



Financial Instruments – Time to Get Ready

In January 2005, the CICA's Accounting Standards Board approved the following new Handbook sections related to financial instruments:

Section 1530, *Comprehensive Income*

Section 3855, *Financial Instruments – Recognition and Measurement*

Section 3865, *Hedges*

Until the approval of the above sections, there were no standards in the CICA Handbook which comprehensively addressed when an entity should recognize a financial instrument on its balance sheet, nor how it should measure the financial instrument once recognized. Highlights of the new section are as follows:

- All financial instruments, including derivatives, are to be included on a company's balance sheet and measured, either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost.
- Existing requirements for hedge accounting are extended to address how hedge accounting should be performed – i.e. what are the debits and credits that should be recorded, and where.
- The introduction of a new location for recognizing certain gains and losses - other comprehensive income.

The new financial instrument sections are effective for publicly accountable enterprises for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Therefore, the first year ends that will be affected are September 30, 2007. Publicly accountable enterprises include:

- Public companies
- Not-for-profit organizations
- Co-operative organizations
- Deposit-taking institutions
- Rate-regulated enterprises
- Government business enterprises
- Government business-type organizations

For entities which are not publicly accountable, as defined in Differential Reporting, paragraph 1300.02, the new financial instrument sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Therefore, the first year ends that will be affected are September 30, 2008.

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Although there appears to be a significant amount of time between now and the effective date of these standards, entities should not underestimate the time and effort required to implement these new standards. In addition entities should not assume that these standards do not apply to them. Almost all entities will be impacted by these new sections, the extent of impact depending on their use of financial instruments.

To begin implementing these new sections, an organization should first assemble an implementation team comprised of individuals from all areas of the organization. Once the implementation team has been identified, its members should be instructed on the implications of the new standards to their areas.

This publication is divided into two parts. Part A is applicable to all organizations that utilize financial instruments and addresses Sections 1530, Comprehensive Income, and 3855, Financial Instruments – Recognition and Measurement. Part B is applicable to all organizations who engage in hedging activities as it addresses Section 3865, Hedges.

Part A – Recognition and Measurement

Identification of Financial Instruments

The first task of the implementation team is to identify the financial instruments used by the organization and create an inventory of the organization's financial instruments subject to the new sections.

A financial instrument is a contract that creates a financial asset for one party and, at the same time, a financial liability or equity instrument for the other party. "Financial" means the contract will settle for cash (or an equity instrument if it is an asset) either directly or indirectly. Therefore, a contractual right to exchange financial instruments under favourable conditions is a financial asset and a contractual obligation to exchange financial instruments under unfavourable conditions is a financial liability. Financial instruments include:

- Cash
- Trade receivables and payables
- Loans and notes receivable and payable, including related party amounts
- Investments in equity and debt instruments
- Derivative contracts such as options, swaps, forwards and futures

An organization with no financial instruments other than cash, accounts receivable, accounts payable and arm's-length debt will find little, if any, difference in accounting for these instruments. An entity with equity investments, derivatives, or other types of financial instruments will be significantly affected.

There are a number of financial instruments covered by other Handbook sections and are therefore excluded from the scope of the new sections. These instruments include:

- Interests in subsidiaries, joint ventures and significantly influenced entities
- Employee benefits
- Some insurance contracts
- Stock-based payments
- Leases
- Certain guarantees
- Loan commitments

It is also important to note that rights and obligations that are not created by contract do not meet the definition of a financial asset or financial liability. Therefore, items such as tax assets and liabilities are not considered financial instruments.

Contracts to buy or sell non-financial items such as commodities are considered derivatives, but are only within the scope of the new sections if:

- The contract can be settled net in cash (or by another financial instrument); and
- The contract is not for the entity's expected purchase, sale or usage requirements.

In addition to considering freestanding derivatives, you must consider if there are any derivatives embedded in other instruments or contracts. An embedded derivative appears as a feature in a conventional contract that changes key elements of the contract in response to changes in a specified rate, price, index or other underlying variable. In many cases, the accounting treatment required for derivatives will be different than the accounting treatment required for the host contract. Therefore, the derivative must be separated and accounted for separately. Examples of contracts which may contain embedded derivatives include:

- Investment in convertible debt
- Investments in equity-linked or commodity-linked deposits
- Purchase or sale of goods at a future date in a foreign currency that is not the functional currency of either party
- An operating lease payable in foreign currency which is not the functional currency of either party.

Since the new sections encompass derivatives and embedded derivatives, the implementation team must be comprised of individuals from all areas of the organization. If the implementation team only includes individuals from accounting and finance, they may not know all the intricate details of contracts and therefore will not be able to properly identify all embedded derivatives.

Appendix A provides a list of common assets and liabilities, and whether or not they are within the scope of the new financial instrument sections.

Classification of Financial Instruments

Once all financial instruments have been identified, they must be classified. It is the classification of the financial instruments that impacts their measurement and income recognition.

Financial Instruments can be classified into the following categories:

Financial assets and financial liabilities held for trading — This category includes all derivatives within the scope of the new sections and any instruments purchased or sold for the purpose of profit-taking. This category is typically used for financial instruments managed as a portfolio. Any financial instrument can be classified as held-for-trading.

Held-to-maturity investments — This category is for fixed maturity financial assets, with fixed or determinable payments, that you have the positive intention and ability to hold to maturity. This category can only be used for debt securities and may only be used if you are virtually certain you will hold the item to its maturity. Where there are significant sales of assets within this category before maturity, these instruments can no longer be classified as held to maturity.

Debt securities are normally quoted in an active market and include investments in government debt, corporate bonds, convertible debt, commercial paper, securitized debt instruments such as collateralized mortgage obligations and real estate mortgage investment conduits, and interest-only and principal-only strips.

Loans and receivables — This category includes all loans and receivables except debt securities.

Available-for-sale financial assets — This category captures all financial assets not classified as held-for-trading, held-to-maturity, or loans and receivables. Note that investments in equity instruments may be classified only as held-for-trading or available-for-sale. The category might also include debt instruments that you do not wish to classify as held-to-maturity.

Other financial liabilities — This category includes all financial liabilities that are not classified as held-for-trading.

In the case of embedded derivatives, you must consider the classification of both the host contract and the embedded derivative. For example, in the case of an investment in convertible debt, the host contract is the debt instrument which can be classified as held-to-maturity, available-for-sale or held-for-trading. The conversion feature is the embedded derivative which must be classified as held-for-trading. If the convertible debt is classified as held-for-trading, there is no need to account for the host contract and the embedded derivative separately.

Section 3855 is restrictive with regards to the reclassification of financial instruments, so it is important that the instrument is properly classified at inception and that you understand the impact of the classification. The impact of the classification is detailed below.

Initial Recognition and Measurement

All financial assets and liabilities are to be recognized on an organization's balance sheet when – and only when – the entity becomes a party to the contractual provisions of the financial instrument. For example, a forward contract is recognized as an asset or a liability on the commitment date, rather than on the date on which settlement takes place.

On initial recognition, the financial instruments resulting from arm's-length transactions should be measured at fair value. In many cases, the fair value will equal the value of the consideration given or received. However, if the instrument is constructed in a way that there is an apparent benefit to one of the parties, fair value must be determined with reference to fair value prices for the risks involved. These situations typically arise from loans with off-market rates, such as interest-free loans. In the case of an off-market rate loan, fair value would be determined by discounting the cash flows using the current fair market value rate. Any difference between the fair value and the consideration given or received should be accounted for in a manner consistent with the substance of the transaction. For example, if an interest-free loan was provided to an employee, the difference between the cash consideration and the fair value of the loan would likely be accounted for as compensation expense.

The accounting for transaction costs on initial recognition depends on the classification of the instrument. In the case of instruments classified as held-for-trading or available-for-sale, all transaction costs should be recognized immediately in net income. For all other instruments, the organization must adopt a policy of either recognizing all transaction cost immediately in net income or adding the transaction costs to the amount determined in the initial measurement.

Subsequent Measurement

The measurement of financial instruments at each balance sheet date is also dependent on its classification.

Financial assets and financial liabilities held for trading — Measured at fair value.

Available-for-sale financial assets — Measured at fair value, except for equity instruments that do not have a quoted market price in an active market, which should be measured at cost.

If an active market exists for a financial instrument, fair value can be determined using quoted prices which are obtained from exchanges, dealers, brokers, industry groups, pricing services or regulatory agencies. In the case of some debt instruments, an active market may exist, however a rate may be quoted rather than a price. If a rate is quoted, the rate should then be used as an input in an appropriate valuation technique.

If an active market does not exist, fair value is determined using a valuation technique. Valuation techniques include:

- Using recent arm's-length market transactions between knowledgeable, willing parties, if available
- Reference to the current fair value of another instrument that is substantially the same
- Discounted cash flow analysis
- Option-pricing models

An appropriate valuation technique for estimating the fair value of a particular financial instrument would incorporate all factors that are likely to affect the instrument's fair value. Fair value techniques generally incorporate one or more of the following factors:

- The time value of money (i.e., interest at the basic or risk-free rate)
- Credit risk
- Foreign currency exchange rates
- Commodity prices

- Prices (and indexes of prices) of traded equity securities (which are readily observable in some markets)
- Marketability (the return market participants demand to compensate for the risk that they may not be able to sell an asset or obtain relief from a liability immediately)
- Volatility (i.e., the magnitude of future changes in price of the financial instrument or other item)
- Prepayment risk and surrender risk
- Servicing costs of a financial asset or financial liability

If an entity utilizes financial instruments which do not trade in an active market (other than available-for-sale equity instruments that do not have a quoted market price in an active market), substantial time and effort may be required to ensure they have the information and the information systems capable of determining the fair value at each balance sheet date.

Held-to-maturity investments, loans and receivables, and other financial liabilities — Measured at amortized cost using the effective interest method.

The use of the effective interest rate method will result in interest income or expense at constant effective yield. Appendix B provides an example of amortized cost using the effective interest rate method.

Income Recognition

Income recognition is also dependant on the classification of the financial instruments.

Held-to-maturity investments, loans and receivables, and other financial liabilities — Amortization of premiums and discounts, impairment losses and foreign exchange gains or losses are included in current period net income. Any other gains or losses are only recognized when the instrument is removed from the balance sheet.

Financial assets and financial liabilities held for trading — All gains and losses, including unrealized gains and losses, are included in the net income in the period in which they arise.

Available-for-sale financial assets — Amortization of premiums and discounts on fixed income securities classified as available-for-sale, realized gains and losses, and impairment losses are included in current period net income. Unrealized gains or losses, other than impairment losses, are included in other comprehensive income until the asset is removed from the balance sheet. The AcSB concluded that unrealized gains and losses on financial assets that are available-for-sale should be reported outside net income — in other comprehensive income to eliminate the potential for non-representative volatility in net income.

Other comprehensive income is a new term which is defined by Section 1530 to present changes in the value of the net assets of an entity that are due to non-owner activity. In addition to unrealized gains on available-for-sale financial assets, other items included in comprehensive income include foreign currency gains and losses on self sustaining foreign operations, and gains and losses on cash flow hedges.

Comprehensive income and its components must be presented in a financial statement with the same prominence as the balance sheet, income statement and statement of cash flows. This presentation can be achieved through a separate Statement of Comprehensive Income or a combined Statement of Income and Comprehensive Income. Appendix C provides examples of each statement.

In addition, Appendix D presents a table which summarizes the rules for measuring financial instruments and for recognizing related gains and losses based on their classification.

The income recognition and presentation rules will require new accounts to be added to an organization's chart of accounts. These accounts are needed to track items such as unrealized gains and losses on held-for-trading instruments that have already been recognized in net income, unrealized gains and losses on available-for-sale assets that have been recognized in other comprehensive income, and accumulated other comprehensive income.

Related Party Transactions

In the case of related party advances and loans, it is usually common for such items to be subject to interest at off-market rates. As mentioned above, financial instruments are initially measured at their fair value. In the case of related party transactions, however, exceptions to this rule apply.

Related party transactions involving the transfer of an existing financial asset or liability are to be initially measured at either the carrying amount or exchange amount in accordance with Section 3840, Related Party Transactions. This is also the case for financial instruments originating from a related party transaction, unless the transaction is between the entity and:

- Management;
- Members of the immediate family of management; or
- The other party, when a management contract or other management authority exists.

In these situations, the financial instrument must be initially measured at fair value. Any difference between the fair value and the consideration given or received should be accounted for in a manner consistent with the substance of the transaction.

In cases where the financial instrument is initially measured in accordance with Section 3840 and it is classified as held-for-trading or available-for-sale, it would subsequently be measured at fair value, with the resulting gain or loss recognized in net income for held-for-trading instruments or as a component of other comprehensive income for available-for-sale instruments.

Differential Reporting

Section 3855 provides a differential reporting option for entities which are not publicly accountable. These entities may elect to measure available-for-sale financial assets (that would otherwise be measured at fair value) at cost or amortized cost after initial measurement, except for:

- Financial assets that have a quoted market price in an active market; and
- Financial assets that are designated and effective hedging instruments.

Transitional Provisions

The transitional provisions of these sections do not require the reversal of previous applied accounting policies and restatement of financial statements, except for the requirement to present foreign currency translation adjustments of self-sustaining foreign operations, appraisal increase credits, and donations from non-owners as components of other comprehensive income in the comparative financial statements.

At the beginning of the year that these sections are initially adopted, an organization will identify all financial instruments, classify them and remeasure them in accordance with their classification. Any difference between the previous carrying amounts and the remeasured amounts will be reflected as an adjustment to retained earnings for all financial instruments other than available-for-sale assets. Any differences related to available-for-sale assets will be reflected as a separate component of accumulated other comprehensive income. If an organization utilizes a significant number of financial instruments, the remeasurement exercise could take a substantial amount of time and resources. Therefore, we encourage you to start this exercise as soon as possible. For example, a publicly accountable enterprise with a December year end should complete its remeasurement exercise as early as possible in January 2007.

Part B - Hedge Accounting

The Need for Hedge Accounting

Section 3865 is an optional Handbook Section. Section 3865 reflects the fact that accounting standards use a mixture of models to measure assets and liabilities, and recognize changes in their fair value in net income. This mixture of models sometimes results in gains or losses on hedging items and hedged items being recognized in different periods.

The following example shows how gains and losses may be recognized in different periods:

On December 1, 2006 a company enters into a firm commitment to purchase supplies from a U.S. supplier for US\$100,000 with a delivery date and payment date of February 15, 2007. On the same day the company enters into forward currency contract to purchase US\$100,000 for CAD\$110,000 on February 15, 2007. By entering into this contract, the company has locked in the price of the supplies at CDN\$110,000. At December 31, 2006 the fair value of the forward contract is \$5,000, as determined by the change in forward exchange rates. Since the company is not using hedge accounting, the forward contract would be classified as held-for-trading and the company would include the unrealized gain of \$5,000 in net income at December 31, 2006. However, the purchase of the supplies cannot be recorded until the risks and rewards of ownership pass to the company on February 15, 2007.

From the above example, it can be seen that not using hedge accounting could result in swings in net income related to the use of derivative financial instruments as hedging items, as derivatives must be measured at fair value, with the resulting gain or loss recognized in net income. However, before deciding to use hedge accounting, you must be aware that it increases the complexity of the accounting. You should ensure appropriate systems are in place to comply with the hedge accounting rules. The costs related to implementing hedge accounting must be considered, as they may exceed the perceived benefit to the financial statement users.

Requirements to Use Hedge Accounting

As mentioned above, hedge accounting is optional. To use hedge accounting, an organization must designate that hedge accounting will apply at the time that it enters into a hedging relationship, and formally document:

- Its risk management objective and strategy for establishing the hedging relationship;
- The hedging relationship including the hedged item, the hedging items, the nature of the specific risk being hedged and the intended term of the hedging relationship; and,
- The method for assessing the effectiveness of the hedging relationship.

It is imperative that this documentation is completed at the inception of the hedging relationship, along with evidence that it was completed at inception. If the documentation is not completed at the inception of the hedging relationship, hedge accounting cannot be used. In addition, there must be reasonable assurance that the relationship will remain effective throughout its term, and in the case of a forecasted transaction, it is probable that the transaction will occur.

Types of Hedges

Section 3865 provides for different accounting treatment depending on the type of hedge being utilized. The Section establishes three types of hedging relationships: fair value hedges; cash flow hedges; and hedges of a net investment in a self sustaining foreign operation.

Fair Value Hedges

A fair value hedge is a hedge of exposure to changes in fair value of a recognized asset or liability or unrecognized firm commitment that is attributable to a particular risk that could affect net income. They are useful for managing risks associated with assets and liabilities that are recorded at cost or amortized cost.

Fair value hedge accounting requires the hedged item to be marked-to-market for changes in fair value due to the hedged risk. The gain or loss on the hedging item is recognized in the current period's net income. As a result the gain or loss related to the hedged risk and the hedging item would be recorded in the same period. Because the hedged item is only adjusted for changes in the fair value related to the hedged risk, a valuation model may have to be used to isolate the change in fair value related to the hedged risk.

For example, assume you have invested in a fixed rate bond which has been classified as held-to-maturity. You would like, however, to benefit from rising interest rates. So you enter into a receive-floating, pay-fixed interest rate swap. Because the value of the fixed rate bond varies with the changes in interest rate, this hedging relationship can be designated as a fair value hedge. To account for this hedging relationship, the value of the debt would be adjusted for the change in value related to changes in interest rates. This change in value will differ from the change in the value of the debt as a whole, as changes in the overall value will also encompass factors other than changes in interest rates, such as changes in credit quality.

Cash Flow Hedges

A cash flow hedge is a hedge of exposure to variability in cash flows associated with a recognized asset or liability, a forecasted transaction, or a foreign currency risk in an unrecognized firm commitment that is attributable to a particular risk that could affect net income. The accounting for a cash flow hedge still requires the derivative used as the hedging item to be measured at fair value; however, rather than the resulting gain or loss being reported in net income, it will be held temporarily in other comprehensive income and released into net income at the same time that the hedged item affects net income.

In the example provided in "The Need for Hedge Accounting" section above, we showed how not using hedge accounting could cause swings in net income. In that example, a forward contract is used to hedge the foreign currency risk related to an unrecognized firm commitment. If hedge accounting is used, it could be designated as a cash flow hedge. The unrealized gain of \$5,000 recorded on the forward contract would be recorded as a component of other comprehensive income at December 31, 2006. The gain or loss on the forward would not be transferred to net income until February 15, 2007, the date that the unrecognized firm commitment is recognized in net income.

If a cash flow hedge is used to hedge the purchase of a capital asset, the gain on the hedging item would be released into net income on the same basis as the amortization of the related capital asset.

Hedges of Net Investment in a Self Sustaining Foreign Operation

Foreign exchange adjustments related to self-sustaining operations are recorded as a component of other comprehensive income. Therefore, if hedge accounting is used, any gains or losses on derivatives used to hedge the foreign currency exposure is also included in other comprehensive income. As a result, the accounting treatment used for hedges of net investments in self sustaining foreign operations is the same as the accounting used for cash flow hedges.

Conclusion

Financial instruments recognition and measurement is a very complex area, and the use of hedging adds another layer of complication. As previously stated, your implementation team needs to start thinking about these issues soon so that adequate planning can occur and proper steps can be taken to implement these new standards effectively and efficiently. This publication has barely touched on the technicalities of these standards. If you require further information or reference sources, please contact your local BDO Dunwoody LLP office.

Appendix A – Common Assets and Liabilities

Financial Statement Item	Is the item a financial instrument?	Is it included or excluded from the scope of Section 3855?
Common Assets		
Cash	Yes	Included
Receivables - Trade, notes, loans, etc. - Related party balances - Taxes receivable	Yes Yes No	Included Included Excluded
Leases - Rent or operating lease receivables - Direct financing or sales type lease - Lessor's right under residual value guarantee	Yes Yes Yes	Excluded Excluded Excluded Rights under leases are generally excluded except for impairment and derecognition. In addition, lease contracts should be assessed for embedded derivatives.
Loan assets	Yes	Included
Inventories	No	Excluded
Prepaid assets	No	Excluded
Deferred costs	No	Excluded
Rights under employee benefit plans including accrued benefit assets	Yes	Excluded
Rights under insurance contracts	Yes	Excluded, except for reinsurance contracts transferring financial risk. Insurance contracts should be assessed for embedded derivatives.
Cash surrender value of life insurance	Yes	Excluded Insurance contracts should be assessed for embedded derivatives.
Treasury bills, GICs and other debt securities	Yes	Included
Investments in other entities (common shares, redeemable shares, mutual funds, segregated funds, etc.)	Yes	Included, except for interests in subsidiaries, joint ventures, entities subject to significant influence, consolidated variable interest entities and investments subject to AcG-18.
Derivatives with a positive value	Yes	Included
Commodities	No	Excluded
Property, plant and equipment	No	Excluded
Intangible assets	No	Excluded

Financial Statement Item	Is the item a financial instrument?	Is it included or excluded from the scope of Section 3855?
Common Liabilities		
Bank overdraft	Yes	Included
Line of credit	Yes	Only the drawn portion is included.
Payables - Trade payable - Related party balances - Compensation payable (other than stock based) - Notes, loans, mortgages, bonds, debentures and other long-term debt - Taxes payable	Yes Yes Yes Yes No	Included Included Included Included Excluded
Leases - Obligations under capital lease - Residual value guarantee given by a lessor	Yes Yes	Excluded Excluded Obligations under leases are generally excluded except for derecognition. In addition, lease contracts should be assessed for embedded derivatives.
Guarantees	Yes	Guarantees within the scope of AcG-15 are included
Warranty obligations	No	Excluded
Performance bonds	No	Excluded
Deferred revenue	No	Excluded
Asset retirement obligations	No	Excluded
Accrued benefit liability under employee future benefits	Yes	Excluded
Obligations under insurance contracts	Yes	Excluded, except for reinsurance contracts transferring financial risk.
Obligation to issue stock to employees	Yes	Excluded
Obligation to deliver commodities	No	These may be derivatives and therefore may be included.
Obligations related to short sales	Yes	Included
Derivatives with a negative value	Yes	Included
Preferred shares classified as liabilities	Yes	Included
Preferred shares classified as equity	Yes	Excluded

Appendix B – Effective Interest Rate Method

Assume a \$100,000, 5-year loan is issued with 6% interest on January 1, 2006. At that time, the current market rate is 5%. The loan will be initially measured at its fair value, which is equal to the present value of the five annual \$6,000 interest payments and the \$100,000 principal repayment discounted at 5%.

The following table illustrates the amortization of the loan using the effective interest rate method.

Year	Loan Value at January 1	Interest Expense	Interest and Principal Payments	Loan Value at December 31
2006	\$104,330	\$5,216	\$6,000	\$103,546
2007	\$103,546	\$5,177	\$6,000	\$102,723
2008	\$102,723	\$5,136	\$6,000	\$101,859
2009	\$101,859	\$5,093	\$6,000	\$100,952
2010	\$100,952	\$5,048	\$106,000	-

From the above table, it can be seen that the annual interest expense is equal to 5% of the loan value for the year.

Appendix C – Presentation of Comprehensive Income

One Statement Approach

ABC Limited
Statement of Income and Comprehensive Income
For the year ended December 31, 2007

Revenue	\$ 140,000
Operating expenses	<u>25,000</u>
Operating income	115,000
Other income and expenses	<u>10,000</u>
Net income before taxes	125,000
Provision for income taxes	<u>30,000</u>
Net income	<u>95,000</u>
Other comprehensive income, net of taxes:	
Change in unrealized gains on available-for-sale financial assets	8,000
Foreign currency translation adjustments	<u>2,000</u>
Other comprehensive income	<u>10,000</u>
Comprehensive income	<u>\$ 105,000</u>

Two Statement Approach

ABC Limited
Statement of Income
For the year ended December 31, 2007

Revenue	\$ 140,000
Operating expenses	<u>25,000</u>
Operating income	115,000
Other income and expenses	<u>10,000</u>
Net income before taxes	125,000
Provision for income taxes	<u>30,000</u>
Net income	<u>\$ 95,000</u>

ABC Limited
Statement of Comprehensive Income
For the year ended December 31, 2007

Net income	<u>\$ 95,000</u>
Other comprehensive income, net of taxes:	
Change in unrealized gains on available-for-sale financial assets	8,000
Foreign currency translation adjustments	<u>2,000</u>
Other comprehensive income	<u>10,000</u>
Comprehensive income	<u>\$ 105,000</u>

Appendix D – Summary of Requirements for Measurement and Recognition of Gains and Losses

Category	Initial Measurement	Subsequent Measurement	Gains and Losses
Loans and Receivables	Fair value	Amortized cost using the effective interest rate method	Interest income or expense and foreign exchange translation adjustments and impairment write-downs recognized immediately in net income. All other gains or losses recognized when the instrument is removed from the balance sheet.
Held-to-maturity Investments			
Other Financial Liabilities			
Available-for-sale Financial Assets	Fair value	Fair value except for equity instruments that do not have a quoted market price in an active market	Unrealized gains or losses recognized in other comprehensive income. Impairment write-downs recognized immediately in net income.
Held-for-trading Financial Assets and Liabilities	Fair value	Fair value	All gains or losses recognized in net income immediately.

For initial measurement of related party transactions see Paragraphs 60 to 62 and B12 of Section 3855.