced in Appendix E.

Comparison of Australia's Statement of Source and
Application of Funds with the United States'
Statement of Changes in Financial
Position

The seven significant provisions of United States APB Opinion 19 that were identified in Chapter III and the corresponding provisions of Australia's Technical Bulletin Fl. will be compared in this section. These seven areas are:

(1) applicability of reporting requirements, (2) concept of funds, (3) funds from normal operations, (4) extraordinary items, (5) financing activities, (6) investing activities, and (7) noncurrent exchanges. Comments about APB Opinion 19 are identical to the comments in the chapter on the United States but are repeated here for the convenience of the reader.

Applicability of Reporting Requirements

United States

APB Opinion 19 requires that the statement of changes in financial position be prepared as part of the financial reports for each period for which both the balance sheet and the income statement are presented (para. 7).

Australia

The position of Australia's professional accounting bodies, as reflected in the Institute of Chartered Accountants' Technical Bulletin Fl. is that the presentation of a statement of source and application of funds is useful as a supplementary report in that it "can materially assist the reader to appreciate the meaning and significance of the reported financial results"; however, statements of source and application of funds are not required by promulgation of the professional accounting bodies nor are they required by the statutory law. Statements of source and application of funds are required as a listing requirement for all companies listed on Australian Stock Exchanges.¹⁰ Under the provisions of IAS7, all companies preparing financial statements covering reporting periods beginning on or after January 1, 1979 should present a statement of changes in financial position for each period in which an income statement is presented; however, Australia has not yet adopted the International Standard.¹¹

¹⁰Letter from W.J. Kenley, April 4, 1979.

¹¹Letter from K.M. Stevenson, Director of Australian Accounting Research Foundation, Melbourne, Australia, January 17, 1980.

Concept of Funds

United States

APB Opinion 19 indicates that the statement of changes in financial position should be based on a broad concept embracing all changes in financial position (para. 8). Funds should be expressed "in terms of cash, cash and temporary investments combined, of all quick assets or of working capital" (para. 11).

Australia

Although the recommendations as set out in Technical Bulletin Fl. do not state specifically that the statement of source and application of funds should embrace all the financing and investing activities of the company, such a broad concept is implied in the following recommendations: (1) funds are defined as cash (or like) resources, including cash notionally received, such as when an asset is purchased in exchange for an issue of securities; and (2) statements of source and application of funds should report non-cash transactions, such as the conversion of debentures into stock (para. 7, 13b).

Funds from Normal Operations

United States

APB Opinion 19 sets the following three basic require-

ments:

1. Working capital or cash provided from or used in operations should be clearly disclosed (para. 10).
2. The statement should begin with income or loss before extraordinary items and adjust for items which did not use or provide cash or working capital during the period (para. 10). An optional method is also allowed.¹²
3. The results from operations figure should be reported separately from the influence of extraordinary items (para. 10).

Australia

The Institute of Chartered Accountants in Australia sets out the following recommendations in their Technical Bulletin Fl.

1. The funds from operations figure is the profit before extraordinary items (para. 13a). Another method to arrive at this figure is also allowed.¹³
2. Non-cash items which were deducted in determining profit

¹²An alternative method which provides the same results is to begin with revenues that provide funds during the period and deduct cost and expenses that required the use of funds.

¹³"...if thought desirable the statement may be expanded to disclose sales and other revenue items followed by the deduction of expenses" (para. 13a).

before extraordinary items must be added back to arrive at the funds from operations figure (para. 13a).

3. The profit or loss on the sale of fixed assets should be removed from the funds from operations figure (para. 13 e).

Extraordinary Items

United States

APB Opinion 19 sets the following two requirements for extraordinary items:

1. Working capital or cash provided or used by extraordinary items should be shown immediately following funds from normal operations (para. 10).
2. Extraordinary income or loss should be adjusted for items which did not use or provide cash or working capital during the period (para. 10).

Australia

The treatment of extraordinary items varies with the nature of the item, for example:

1. Profits on the sale of investments should be added to the book value of the assets sold to show the total proceeds as a source of funds (para. 13i).
2. Income tax expense charged which exceeds the amount

based on current profit should be adjusted against funds from operations (para. 13ii).

3. Extraordinary gains should be removed from the funds from operations figure and reported as an extraordinary item (para. 13iii).

Financing Activities

Although the Accounting Principles Board in Opinion 19 recognizes that some transactions such as the issuing of equity securities to acquire a building involve both a financing and investing activity, the term, "financing activity" is not explicitly defined. The meaning of the term "financing activity" may be inferred from the context of its usage within the Opinion. For purpose of this study "financing activities" are defined as transactions which affect the firm's long-term capital structure. Financing activities include the issuance, redemption or repayment of debt, reacquisition of preferred or common stock, the conversion of long-term debt into equity; and other non-current exchanges (para. 13 and 14).

United States

APB Opinion 19 states: "to meet its objectives a funds statement should disclose separately the financing and

investing aspects of all significant transactions that affect financial position during a period" (para. 6).

Australia

Although the recommendations in Technical Bulletin Fl. do not specifically state that the statement of source and application of funds should disclose all aspects of the firm's financing activities such a concept is implied in the following recommendations:

1. Funds reported in the statement of source and application of funds should include the exchange of securities for an asset (para. 7).
2. Other non-cash transactions which should be included in the funds statement is the conversion of debentures into shares of stock (para. 13b).
3. Any movements in noncurrent liabilities should be reported in detail (para. 13f).
4. Any prior period adjustments affecting the income statement should be ignored in preparing the funds statement. If a comparative funds statement is presented, then appropriate adjustments should be made to show the appropriate investing and financing activity figures for the prior period (para. 13i).

Investing Activities

Although APB Opinion 19 does not explicitly define the term "investing activity" the meaning of the term may be inferred from its usage within the Opinion. For purpose of this study, the term "investing activity" is defined as outlays for the acquisition of long-term assets which can be classified as investments, property and intangibles. Also considered as an "investing activity" for purpose of this study are any outlays for the purchase of consolidated subsidiaries (para. 13 and 14).

United States

APB Opinion 19 sets forth the following requirements for investment activities:

1. The purchase or sale of long-term assets are to be separately identified by category (investments, property, and intangibles). Sources and uses should not be netted against each other nor should major categories of noncurrent assets be combined (para. 14).
2. Outlays of funds for the acquisition of consolidated subsidiaries should be summarized by major categories of assets and obligations assumed (para. 13).

Australia

1. If the proceeds of sale or the purchase price of fixed assets are material in amount they should be shown separately in the statement of source and application of funds; however, if the amounts are not material, they could either be shown as a net increase or decrease, or the sales and purchase could be individually disclosed but shown to be related to each other (para. 13a).
2. If the statement of source and application of funds is prepared for a group of companies it should be prepared on a consolidated basis along with comparative figures from a prior period (para. 4, 5).

Noncurrent Exchanges

United States

APB Opinion 19 sets forth the requirement that all financing and investing transactions which significantly affect the financial position of the firm be separately disclosed. These transactions include acquisition or disposal of property in exchange for equity securities and conversion of long-term debt or preferred stock to common stock (para. 14c).

Australia

The objective of the statement of source and application

Table X. Comparative analysis of seven reporting provisions of the statement of source and application of funds in the United States and Australia.

Fund statement requirements	United States	Australia
Applicability of reporting requirements	A	X
Concept of funds	A	S
Funds from normal operations	A	S
Extraordinary items	A	S-E
Financing Activities	A	S-E
Investing Activities	A	E-X(b)
Non-current exchanges	A	S-E

SOURCE: Analysis presented in this chapter.

NOTE: One of the following descriptions is assigned to each item in Table IX:

- A. APB Opinion 19 sets forth the requirement for this item
- B. The reporting requirement for this item is similar to that of APB Opinion 19
- E. May be shown as an equivalent item
- X(b). The item need not be separately disclosed but can be included in another account
- X(c). The item may be calculated from the data shown
- X. There is no requirement for this item set by the accounting body of this country
- S-E. When combinations such as S-E are presented, the first letter indicates the main requirement, and the second letter indicates the alternative less-used procedure.

of funds is to assist the reader to appreciate the meaning and significance of the period's financial results and determine how the company's resources were used during the period. In order to accomplish this objective, it is necessary to explain and emphasize any increase or decrease in noncurrent assets or liabilities such as any change in the way company funds have been provided. The statement should disclose the acquisition of assets received in exchange for securities, the conversion of long-term debt into stock, and the repayment of a long-term loan with a new loan (para. 2, 13b, 7, 13f).

Contrast of Reporting Requirements

The foregoing comparative analysis of Australia's statement of source and application of funds reporting requirements is classified in Table X in terms of the extent of their variance from the reporting requirements for the United States statement of changes in financial position as set out in APB Opinion 19.

The foregoing analysis compares the reporting provisions of Australia's Technical Bulletin Fl. in seven major areas with the corresponding provisions set out in the United States' APB Opinion 19 to provide a general overview of the

significant variances in each area. There are some unique contrasts between Australia and the United States which are presented in the next section.

Funds Statement Disclosure Requirements
Unique to One Country

Unique to the United States

1. Net changes in each element of working capital should be disclosed for the current period and each change should be analyzed in detail in a tabulation accompanying the statement (APB Opinion 19, para. 12).

Unique to Australia

1. Transactions which do not represent either sources or applications of funds should be excluded from the funds statement, such as:
 - (a) Issues of bonus shares
 - (b) Transfers to and from reserves
 - (c) Revaluations of assets (para. 13b)
2. If they are shown on the balance sheet as assets, "deferred income tax expense and future income tax benefits resulting from past losses should be adjusted against profit before extraordinary items" (para. 13d).
3. If necessary, explanatory notes should be used with the statement to provide additional details for significant

- items (para. 10).
4. Results of sales and purchases of fixed assets which are not material in amount may be presented either as a net increase or decrease, or the sales and purchases may be individually disclosed in the statement but shown as being related to each other (para. 13e).
 5. Reasonable assumptions can be made to group related items and show them as offsetting each other (para. 13g).
 6. Prior period adjustments which affect the income statement should be ignored when preparing the funds statement. Appropriate adjustments should be made to the prior periods figures when a comparative funds statement is presented (para. 13j).

Interpretive Comment

Unlike the "funds" statement promulgations of the United States, United Kingdom, and New Zealand, Australia's "funds" statement promulgation is similar to Canada in that it recommends the presentation of a "funds" statement but has no enforceable domestic profession "funds" statement promulgation to require companies to present a "funds" statement or to follow the recommendations provided in their Technical Bulletin Fl. However, companies listed on the Australian Associ-

ated Stock Exchanges are required by the Exchange's official listing requirements to present a "funds" statement.

Australia's "funds" statement recommendations are similar to the other countries promulgations in that the guidelines are broad but not definitive. There is a need for more explicit terminology. Terms such as "liquidity," "significant," "netted," and "material," need to be explicitly defined; also definitive illustrations should be provided to aid in the implementation of the recommendations.

Australia's "funds" statement recommendations indicate that items which do not involve a source or application of "funds" need not be presented, such as: (1) the issuance of bonus shares, (2) the transfer of funds to or from reserves, and (3) asset revaluations. However, the omission of items which do not directly involve the source or application of funds may result in the omission of information which should be reported under the "all financial resources" concept as set out in APB Opinion 19. The omission of some items along with the flexibility in form, content and presentation provided by Technical Bulletin F1 could result in some amount of nonuniformity in "funds" statement disclosure when compared with other countries.

Concluding Observation

Both of Australia's professional accounting bodies, which are members of the International Accounting Standards Committee, have agreed to use their best effort to secure the implementation of the International Accounting Standards in Australia. However, IAS 7 was issued in October 1977, but it has not yet been implemented in Australia. At the present time a proposed "funds" statement Exposure Draft is being discussed and if it is adopted in its present form, statements issued under the Standard will fully conform with IAS 7 and will in addition, be among the most useful and unambiguous statements issued in any country. Several ideas from the Australian draft are merged with some of the ideas developed by this researcher and are presented in the concluding chapter of this dissertation as suggested improvements to APB Opinion 19.

¹⁴Research was nearly complete when the confidential advance copy of the forthcoming Australian Exposure Draft was received. It was decided that there was nevertheless, sound reason to retain the analysis of Australia's Technical Bulletin F1, as part of this dissertation because it contains unique features that are carried over into the new proposal and that ought to be considered by other countries as they amend or modify their standards. For example, Technical Bulletin F1 expanded the "all financial resources" funds concept to include funds constructively received. The proposed Exposure Draft further develops the "funds" concept to fit the theoretical accrual accounting concept. Also, the detailed attention given to the definition of terms and format in Technical Bulletin F1 is built upon in the proposed draft.

The proposed Exposure Draft has not yet been issued for publication, but was reviewed for this study on a confidential basis, therefore more details cannot be disclosed.

CHAPTER VIII

STATUS OF THE STATEMENT OF CHANGES IN FINANCIAL POSITION IN THE EUROPEAN ECONOMIC COMMUNITY COUNTRIES

The discussion in the preceding four chapters focused on the status of the statement of changes in financial position in the United States, Canada, United Kingdom, New Zealand and Australia. The "funds" statement reporting requirements in each country were compared with the reporting requirements for the United States statement of changes in financial position as set out in Accounting Principles Board Opinion 19 (APB Opinion 19).

The following discussion will briefly examine the status of the statement of changes in financial position in the European Economic Community (EEC) countries, exclusive of the United Kingdom since it was discussed in detail in Chapter VI.

The recently adopted Fourth Directive of the EEC deals with the lay-out of annual accounts, valuation methods to be adopted for their presentation, contents of the annual report, and provisions concerning publication of financial

statements.¹ However, for the purposes of this directive, annual accounts comprise only the balance sheet, the profit and loss account, and the accompanying notes to the accounts. The Fourth Directive permits member states to require a statement of changes in financial position, but it does not require them to adopt such a provision in their national legislation. Therefore, the regulations governing the publication of the statement of changes in financial position are considered on a country-by-country basis in the following discussion.²

United Kingdom

The reporting requirements for the funds statement in the United Kingdom were discussed in detail in Chapter V.

¹When the EEC was established on March 25, 1957 it began a harmonization program designed to facilitate the functioning of the Common Market. This program involves the issuing of directives which are binding on the member states. The Fourth Directive laid down rules for the uniform preparation, presentation and publication of company accounts. It was originally published in November, 1971, reissued in February, 1974 and finally adopted by the EEC Council of Ministers on July 25, 1978. For more information see: Frederick Choi and Gerhard G. Mueller, An Introduction to Multinational Accounting (Englewood Cliffs, New Jersey: Prentice Hall, 1978), pp. 198-200; M. Baradell, (ed.) "Company Accounts--Fourth Directive," The Accountant, Vol. 179 (August 1978), p. 233.

²Letter from Claudis van Schaik, representative of Peat Marwick, Mitchell and Co., "Annex I-Developments in EEC Countries." Paris France, April 30, 1979.

Ireland

The reporting requirements for the statement of changes in financial position in Ireland are the same as for the United Kingdom which were discussed in Chapter V.

Netherlands

Prior to 1979 there was no requirement in the Netherlands for financial accounts to include a statement of changes in financial position; however, the custom of providing such a statement has been growing as shown by Table XI which presents the results of a survey of published accounts by Nederlands Instituut Van Registeraccountants:³

TABLE XI. Netherlands companies included in a survey that presented a statement of changes in financial position as part of their annual financial report.

Year	Number of Companies Surveyed	Number of Companies Including a Statement of Changes in Financial Position in Report	Percent of Companies Surveyed
1971	129	17	13%
1973	135	35	26.
1975	135	62	46
1977	135	95	70

SOURCE: Nederlands Instituut Van Registeraccountants survey of published accounts, cited in a letter from its Director, H. Volten, March 27, 1979.

³Letter from H. Volten, Director, Nederlands Instituut Van Registeraccounts, Amsterdam, Netherlands, March 27, 1979.

In 1979 the Tripartite Commission, which is the standard setting body in the Netherlands, adopted International Accounting Standard 7 (IAS 7) as their local standard. As noted in prior chapters IAS 7 indicates that companies preparing financial statements covering reporting periods beginning on or after January 1, 1979, should present a statement of changes in financial position as an integral part of their financial reports for each period in which an income statement is presented.⁴

Belgium

A Commission of Accounting Standards was created by Royal Decree on October 21, 1975 to develop the country's accounting doctrine and rules by way of advice and recommendations.

Belgium is a member of the International Accounting Standards Committee and presumably would follow IAS 7, therefore, companies preparing financial statements covering periods beginning on or after January 1, 1979 should present a statement of changes in financial position for each period that an income statement is presented.

When the Commission was asked whether IAS 7 would

⁴Letter from E. P. Akins, Assistant Secretary to the International Accounting Standards Committee, London, England, November 26, 1979.

become operative in Belgium their response was: "A statement of changes in financial position as imposed by the International Accounting Standards Committee is only useful if these changes cannot be derived logically from the annual accounts, as it is the case in Belgium." The Commission feels that compliance with IAS 7 would not provide any additional information to what is already provided in the annual accounts.⁵

Luxembourg

The statement of source and application of funds is not required by law, domestic accounting regulation, or as a stock exchange listing requirement.⁶

Luxembourg is a member of the International Accounting Standards Committee and its professional accounting body has issued IAS 7; therefore, companies preparing financial reports covering reporting periods beginning on or after January 1, 1979, should comply with this Standard by presenting a statement of changes in financial position as an integral part of their financial statements for each period

⁵Letter from O. Van Der Meulen, President, Institut des Reviseurs d'Entreprises, Bruxelles, Belgium, March 30, 1979.

⁶Letter from Guy Bernard, General Secretary, Ordre Des Experts Comptables Luxembourgeois, Luxembourg, July 5, 1979.

in which an income statement is presented.⁷

Denmark

There is no domestic or legal requirement in Denmark which requires the preparation of a statement of changes in financial position. However, Denmark is a member of the International Accounting Standards Committee and its professional accounting body has issued IAS 7; therefore, companies preparing financial reports covering periods ending on or after January 1, 1979 should present a statement of changes in financial position as an integral part of their financial reports for each period in which an income statement is presented.⁸

West Germany

West Germany does not have a local accounting standard, legal requirement, or stock exchange listing requirement concerning the presentation of a statement of changes in financial position. Although a statement of changes in financial position is not mandatory, its publication as part of the Director's Report is encouraged by a directive issued in 1978

⁷Letter from R. P. Akins, International Accounting Standards Committee, November 26, 1979.

⁸Letter from Claudis van Schaik, "Annex I-Developments in EEC Countries", Paris, France, April 30, 1979.

by the German Institute (Institut der Wirtschaftspufer) which outlined a recommended form of a statement of changes in financial position.⁹

The recommended statement format follows the format presented in United States Accounting Principles Board Opinion 19. Many large firms currently practice voluntary disclosure of the statement; however, most of the statements are not presented as part of the accounts but are included as part of management's audited business report.¹⁰

West Germany is a member of the International Accounting Standards Committee and its professional accounting body has issued IAS 7; therefore, companies preparing financial reports beginning on or after January 1, 1979 should present a statement of changes in financial position as part of the financial report for each period in which an income statement is presented.¹¹

⁹Letter from W. A. Linnenbringer, Representative of Price Waterhouse International, London, March 29, 1979.

¹⁰Michael Lafferty, David Cairns and James Carty, 1979 Financial Times Survey of 100 Major European Companies' Reports and Accounts (London: Financial Times Business Publishing Ltd, 1979), p. 60.

¹¹Letter from E. P. Akins, Assistant Secretary, International Accounting Standards Committee, November 26, 1979.

Italy

In January 1977 the accounting regulatory body Consiglie Nazionale dei Dottori Commercialisti issued Accounting Principle No. 2 which deals with the content and format of the financial statements and recommends, among other things, the inclusion of the statement of changes in financial position in the annual financial statements. The presentation of the statement of changes in financial position is not required by law or by the stock exchange.

Italy was admitted to membership of the International Accounting Standards Committee (IASC) on March 31, 1980 and has not yet had time to implement IAS 7. Currently they are in the process of translating the International Accounting Standards into Italian. As a member of the IASC it is presumed that Italy will implement IAS 7 in the near future.¹²

Interpretive Comment

The foregoing discussion indicates that many of the EEC countries do not currently have a domestic accounting standard, law, or stock exchange regulation which requires the preparation of the statement of changes in financial position. However, all of the EEC countries are members of the

¹²Letter from E. P. Akins, Assistant Secretary, International Accounting Standards Committee, March 27, 1980.

IASC and as such have agreed to support the adoption of the International Standards as discussed in Chapter IX, but at the present time the status of IAS 7 in the EEC countries is not uniform.

Currently the United Kingdom and Ireland indicate that compliance with their domestic standard automatically ensures compliance with IAS 7. Netherlands adopted IAS 7 as their domestic standard. The professional accounting bodies of Luxemburg, Denmark, and West Germany have reissued IAS 7 in their country which indicates the implementation of the International Standard in that country. Belgium indicates that it does not intend to implement IAS 7. Italy has recently become a member of the IASC and has not yet issued IAS 7 but is now in the process of translating the International Standards.

Concluding Observation

Prior to the introduction of IAS 7 many of the EEC countries did not have any requirement for the presentation of a statement of changes in financial position. The introduction of IAS 7 resulted in the development of a "funds" statement promulgation in most of these countries. This should provide a significant improvement in "funds" state-

ment presentation and uniformity of reporting practices in this area in the immediate future.

CHAPTER IX

SUMMARY, RECOMMENDATIONS AND CONCLUSION

This dissertation starts with the identification of highlights in the historical development of the statement of changes in financial position. The evolution of the statement was traced from its earliest usage by railroads in the 1860's to its present status as set out in Accounting Principles Board Opinion 19 (APB Opinion 19).

The detailed reporting requirements for the statement of changes in financial position for each country involved in this study were then identified and compared with the reporting requirements for the United States' statement of changes in financial position as set forth in APB Opinion 19. Seven major reporting areas identified in APB Opinion 19 were used as part of the framework of analysis throughout this study: (1) applicability of reporting requirements, (2) concept of funds, (3) funds from normal operations, (4) extra-ordinary items, (5) financing activities, (6) investing activities, and (7) noncurrent exchanges. The analysis of these seven major areas in the reporting Standards of the United States, Canada, the United Kingdom, New Zealand, and

Australia will be briefly summarized in the next section before proceeding to recommendations and conclusion. This comparative summary is composed entirely of data presented in the preceding chapters.

Comparative Summary

Applicability of Reporting Requirements

The "funds" statement reporting requirements are now similar in the United States, the United Kingdom and New Zealand. A statement of changes in financial position must be presented as a basic financial report:

1. In the United States whenever both a balance sheet and an income statement are presented (United States' Accounting Principles Board Opinion 19, para. 7).
2. In the United Kingdom for firms with a gross income of £25,000 or more per year (United Kingdoms' Statement of Standard Accounting Practice No. 10, para. 7).
3. In New Zealand for each period that a "profit and loss account is presented" (New Zealand's Statement of Standard Accounting Practice No. 10, para. 6.1).

The presentation of a statement of changes in financial position is recommended and encouraged in Canada and Australia; however, preparation of the statement is not required by domestic professional accounting promulgation.

Under the provision of International Accounting Standard 7 (IAS 7) all companies in Canada, the United Kingdom, and New Zealand which prepare financial reports covering reporting periods beginning on or after January 1, 1979, should present a statement of changes in financial position for each period in which an income statement is presented. Australian professional accounting bodies have not yet implemented IAS 7; however, its contents were considered in the development of a current Exposure Draft which is now being field tested in Australia. It has not yet been issued to the general public but it was made available for this study on a confidential basis.¹ Although details of this proposed standard cannot be disclosed, it can be stated that if it is adopted the standard would satisfy the reporting requirements of IAS 7. The United States has not implemented IAS 7 because it does not adopt the International Standards.²

Concept of Funds

The concept of funds employed in the statement of

¹Proposed Statement of Accounting Standards, "Statement of Source and Application of Funds," received with a letter from K. M. Stevenson, Technical Director, Australian Accounting Research Foundation, Melbourne, Australia, April 1, 1980.

²Letter from Paul Rosenfield, Director, Accounting Standards, American Institute of Certified Public Accountants, New York, February 8, 1980.

changes in financial position is similar for the United States, Canada, the United Kingdom, New Zealand, and Australia in the respect that all of the countries in the study either express or imply that funds are defined as cash, cash equivalents, or working capital. Similarly, all of the countries either express or imply the concept of separately reporting all significant aspects of the enterprise's financing and investing activities.

Funds from Normal Operations

The requirement of reporting funds from (or used in) normal operations is similar in the United States, Canada, the United Kingdom, and Australia. These countries present a figure representing funds provided from (or used in) operations which exclude the effects of extraordinary items. The items which did not use or provide cash or working capital during the period are shown as adjusting items. However, Canada does not require the presentation of items which did not use or provide funds during the period but does allow them to be shown either in detail or as one amount. United States, New Zealand and Australia allow the presentation of a seldom used alternative method to present funds from normal operations which starts with gross revenue and deducts gross expenses to arrive at the funds from operations figure.

The presentation of funds from normal operations in New Zealand's statement of changes in financial position is significantly different from the other countries' in that funds provided by (or used in) operations are shown including the effects of extraordinary items which are adjusted for those items that did not provide or use funds during the period.

Extraordinary Items

Extraordinary items are reported in the statement of changes in financial position in the United States, Canada, the United Kingdom, and Australia by presenting them separately from ordinary income. The United States' and the United Kingdom's requirements provide that extraordinary items be adjusted for those items which did not use or provide cash or working capital during the period.

Australia's regulations provide that if the income tax charged exceeds the amount based on the current year's profit the difference is added back to funds from operations. Also, profit on the sale of investments should be added to the book value of the assets sold in order to show the total as a source of extraordinary funds.

New Zealand's reporting requirements are silent concerning the separate disclosure of cash or working capital provided by extraordinary items.

Financing Activities

The professional accounting promulgations for presentation of the statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand, and Australia either require, recommend, or imply that all aspects of investing and financing transactions which affect an enterprise's financial position during the period be separately disclosed in the statement of changes in financial position.

Investing Activities

Investment activities involving the purchase or sale of long-term assets are separately identified in the statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand, and Australia. However, the reporting requirements of Australia provide that if the amounts are not material they could be shown net, or the transactions could be individually disclosed but shown to be related to each other.

The acquisition of a subsidiary in the United States is presented in the statement of changes in financial position by grouping the assets and obligations into related categories to show the increase or decrease in consolidated funds resulting from the acquisition.

Canada's statement of changes in financial position reporting requirements allows the assigned cost of the subsidiary's assets and liabilities to be grouped and disclosed either in the statement or in an attached note to the statement.

In the United Kingdom, the acquisition of a subsidiary is presented in the statement of changes in financial position either as a single total amount, or the amounts of the individual assets and liabilities may be reported as a source or use of funds by including them with each asset and liability presented in the statement.

The acquisition of a subsidiary in New Zealand is presented in the statement of changes in financial position by showing either the movement in the individual assets and liabilities or, if the amount is not material, by reporting the total purchase or sales proceeds separately. The following information should also be disclosed either in the statement or in a note attached to the statement:

1. Total purchase or disposal price
2. The amount of the purchase or disposal price paid by cash or cash equivalent
3. Total assets and liabilities in the subsidiary, summarized by major category

Australia's domestic professional accounting bodies' promulgations do not require the separate disclosure of a subsidiary's individual assets and liabilities but state that if the funds statement is presented for a group of companies, it should be presented on a consolidated basis along with comparative figures for the prior period.

Noncurrent Transactions

Noncurrent transactions such as those involving the acquisition or disposal of property in exchange for equity securities and the conversion of long-term debt into preferred or common stock can significantly affect the financial position of the enterprise, therefore the domestic professional accounting promulgations of the United States, Canada, the United Kingdom, New Zealand, and Australia either require, recommend or imply that all aspects of non-current transactions be presented in the statement of changes in financial position. Some netting of related transactions is allowed in Canada's statement of changes in financial position provided that the individual financing and investing effects are disclosed.

Contrast of Reporting Requirements

The reporting requirements for the presentation of the

statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand and Australia which were discussed throughout this study are shown in Table XII in terms of the extent of their variance from the United States reporting requirements as set out in APB Opinion 19.

TABLE XII. Comparative analysis of seven major reporting provisions of the statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand, Australia, and International Accounting Standard 7.

Statement Requirements	United States	Canada	United Kingdom	New Zealand	Australia	IAS 7
Applicability of Reporting Requirements	A	X	S	S	X	S
Concept of Funds from Normal Operations	A	S	S	S	S	S
Extraordinary Items	A	S	S	X(c)	S	S
Financing Activities	A	S	S	S	S-E	S
Investing Activities	A	S	S-E	S-E	E-X(b)	S
Noncurrent Exchanges	A	S-E	S	S	S-E	S

SOURCE: Analyses presented in the study.

NOTE: One of the following descriptions is assigned to each item in Table XII:

- A. APB Opinion 19 sets forth the requirement for this item.

- S. The reporting requirement for this item is similar to that of APB Opinion 19.
- E. May be shown as an equivalent item.
- X(b). The item need not be separately disclosed but can be included in another account.
- X(c). The item may be calculated from the data shown.
- X. There is no requirement for this item set by the accounting body of this country.
- S-E. When combinations such as S-E are presented, the first letter indicates the main requirement, and the second letter indicates the alternative less-used procedure.

The far right column (IAS 7) in Table XII is included in the table as a preview of the detailed analysis of International Standard 7 that comprises the next section of this chapter. Notice that the reporting provisions under IAS 7 are similar to the reporting provisions of the United States under APB Opinion 19.

Interpretive Summary

A review of the preceding discussion of the domestic professional accounting regulations in the United States, Canada, the United Kingdom, New Zealand, and Australia

reveals that there are differences in the requirements in some of the major reporting areas of the statement of changes in financial position and that there is a considerable degree of variation in the amount of detail provided in the promulgations of these countries. Also, the domestic professional accounting regulatory bodies in Canada and Australia recommend but do not require companies to present a statement of changes in financial position as an integral part of their financial statements.

As a result of the variation in the domestic accounting promulgations for the statement of changes in financial position in the United States, Canada, the United Kingdom, New Zealand and Australia there is likely to be some lack of uniformity in these countries' funds statements and perhaps even non-presentation of the statement in Canada and Australia.

In recent years, due in part to the increasing degree of interdependency among nations, there has been a growing need for comparability and the harmonization of accounting data between nations. The variations revealed by this study are not conducive to such comparability and harmonization.

Recommendations and Conclusion

Implementation of the international standard will provide some degree of uniformity for the statement of changes

in financial position in countries in which it is adopted. This standard will set the minimum requirements for the presentation of a statement of changes in financial position on an international basis so that the funds statements in these countries in which it is implemented will have an underlying conceptual reporting foundation which will provide a basis for international comparability and harmonization of the statement of changes in financial position.

Minimum Reporting Requirement Model:
International Accounting Standard 7

This study recommends and supports the implementation of International Accounting Standard 7 (IAS 7) as the minimum reporting requirement for the statement of changes in financial position. The United States, Canada, the United Kingdom, New Zealand and Australia are members of the International Accounting Standards Committee (IASC) which issued IAS 7 in October, 1977. IAS 7 provides that all companies in the member countries who prepare financial statements covering reporting periods beginning on or after January 1, 1979 should prepare a statement of changes in financial position for each period in which an income statement is presented. All members of the IASC have agreed:

- a) to maintain an International Accounting Standards Committee, with the membership and powers set out below, whose function will be to

formulate and publish in the public interest standards to be observed in the presentation of audited financial statements and to promote their worldwide acceptance and observance;

- b) to support the standards promulgated by the Committee;
- c) to use their best endeavours:
 - (i) to ensure that published financial statements comply with these standards or that there is disclosure of the extent to which they do not and to persuade governments, the authorities controlling securities markets and the industrial and business community that published financial statements should comply with these standards;
 - (ii) to ensure (1) that the auditors satisfy themselves that the financial statements comply with these standards or, if the financial statements do not comply with these standards, that the fact of non-compliance is disclosed in the financial statements, (2) that in the event of non-disclosure reference to non-compliance is made in the audit report;
 - (iii) to ensure that, as soon as practicable, appropriate action is taken in respect of auditors whose audit reports do not meet the requirements of (ii) above;
- d) to seek to secure similar general acceptance and observance of these standards internationally.³

The International Accounting Standards do not override the member countries' domestic regulations, but when the

³International Accounting Standards Committee, The Work and Purpose of the International Accounting Standards Committee (London, 1977), Appendix 1.

International Accounting Standards differ from or are in conflict with the domestic regulations, the above members' obligations ensure that either the auditor's report or the financial statements will indicate the extent to which the domestic accounts do not comply with the international standards.

All of the countries in this study have implemented IAS 7 except Australia and the United States. Australia considered the contents of IAS 7 in the development of the Exposure Draft which is currently being field tested, and if adopted would satisfy the reporting standards of IAS 7. The United States does not adopt the International Standards.

In order to provide an adequate foundation for the understanding of the provisions of IAS 7 some of its more important features are discussed in the next few pages.

Objectives of International Accounting Standard 7

The objectives of the statement of changes in financial position prepared in compliance with the requirements as set out in IAS 7 are to present a summary of the resources which were available to finance the activities of the enterprise during the period and to show how these resources were used.

Form and Content of the Statement of
Changes in Financial Position Under
International Accounting Standard 7

IAS 7 recognizes the need for flexibility in form, content, and terminology. Funds are defined as "cash, cash and cash equivalents, or working capital" (para. 4).

The statement may be presented in a form which shows the sources of funds as equal to the uses of funds or the uses of funds can be deducted from the sources of funds with the residual balance representing the net change in cash, cash equivalents, or working capital (para. 18).

All aspects of transactions which are part of the enterprises financing and investing activities during the period, such as the conversion of long-term debt into common shares or the acquisition of an asset through the issuance of long-term debt, should be separately presented in the statement of changes in financial position.

Funds provided from (or used in) operations of the business should be separately shown in the statement. One method is to show net income or loss excluding unusual items and then adjust this figure for items which did not involve a movement of funds during the current period. (para. 7).⁴

⁴IAS 7 is similar to United States' APB Opinion 19 in that it provides an alternative method to present funds from operations which is to show gross income that provides funds and deduct gross expenses which involve the use of funds (IAS 7, para. 7).

Unusual items are reported separate from ordinary activities and they should be adjusted for those items which did not involve a movement of funds during the period (para. 6 and 8).

If a net change in working capital is shown in the statement as a single amount additional disclosure should be made of the changes in the individual working capital items (para. 19).

IAS 7 also requires separate disclosure of the following items in the statement of changes in financial position.

1. Sale of long-term assets
2. Purchase of long-term assets
3. Distribution of cash dividends or other assets to stockholders
4. Issuance, redemption or repayment of long-term debt
5. Issuance, redemption or repurchase of capital stock for cash or other assets (para. 9).

If the enterprise has a subsidiary the statement of changes in financial position should present its acquisition or disposal in either of two ways: (1) the acquisition or disposal may be shown as a single amount, or (2) each asset or liability in the subsidiary may be included with each asset or liability dealt with in the statement

and may be shown as a separate source or use of funds (para. 16). When a consolidated balance sheet and income statement are presented the statement of changes in financial position may be presented only on a consolidated basis (para. 12).

The foregoing general discussion of some of the important features of IAS 7 should provide the reader with the necessary foundation to understand the following more detailed discussion of the seven significant reporting areas which were previously identified in Chapter III. These seven areas are: (1) applicability of reporting requirements, (2) concept of funds, (3) funds from normal operations, (4) extraordinary items, (5) financing activities, (6) investing activities, and (7) noncurrent exchanges. The entire provisions of IAS 7 are reproduced in Appendix F.

Reporting Requirements of International Accounting Standard 7 in Seven Major Reporting Areas

Applicability of reporting requirements

IAS 7 specifies that all companies preparing financial statements covering reporting periods beginning on or after January 1, 1979 should present a statement of changes in financial position for each period that an income statement is presented (para. 20, 23).

Concept of funds

IAS 7 indicates that the statement of changes in financial position should embrace the broad concept of separately reporting all significant aspects of the enterprise's financing and investing activities which affect the firm's financial position during the period (para. 10 and 11). Funds may be expressed as cash, cash and cash equivalents, or working capital (para. 4).

Funds from normal operations

IAS 7 sets the following three requirements:

1. The statement of changes in financial position should separately report funds generated from or used in operations of the business (para. 5).
2. Items which do not relate to ordinary operations of the business should either be reported individually or as a single amount (para. 6).
3. The statement should show net income (or loss) and then adjust for those items of revenue or expense which did not require a movement of funds during the period (para. 7). An alternate method is allowed.⁵

⁵An alternate method is to show gross revenue which provided funds and deduct gross expenses which involved the use of funds.

Extraordinary Items

Items not related to ordinary operations of the business should be presented separately from ordinary income, either individually or as a total amount (para. 6). Extraordinary items should be adjusted for any amounts which did not involve a movement of funds during the current period (para. 8).

Financing activities

The statement of changes in financial position should separately disclose all significant aspects of financing and investing activities which affected the enterprise's financial position during the current period (para. 10 and 11).

Investing activities

1. The proceeds from the sale of long-term assets should be presented separately from the expenditures associated with the acquisition of long-term assets (para. 11).
2. When a subsidiary is acquired (or sold), the purchase price (or proceeds from the sale) may be presented in the statement of changes in financial position as a total single amount, or the amounts of the individual assets and liabilities acquired (or disposed of) may be included with each asset and liability presented in the

statement and reported as a separate source or use of funds (para. 16). Under either method the following information is presented either in the statement or in a note attached to the statement.

- a) Purchase or disposal price of the subsidiary
- b) Amount of the purchase or disposal price paid by cash or cash equivalent
- c) Total cash and other working capital items in the subsidiary
- d) Total other assets and liabilities in the subsidiary, summarized by major category (para. 17).

Noncurrent exchanges

IAS 7 requires the presentation of transactions which are part of the financing and investing activities of the enterprise. For example, it is necessary to separately report the financing and investing aspects of transactions involving the exchange of one form of security for another, the conversion of long-term debt into common or ordinary shares, and the acquisition of an asset through the issue of long-term debt or equity (para. 10, 11).

Contrast of IAS 7 Reporting Requirements with APB Opinion 19

The foregoing analysis of the major reporting require-

ments of IAS 7 indicates that they are similar in all areas to the reporting requirements for the United States statement of changes in financial position as set out in APB Opinion 19. However, there are some unique features to the international standard.

Unique to International
Accounting Standard 7

1. When a subsidiary is acquired or sold, the purchase or disposal price may be presented in the statement of changes in financial position as a single amount, or the amounts of the individual assets and liabilities in the subsidiary may be included with the other assets and liabilities of the enterprise and shown in the statement as a separate source or use of funds. Under either method the following additional information is presented either in the statement or in a note attached to the statement.
 - a) Purchase or disposal price of the subsidiary
 - b) Share of the purchase or disposal price paid by cash or cash equivalent
 - c) Total cash and other working capital items in the subsidiary
 - d) Total other assets and liabilities in the subsidiary

summarized by major category (para. 17).

2. An investor company's interest in the earnings of an investee company may be accounted for by the investor company in either of two ways under the equity accounting method.

- a) The dividends received or currently receivable may be included in funds provided from operations. An adjustment is made for investee company income which did not involve a movement of funds in the current period (para. 14).
- b) The investor company's interest in investee earnings may be included as part of the funds provided from operations, with the retained portion shown in the statement as a use of funds (para. 15).

Summary of Minimum Reporting
Requirements: International
Accounting Standard 7

It is presumed that the variations in the reporting standards for the statement of changes in financial position in the countries examined in this study could allow the presentation of some disharmonious statements of changes in financial position when compared between countries. In order to ensure more uniformity and greater comparability of the statement of changes in financial position between

countries this study recommends the implementation of IAS 7 as a minimum reporting requirement for the statement of changes in financial position.

The implementation of IAS 7 not only ensures a basis of commonality for the presentation of a statement of changes in financial position on an international basis but it also provides a lucid comprehensive model which ensures the presentation of relevant information. The financial statement shown in Figure 2, Chapter III as an example of a statement which satisfied the reporting standards of APB Opinion 19 also fulfills the reporting requirements set out in IAS 7.

Feasibility of a More Sophisticated Model Statement of Changes in Financial Position

The findings in this study show that some countries' reporting requirements are narrow in scope, silent in certain areas, and that there is some variation in the uniformity of the reporting requirements between countries. The recommended adoption of IAS 7 introduces a more sophisticated statement and results in increasing the reporting requirements for the statement of changes in financial position in some countries by implementing a detailed comprehensive statement of changes in financial position that will provide a uniform foundation to facilitate the comparison of the

statement of changes in financial position on an international basis.

The statement of changes in financial position presented under the requirements of IAS 7 appears to not only contain an adequate amount of information for statement users compared to the current state-of-the-art but also seems to provide the desired scope and comprehensiveness of a sophisticated standard. It is the conclusion of this study that the implementation of IAS 7 would not only provide the desired minimum reporting requirements but also provide a more sophisticated standard; therefore, a more sophisticated model than IAS 7 would not be necessary and should not be recommended for implementation at this time. However the United States does not adopt the International Standards, which is not to say there is not room for improvement in APB Opinion 19. Several suggestions for improvement of APB Opinion 19 are made in the next section. These suggestions are drawn together from features of the Standards in other countries, including the not yet released Australian Exposure Draft, plus some intuitive feel for what the statement of changes in financial position could be.

Recommended Modifications to
APB Opinion 19

Although IAS 7 has not been adopted in the United States, APB Opinion 19 compares favorable with IAS 7 in the seven major reporting areas analyzed in this study. However, a detailed examination of the entire promulgations of the United States, Canada, the United Kingdom, New Zealand, and Australia, as was done during the course of this study, reveals that there are some areas where improvements could be made to increase the usefulness of statements prepared under APB Opinion 19. These recommendations are not part of this study proper but are recommendations of this researcher for the improvement of APB Opinion 19 after some 18 months of immersion in study of the topic in the present cultural and economic climate of the United States. These recommendations are as follows:

1. A "funds" statement should be provided for more than the current period for the convenience of users of the statement. APB Opinion 19 should be modified to read: a statement of changes in financial position should be presented as an integral part of the financial statements for each period that a balance sheet and an income statement are presented. The enterprises' financial statements should include a "funds" statement for both the current

period and the corresponding preceding period.

2. APB Opinion 19 defines "funds" as cash, cash and temporary investments combined, all quick assets, or working capital. It utilizes an "all financial resources concept," therefore, the content of the statement is the same except the form varies with the "funds" definition chosen. The governing concept is the "all financial resources" concept. This concept should be more directly emphasized in the statement since it pertains regardless of the definition of funds. Funds may be defined in terms of the "all financial resources" concept. For example, APB Opinion 19 could be modified to read: Funds are considered as all changes in financial resources, the expression used to present funds within the statement may be cash, cash and temporary investments combined, all quick assets, working capital or flow of resources resulting from transactions with external third parties (including period transactions concluded in the future). The definition of funds used should be clearly identified in each major section of the statement.
3. APB Opinion 19 surprisingly does not specifically stipulate that the disposal of a long-term asset should be

shown at the sales price. The statement should be modified to read: Proceeds on the disposal of a long-term asset are included in operating income. Any profit or loss on the disposal of a long-term asset is not a source or application of funds; therefore, operating income should be appropriately adjusted for any gain or loss resulting from the disposal of a long-term asset.

4. There is need for additional disclosure of transactions dealing with the acquisition or disposal of subsidiaries. In addition to indicating that the purchase of a consolidated subsidiary should be summarized in a consolidated statement, APB Opinion 19 should also state that the following information is to be disclosed within the statement or in an attached note: (1) the total purchase price, and (2) the share of the purchase price paid by cash, by the issuance of shares, and (3) the intended method of payment of any unpaid balance.
5. APB Opinion 19 is silent concerning investment income from unconsolidated subsidiaries. A reporting requirement ought to be included, such as: Income from an investment in an unconsolidated subsidiary accounted for by the equity method should be presented in the statement by either, (1) including dividends received in funds provided from operations, or (2) including the investor's

earnings in funds provided from operations with the retained portion shown as a reinvestment.

The adoption of the above recommendations should provide additional scope and comprehensiveness to the reporting requirements set out in APB Opinion 19. Other items in the Opinion would remain the same; however, if additional disclosure of items such as sources provided internally and externally, is desired it may be provided by way of footnote. Also, recommended for consideration at this time is the feasibility of developing something similar to what the British refer to as "Guidance Notes" as a supplement to APB Opinion 19 which would include the definition of terms, interpretative guidelines and explicit illustrations showing the presentation of items in the Opinion.

Recommendations for Future Research

Enthusiasts see the statement of changes in financial position as the key cog in the international harmonization of accounting and financial reporting. To find out if they

might be right, several areas need substantial additional research in the near future. Some of them are mentioned without elaboration in this last section of the dissertation. All of these topics are beyond the scope of this dissertation, but it is hoped that a sound foundation has been built.

Modification of the Statement
to Provide Current
Cost Information

The statement of changes in financial position may be able to provide essential linkage in the dual presentation of historical cost and current or price level adjusted cost. The historical cost portion of the following example was previously shown as satisfying the reporting requirements of APB Opinion 19. It also satisfies the reporting requirements of IAS 7 and is shown here in modified form as an unexplored idea for future research.

Figure 7. An example of a statement of changes in financial position which is modified to present current cost information.

Hanes Corporation STATEMENT OF CHANGES IN FINANCIAL POSITION For the Year Ended December 31, 1981		Current Cost GPP (Note 1)	Current Cost SPC (Note 2)
Resources provided by			
Operations:			
Income before extraordinary item		\$109,000	
Add (or deduct) items not affecting working capital			
Equity in earnings of Porter Co.	\$(3,500)		
Loss on sale of equipment	1,500		
Depreciation expense	14,600		
Amortization of goodwill	2,400		
Deferred income taxes	3,000		
Amortization of bond premium	(1,000)	17,000	
Working capital provided by operations, exclusive of extraordinary item		128,000	
Extraordinary item--Condemnation of land, including extraordinary gain of \$8,000 (net of \$2,500 tax)		18,500	
Issuance of note payable to purchase land		60,000	
Sale of equipment		4,000	
Sale of common stock		144,000	
Total resources provided		352,500	
Resources applied to			
Cash dividends	6,000		
Purchase of land through issuance of note payable	60,000		
Purchase of equipment	53,000		
Major repairs of equipment	11,000		
Purchase of treasury stock	17,000		
Total resources applied		147,000	
Increase in working capital		205,500	

SOURCE: Adapted from D. Kieso and J. Weygandt, *Intermediate Accounting*, (New York: John Wiley and Sons, 1980), p. 1077.

Note 1: Historical Cost Restated in Units of General Purchasing Power

Note 2: Historical Cost Restated for Specific Price Changes

Modification of the Statement to Provide Cash Flow Information

The literature and material examined during the course of this study indicate that working capital appears to be the most popular funds concept; however, a significant amount of research reviewed during this study indicates that the working capital funds concept may not be as useful as cash flow

information for some decision making purposes.⁵

A complete study could be devoted to development of a comprehensive integrated statement which would present cash flow information along with the conventional all financial resources statement which utilizes the working capital funds concept. The figures could be reconciled back to the cash account, the balance sheet, and the income statement. Such a statement would provide relevant answers to questions concerning the ability to maintain dividend payments, the need for external financing, the ability to pay debts, the need to modify plans and would indicate if management utilized

⁵For more information see: Hugo Numberg, "APB Opinion No. 19; Pro and Con", Financial Executive (Dec. 1972), pp. 65-70; Perry Mason, "'Cash Flow' Analysis and the Funds Statement", Accounting Research Study No. 2 (New York: AICPA, 1961), pp. 1-76; Ganask Rakes and William G. Shenkir, "Users Response to APB Opinion No. 19", Journal of Accounting (September 1972), pp. 91-94; Philip E. Albrecht, "Analyst Views Financial Reporting Problems", Financial Executive (September 1966), pp. 14-15; Richard D. Bradish, "Corporate Reporting and the Financial Analyst", The Accounting Review (October 1965), pp. 761-762; Yuyi, Ijiri, "Cash Flow Accounting and its Structure", Journal of Accounting, Auditing and Finance (Summer 1978), pp. 331-348; Maurice Moonitz, "Reporting on the Flow of Funds", The Accounting Review (July 1956), pp. 375-385; William H. Beaver, "Alternative Accounting Measures as Predictors of Failure", The Accounting Review, XLIII, No. 1 (January 1968), pp. 118-122; and Benjamin Graham, David L. Dodd and Sidney Cottle, Security Analysis: Principles and Technique, 4th ed. (New York: McGraw-Hill Book Co. Inc., 1962), p. 214.

resources efficiently.⁶

Modification of the Statement
to Provide More Detail

The application section of the statement of changes in financial position can be considered as having the greatest significance for future benefits, therefore this section should perhaps be shown in greater detail. For example, the application of resources to long-term assets could indicate whether it was asset replacement, acquisition of new capacity or the implementation of a new line of products.

Modification of the Statement to
Provide Users with Information
on Expected Future Sources and
Application of Resources

Investors, creditors, and managers are concerned with decision making which affects the future profitability of the firm; however, the traditional financial statements available for decision making focus on the past or the present. The income statement reports the results of past transactions, and the balance sheet reports on the present financial position. The statement of changes in financial

⁶For an example see, Stephen L. Buzby and Haim Falk, "A New Approach to the Funds Statement", Journal of Accounting, (January 1974), pp. 55-60.

position appears to be the statement which could be modified to provide more relevant information about future expectations.

Presentation of a statement of changes in financial position on a forecasted basis could provide statement users with relevant information on management's plans concerning capital resource allocation decisions and expected future cash flows.⁷ The probability for realization of forecasted goals could be shown by presenting the forecasted figures in a range showing expected results and the worst possible expected results. A provision could be made for updating the forecasted statement of changes in financial position similar

⁷For additional information see M. E. Bradbury, "Cash Flow Forecasts, Part I: CCF-Essential for Fair Disclosure", Accountants Journal, (N.Z) v. 57 (November 1978), pp. 384-386; L. S. Rosen, "'Funds', Statements: Prime Disclosure Vehicles of the 1980's", CA Magazine, (July 1974), pp. 48-53; Charles Lively, "How to Set up a Cash-Flow Plan," The Practical Accountant (Sept/Oct 1973), pp. 36-40; C. H. Bentzel, "Reporting on the Flow of Funds", reprinted in, James Don Edwards and Homer A. Black, The Modern Accountants Handbook (Illinois: Dow Jones-Irwin, 1976), pp. 663-685; James F. Moore, "How to Prepare and Use Cash Budgets", The Practical Accountant (July/August 1972), pp. 37-43; Aubrey C. Roberts and David R. L. Gabhart, "Statement of Funds: A Glimpse of the Future?" Journal of Accounting (April 1972), pp. 54-59; Joseph Ronen and George H. Sorter, "Relevant Accounting", Journal of Business (April 1972), pp. 258-282; and Loyd C. Heath, "Lets Scrap the 'Funds' Statement", Journal of Accounting (October 1978), pp. 94-103.

to the provision of flexible budgets.⁸ To provide feedback and control the actual figures could be compared with the budgeted figures at the end of the period. The determination of the amount of variance of actual from planned sources and application of resources would aid statement users in assessing the effectiveness of management in attaining its goals. Comparative figures could be presented for several years so that trends can be determined.

The utilization of the statement of changes in financial position to provide information concerning the firm's expected future sources and application of resources could greatly expand the usefulness of the statement by providing statement users with current relevant information for decision making. Similar development of the statement of changes in financial position could also be extended to areas of the government, including public schools, universities and other non-profit organizations.

Concluding Remarks

During the course of this study many aspects relating to the development and presentation of the statement of

⁸For additional information see Robert H. Raymond, "History of the Flexible Budget", Management Accounting, v. 47 (August 1966), pp. 9-15.

changes in financial position were investigated.

In general the materials examined indicate that there is a desire to enhance the understandability, comparability, and relevance of financial reports on an international basis through a harmonization process.

It is the conviction of this researcher that identification of the similarities and differences which exist in the reporting requirements for the statement of changes in financial position on an international basis contributes to the beginning of the harmonization process.

Although this dissertation stops with the determination of the current state of the art of the statement of changes in financial position in several selected countries, the knowledge gained from this study should be useful in evaluating future developments relating to the statement of changes in financial position.

PLEASE NOTE:

Copyrighted materials in this document have not been filmed at the request of the author. They are available for consultation, however, in the author's university library.

These consist of pages:

APPENDIX A - F

University
Microfilms
International

300 N. ZEEB RD., ANN ARBOR, MI 48106 (313) 761-4700

BIBLIOGRAPHY

BIBLIOGRAPHY

Books

- Choi, Frederick D. S., and Mueller, Gerhard G. An Introduction to Multinational Accounting. Englewood Cliffs: Prentice Hall, Inc., 1978.
- Edwards, James Don, and Black Homer A. The Modern Accountants Handbook. Illinois: Dow Jones--Irwin, 1976, pp. 663-685, reprinting C. H. Bentzel. "Reporting on the Flow of Funds."
- Graham, Benjamin; Dodd, David L.; and Cottle, Sidney. Security Analysis: Principles and Techniques. 4th ed. New York: McGraw Hill Book Co. Inc., 1962.
- Hendriksen, Eldon S. Accounting Theory. 3rd ed. Homewood: Richard D. Irwin, Inc., 1977.
- Kieso, Donald E., and Weygandt, Jerry J. Intermediate Accounting. 3rd. ed. New York: John Wiley and Sons, 1980.
- Kohler, E. L. A Dictionary for Accountants. 4th ed. Englewood Cliffs: Prentice-Hall, Inc., 1970.
- Lafferty, Michael; Cairns, David; and Carty, James. 1979 Financial Times Survey of 100 Major European Companies. London: Financial Times Business Publishing Ltd, 1979.

Professional Publications

- Accountants International Study Group. The Funds Statement: Current Practices in Canada, United Kingdom, and the United States. New York: American Institute of Certified Public Accountants, 1973.
- American Accounting Association. Committee to Prepare a Statement of Basic Accounting Theory. A Statement of Basic Accounting Theory. Evanston: American Accounting Association, 1966.

- _____. Subcommittee on Financial Accounting Standards. "Response to Exposure Draft Number 7 of the International Accounting Standards Committee entitled, 'Statement of Source and Application of Funds.'" reprinted in, Accounting Review (Supplement to Vol. 52, 1977): 192-199.
- _____. Subcommittee on the Accounting Treatment of Changing Prices of the Committee on Financial Accounting Standards. "Report to the International Accounting Standards Committee." reprinted in, Accounting Review (Supplement to Vol. 52, 1977): 191-192.
- American Institute of Certified Public Accountants. Accounting Trends and Techniques. Vols. 17-33. New York: American Institute of Certified Public Accountants, 1973-1979.
- Accounting Principles Board. Accounting Principles Board Opinion No. 19. "Reporting Changes in Financial Position." New York: American Institute of Certified Public Accountants, 1971.
- _____. APB Statement No. 4. reprinted in, Financial Accounting Standards. Chicago: Commerce Clearing House, 1976.
- Canadian Institute of Chartered Accountants, Financial Reporting in Canada. "Section 5." 9th ed. Toronto: Canadian Institute of Chartered Accountants, 1971.
- _____. Handbook. "Section 1540, 1968." quoted in, Financial Reporting in Canada. 9th ed. Toronto: Canadian Institute of Chartered Accountants, 1971.
- _____. Handbook. "Section 1501, 1974." quoted in, Financial Reporting in Canada. 11th ed. Toronto: Canadian Institute of Chartered Accountants, 1975.
- _____. Handbook. "Section 1501, International Accounting Standards." 13th ed. Toronto: Canadian Institute of Chartered Accountants, (1979).
- Clift, R. C. Discussion Paper No. 2. "The Funds Statement." Melbourne: Australian Accounting Research Foundation, 1979.

Cowan, T. K. Research Bulletin R-103. "The Statement of Source and Application of Funds." Wellington: New Zealand Society of Accountants, 1971.

Financial Accounting Standards Board. Statement of Financial Accounting Concepts No. 1, "Objectives of Financial Reporting by Business Enterprises." Stamford: Financial Accounting Standards Board, 1978.

Heath, Loyd C. Accounting Research Monograph 3. "Financial and Evaluation of Solvency." New York: American Institute of Certified Public Accountants, 1978.

Institute of Chartered Accountants in Australia. Technical Bulletin Fl. "Statements of Source and Application of Funds." Sydney: Institute of Chartered Accountants in Australia, 1971.

_____. Accounting Policy Statement 3. "Compatibility of Australian Accounting Standards and International Accounting Standards." Sydney: Australian Society of Accountants and the Institute of Chartered Accountants in Australia, 1976.

Institute of Chartered Accountants in England and Wales. "Exposure Draft 13--Statements of Source and Application of Funds." reprinted in Accountancy (June 1974): 102-103.

_____. Statement of Standard Accounting Practice No. 10. "Statement of Source and Application of Funds." London: Institute of Chartered Accountants in England and Wales, 1975.

_____. Survey of Published Accounts. London: Institute of Chartered Accountants in England and Wales, 1978.

_____. International Accounting Standard 7, SSAP 10: Statement of Changes in Financial Position. reprinted in Accountancy (August 1978): 89-90.

_____. Accounting Standards 1979. London: The Institute of Chartered Accountants in England and Wales, 1979.

International Accounting Standards Committee. The Work and Purpose of the International Accounting Standards Committee. London: International Accounting Standards Committee, 1977.

_____. International Accounting Standard 7. "Statement of Changes in Financial Position." London: International Accounting Standards Committee, 1977.

Mason, Perry. Accounting Research Study No. 2 "Cash Flow Analysis and the Funds Statement." New York: American Institute of Certified Public Accountants, 1961.

Moonitz, Maurice. Accounting Research Study No. 1. "The Basic Postulates of Accounting." New York: American Institute of Certified Public Accountants, 1961.

Morris, R. C. Occasional Paper No. 6. "Funds Statement Practices in the United Kingdom." University of Lancaster: International Center for Research in Accounting, 1974.

New Zealand Society of Accountants. Exposure Draft No. 18 of a Proposed Statement of Standard Accounting Practice. "Statement of Source and Application of Funds." Wellington: New Zealand Society of Accountants, 1977.

_____. International Accounting Standard 7. "Statement of Changes in Financial Position." reprinted in the Accountants' Journal (October 1977): 342-343.

_____. Proposed Statement of Standard Accounting Practice. "Statement of Changes in Financial Position." Wellington: New Zealand Society of Accountants, 1978.

_____. Statement of Standard Accounting Practice No. 10. "Statement of Changes in Financial Position." reprinted in the Accountants' Journal (July 1979): 225-227.

_____. Explanatory Forward to Statements of Standard Accounting Practice. Wellington: New Zealand Society of Accountants, 1979.

Study Group on the Objectives of Financial Statements. Objectives of Financial Statements. New York:

American Institute of Certified Public Accountants,
1973.

Articles and Periodicals

- Albrecht, Philip E. "Analyst Views Financial Reporting Problems." Financial Executive (September 1966): 14-15.
- Baradell, M. "Company Accounts--Fourth Directive." The Accountant, (August 1978): 233.
- Beaver, William H. "Alternative Accounting Measures as Predictors of Failure." The Accounting Review (January 1968): 118-122.
- Bradbury, M. E. "Cash Flow Forecasts, Part I: CCF--Essential for Fair Disclosure." Accountants Journal (November 1978): 384-386.
- Bradish, Richard D. "Corporate Reporting and the Financial Analyst." Accounting Review (October 1965): 761-762.
- Buzby, Stephen L. and Falk, Haim. "A New Approach to the Funds Statement." Journal of Accounting (January 1974): 55-60.
- Chandra, Gyan. "A Study of the Consensus on Disclosure Among Public Accountants and Security Analysts." Accounting Review (October 1974): 733-742.
- Cooper, Dorothy. "Nine Countries Launch International Standards." CA Magazine (September 1973), p. 15.
- Courtis, John K. "The Flow of Resources Statement." Accountants Journal (September 1971): 269.
- Cummings, William P. and Rogers, William L. "Developments in International Accounting." CPA Journal (May 1978): 15-19.
- Da Costa, Richard C.; Bourgeois, Jacques C.; and Larson, William M. "A Classification of International Financial Accounting Practices." The International Journal of Accounting (Spring 1978): 73-85.

- Fess, Philip E. and Weygandt, Jerry. "Cash Flow Presentations--Trends, Recommendations." Journal of Accountancy (August 1969): 52-59.
- Hayes, Donald and Nash, Roy. "Harmonizing International Accounting Standards and Practices." Arthur Young Views (August 1979): 4.
- Heath, Lyd C. "Lets Scrap the 'Funds' Statement." Journal of Accounting (October 1978): 94-103.
- Henry, Evan J. "A New Funds Statement Format for Greater Disclosure." Journal of Accountancy (April 1975): 56-62.
- Ijiri, Yuji. "Cash Flow Accounting and its Structure." Journal of Accounting, Auditing and Finance (Summer 1978): 331-348.
- Kafer, Karl, and Zimmerman, V. K. "Notes on the Evolution of the Statement of Sources and Application of Funds." The International Journal of Accounting (Spring 1967): 91.
- Kemp, Patrick S. "Reporting Changes in Financial Position-- Interpretation and Evaluation." The New York Certified Public Accountant (August 1971): 559.
- Lively, Charles. "How to Set up a Cash--Flow Plan." The Practical Accountant (Sept/Oct 1973): 36-40.
- Moonitz, Maurice. "Reporting on the Flow of Funds." Accounting Review (July 1956): 375-385.
- Moore, James F. "How to Prepare and Use Cash Budgets." The Practical Accountant (July/August): 37-43.
- Numberg, Hugo. "APB Opinion No. 19: Pro and Con." Financial Executive (December 1972): 65-70.
- Oliver, Joseph R. "The Statement of Changes in Financial Position." The National Public Accountant (August 1972): 21-23.

- Pankoff, Lyn D. and Virgil, Robert. "Some Preliminary Findings from a Laboratory Experiment on the Usefulness of Financial Accounting Information to Security Analysts." Empirical Research in Accounting: Selected Studies 1970. Supplement to Journal of Accounting Research (1970): 1-48.
- Rakes, Ganas K. and Shenkir, William. "User Responses to Accounting Principles Board Opinion No. 19." Journal of Accountancy (September 1972): 48-55.
- Raymond, Robert H. "History of Flexible Budgets." Management Accounting (August 1966): 9-15.
- Regazzi, John H. "Why Aren't Financial Statements Understood?" Journal of Accountancy (April 1974): 48-55.
- Roberts, Aubrey C. and Gabhart, David R. L. "Statement of Funds: A Glimpse of the Future?" Journal of Accounting (April 1972): 54-59.
- Ronen, Joseph, and Sorter, George H. "Relevant Accounting," Journal of Business (April 1976): 258-282.
- Rosen, L. S. "'Funds' Statements: Prime Disclosure Vehicles of the 1980's." CA Magazine, July 1974, pp. 48-53.
- Rosen, L. S., and DeCoster, Don T. "'Funds' Statements: A Historical Perspective." The Accounting Review (January 1969): 125.
- Spiller, Earl A., and Virgil, Robert. "Effectiveness of APB Opinion No. 19 in Improving Funds Reporting." Journal of Accounting Research (Spring 1974): 112.
- Stark, Maurice. "Funds--Working Capital or Cash?" Michigan CPA (May/June 1975): 23-25.
- Summers, E.L. "Observation of Effects of Using Alternative Reporting Practices." Accounting Review (April 1968): 257-268.
- Warren, Robert L. and White, Jackson. "Cash Information: Toward a More Useful Statement of Changes in Financial Position." The National Public Accountant (February 1975): 30-34.

Yu, S. C. "A Flow of Resources Statement for Business Enterprises." Accounting Review (July 1969): 571-582.

Unpublished Materials

Brownlee, Earl R., II. "An Investigation and Analysis of the Usefulness of the Statement of Changes in Financial Position to Selected Users of Corporate Financial Information." Ph.D. dissertation, Georgia State University, 1975.

Daniels, Howard M. "A Reformulation of the Theory of the Funds Statement." Ph.D. dissertation, University of Texas, 1957.

Kemper, Jack J. "The Statement of Application of Funds in Modern Corporate Accounting Practice." Ph.D. dissertation, University of California, 1968.

Kvam, Robert L. "A New Funds Statement: A Statement Summarizing Financial Transactions." Ph.D. dissertation, Louisiana State University, 1957.

Rosen, Lawrence S. "A Critical Examination of Funds Statement Concepts." Ph.D. dissertation, University of Washington, 1966.

Schmidlein, Edward J. "The Funds Statement in Accounting Practice and College Instruction." Ph.D. dissertation, New York University, 1953.

Correspondence and Other Sources

Akins, E. P. Letter. London: International Accounting Standards Committee, November 1979.

_____. Letter. London: International Accounting Standards Committee, March 1980.

Bernard, Guy. Letter. Luxembourg: Ordre Des Experts Comptables Luxembourgeois, July 1979.

Burrows, Ashley. Letter. "Survey of New Zealand Companies' Financial Reports." Palmerston North, New Zealand: Massey University, Spring 1980.

Carty, J. P. Letter. London: The Accounting Standards Committee, April 1980.

Kenley, W. J. Letter. Sydney: Australian Accounting Research Foundation, April 1979.

Linnenbringer, W. A. Letter. London: Price Waterhouse International, March 1979.

Moore, D. J. Letter. Toronto: Canadian Institute of Chartered Accountants, March 1980.

Raymond, Robert H. Informal Conversation on the Statement of Changes in Financial Position. Professor of Accounting, University of Nebraska-Lincoln, Nebraska, July 1980.

Rosenfield, Paul. Letter. New York: American Institute of Certified Public Accountants, February 1980.

Salole, R. Letter. Wellington: New Zealand Society of Accountants, March 1979.

Stevenson, K. M. Letter. Melbourne: Australian Accounting Research Foundation, January 1980.

_____. Letter. "Exposure Draft, Proposed Statement of Accounting Standards." Melbourne: Australian Accounting Research Foundation, April 1980.

Tang, Roger. Letter. Montreal: McGill University, November 1979.

Van Der Meulen, O. Letter. Bruxelles: Institut des Reviseurs d' Entreprises, March 1979.

Van Schaik, Claudis. Letter. "Developments in E.E.C. Countries." Paris: Peat Marwick, Mitchell and Co., April 1979.

Volten, H. Letter. Amsterdam: Nederlands Instituut Van Registeraccounts, March 1979.