NEW DIMENSIONS IN ENTERPRISE'S FINANCIAL PERFORMANCE REPORTING: THE STATEMENT OF COMPREHENSIVE INCOME

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The financial performance represents the desideratum of any enterprise, and its obtaining and future projections display a special importance for all financial situations' user. In order to meet these expectations, the accountancy normalization organisms - Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) - were preoccupied by finding patterns that would reflect complete information, adequate, comparable, actual, relevant and viable concerning the enterprise's performance. The present paper examines the informational valences of actual patterns concerning the financial performance reporting in whose centre the concept of comprehensive income is found.

Keywords: financial performance, income, comprehensive income, Accounting Standards

JEL classification: M42, M48

1. The comprehensive income concept

Starting from one of the basic principles of accountancy – *going concern*, an enterprise's performance cannot be still evaluated only on the basis of past and present data, and the taking into consideration of the future is also imposed, respective the passing from accountancy result to *comprehensive income*.

The *comprehensive income* concept (fr. résultat global) extends more and more and is at the basis of discussions projects developed by Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) during the convergence process.

A first definition for the comprehensive income is given by Statement of Financial Accounting Concepts No. 3 *Elements of Financial Statements* (SFAC 3) in December 1980, directive replaced afterwards by SFAC 6 (December 1985). SFAC 6 defines comprehensive income as "*the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity except those resulting from investments by owners and distributions to owners*."[569]

In order to reflect more completely the enterprise's performance, the teachers M. Ristea and C.G. Dumitru[570], suggest the following formula for determining the *comprehensive income*:

The profit/loss period recognized in the income statement;
(+/-) *incomes/expenses, gains/losses recognized directly in equity* (plus-values or minus-values from revaluations, gains/losses from the exchange rate resulted from financial situations of the existent entity's conversion)
(+/-)*The profit/loss from the effects of the accountancy policies changes*
(+/-)*The profit/loss from the effects of the fundamental errors correction*

= Comprehensive income

569 FASB, Statement of Financial Accounting Concepts No. 6 (SFAC 6) Elements of Financial Statements, Stamford, 1985, para.70, http://www.fasb.org/pdf/con6.pdf accessed on 8 April 2009.
570 M. Ristea, C. Dumitru, Business Accountancy, Economic Tribune publish house, Bucharest, 2006, p. 19.

***IASB**, defines **total comprehensive income** as the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income comprises all components of ”profit or loss” and of ”other comprehensive income”.*[571]

The concept of *comprehensive income* announced by IASB, accepted on international level, is similar to the one proposed by general American frame (FASB) in 1980 and is wider than the net income concept based on historic costs. It may comprise the unrealised capital gains, and other changes of the enterprise's real values. The introduction of this new concept opened the way towards other evaluation criteria than the ones circumscribed in historic costs extent.[572]

2. The reporting of financial performance from the comprehensive income's point of view

The comprehensive income made during time the subject of different assertions and standard projects.

The first accounting standard addressing the issue was enacted in Europe. In 1992, the *United Kingdom* Accounting Standards Board issued Financial Reporting Standard 3 (FRS 3) that introduced a ***statement of total recognized gains and losses*** as a Accounting Standards Committee issued an exposure draft of a new income standard and modified it in 1997. It is conceptually similar to recent U.S. comprehensive income efforts.[573]

The efforts of American standardisers concerning the financial performance reporting were materialized in June 1997 in Statement no. *130 ”Reporting Comprehensive Income”.*

This statement established the standards for reporting comprehensive income in a full set of general-purpose financial statements effective for fiscal years beginning after December 15, 1997. Comprehensive income represents the change in equity of an entity during a period from transactions and other events and circumstances from nonowner sources. Comprehensive income is composed of traditional net income plus items of "other comprehensive income."

FAS No. 130 allows companies to select from *three* alternative formats for reporting comprehensive income[574]:

- the components of other comprehensive income and total comprehensive income being reported below the total for net income in a statement that reports results of operations,
- in a separate statement of comprehensive income that begins with net income, and
- in a statement of changes in equity.

In present, the most important international organism that regards the realization of complex process of accountancy normalization and convergence is *The International Accountancy Standards Board - IASB*, organism specialized mainly in the elaboration of standards for stock exchange and multinational societies. As a consequence of the critics came from the settlement organs of value titles, of accountancy professionals and other interested parts, The International Accountancy Standards Board decided the revision of *International Accounting Standard* - IAS 1 "*The presentation of Financial Statements*".

IAS 1 tries to establish a unique frame, coherent and homogenous, that would offer for users complete information on the financial position, financial performance and an entity's cash flows (see figure 1).

571 IASB, IAS 1 revised in 2007, paragraph 7, published in the Official Journal of the European Union, L 339/4, of 18.12.2008 http://eur-lex.europa.eu/en/index.htm, accessed on 10 April 2009.

572 Feleagă, L., Feleagă, N. – Financial Accounting Constitution or its Referential Matrix, Theoretical and Applied Economics nr. 5 / 2006, http://www.ectap.ro/articole/92.pdf accessed on 10 April 2009.

573 Richard J Schmidt, The impact of reporting comprehensive income, Ohio CPA Journal; Columbus; Jan-Mar 1999.

574 FASB, Statement No. 130 (SFAS 130), Reporting Comprehensive Income, Stamford, 1997, paragraph 22, http://www.fasb.org/pdf/aop_FAS130.pdf accessed on 9 April 2009.

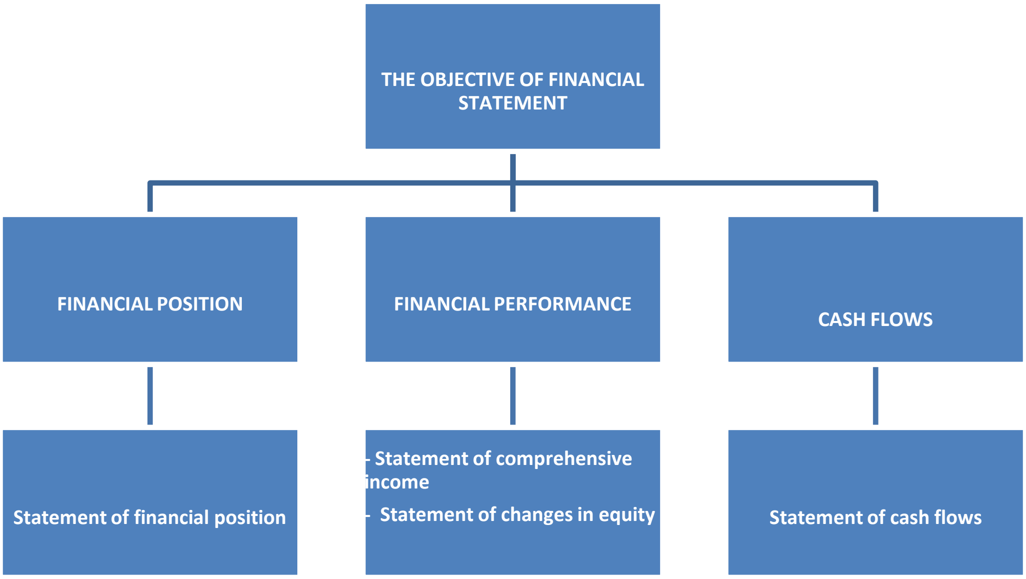

Figure 1 The objective of financial statements
Source: IAS 1 revised in 2007, http://eur-lex.europa.eu/en/index.htm

Applicable to all entities situated under the incidence of *International Financial Reporting Standards (IFRS-es)* IAS 1 revised in 2007 is valid for the annual periods that begin at or after the date of *1st of January 2009* and brings profound changes on the *situations concerning the financial performance reporting*, materialised in changes both in *presentation of changes in equity* and *presentation of comprehensive income*, IAS 1 being in concordance with FASB requires presented in SFAS 130 *Reporting Comprehensive Income.*
The incomes and expenses elements recognized in a period, according to IAS 1, paragraph 81, should be presented either:
(a) ***in a single statements of comprehensive income***, where both the component elements of the profit or loss and elements of the comprehensive income are found, or
(b) ***in two situations:***
-separate income statement;
-the statement of comprehensive income that starts with the profit of loss and continues with the presentation of other elements of the comprehensive income.
As a minimum, the statement of comprehensive income shall include line items that present the following amounts for the period (IAS 1, paragraph 82):
(a) revenue;
(b) finance costs;
(c) share of the profit or loss of associates and joint ventures accounted for using the equity method;
(d) tax expense;
(e) a single amount comprising the total of:
(i) the post-tax profit or loss of discontinued operations and
(ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation;
(f) profit or loss;
(g) each component of other comprehensive income classified by nature (excluding amounts in (h));

(h) share of the other comprehensive income of associates and joint ventures accounted for using the equity
method; and
(i) total comprehensive income.
Certain elements of the comprehensive income, that contain the income and expenses elements (inclusive the reclassification adjustments) are *excluded* (not recognized) from the current profit or loss as it is allowed or imposed by other IFRS-es, but are directly recognized as *other elements of the comprehensive income.*
The components of ***other comprehensive income*** include (IAS 1, paragraph 7):
(a) *changes in revaluation surplus* (see IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets);
(b) *actuarial gains and losses on defined benefit plans* recognised in accordance with paragraph 93A of IAS 19 Employee Benefits;
(c) *gains and losses arising from translating the financial statements of a foreign operation* (see IAS 21 The Effects of Changes in Foreign Exchange Rates);
(d) *gains and losses on remeasuring available-for-sale financial assets* (see IAS 39 Financial Instruments: Recognition and Measurement);
(e) *the effective portion of gains and losses on hedging instruments in a cash flow hedge* (see IAS 39).
The publishing of the revised IAS 1 marks the closing of the first phase of the project initiated by IASB together with USA for ***revision and harmonization of financial statements presentation***. The second phase that started already on the 16th of October 2008 in the same time with the publishing of the Discussion Paper (DP) Preliminary Views on Financial Statement Presentation is to examine and answers to *fundamental questions* connected to ***presenting the information in financial statements***[575].
The boards propose the following two objectives for financial statement presentation[576]:
- ***cohesiveness:*** formatting the information in financial statements so that a reader can follow the flow of information through the various statements;
- ***disaggregation:*** separating information that responds differently to economic events.
Taking into consideration the two above mentioned aspects, major changes in presenting the comprehensive income are involved, information that should be structured on the following four categories[577]: - ***business activities*** (sub-categorised into *operating* and *investing*),
- ***financing activities***,
- ***income taxes*** and
- ***discontinued operations.***

One of the fundamental questions connected to the presentation of information concerning the performance reporting is[578]:
"Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed?"
From the received answers, the conclusion that the filling in of just one statement that would reflect the comprehensive income and its components was reached, respective the ***situation of the comprehensive*** result, the option of presenting the profit and loss components in *a income*

575 Discussion Paper on financial statement presentation October 2008: Discussion Paper, paragraphs 3.24–3.33, http://www.iasb.org., accessed on 22 April 2009.
576 Deloitte's IFRS Global Office has published a special edition of our IAS Plus Newsletter Explaining the Discussion Paper on financial statement presentation October 2008: Discussion Paper http://www.iasplus.com/agenda/perform2.htm, accessed on 22 April 2009.
577 Discussion Paper, Preliminary Views on Financial Statement Presentation, No. 1630-100, October 16, 2008, p.15, http://www.iasb.org, accessed on 20 April 2009.
578 http://www.iasb.org, accessed on 20 April 2009

statement distinctly (according to IAS 1, paragraph 81, b) will be excluded. For the comprehensive income the require of presenting a subtotal for "profit or loss" or "net income" will be maintained. As argument we mention that the presenting of *two measures* for reflecting the financial performance (comprehensive income and net income) will create confusion among information users, these not knowing which of the measures is more nearer and should be taken into consideration in investment decisions, in credit decisions or in capital resource allocation.

3. Conclusions

Each of the *users* regards different objectives and wishes to have access to the particular information that vary according to the decision that is to be taken, the engaged capitals size, investment duration, the interests that it defends, the aimed purpose, the assumed risk, the advisers' competences and aptitudes. Under these circumstances, we can appreciate as correct the affirmation according to "the *accountancy* purpose is not uniquely of constituting in a memory of enterprise's operations but in a means of periodical calculation of an enterprise's economic performance indicator, *the result*[579]".

The accountancy standardization bear by IAS 1 revised in 2007 influences the enterprise's organic dynamics, demanding to organize the financial statements in such manner that would communicate transparently the *firm's integrated financial picture*, solving therefore some of the aspects concerning *the accountancy convergence.*

The accountancy next to incomes and expenses of *gains and losses* leads to an indicator that projects new dimensions of analysis performances namely the *comprehensive income*, being an indicator much more comprehensive than the net income.

Altogether, the profound changes to which the financial performance reporting is put launched numerous *controversies*: some specialists considering that the old performance presenting pattern centred on *net income* is continuously a pertinent one and the others sustaining the new performance reporting pattern based on *comprehensive income* level. There should be mentioned that the new approach does not exclude the profit or loss elements, becoming a component of the comprehensive income.

The passing from the *net income* to *comprehensive income* allows on one side the measuring of the *future performance* since it takes under consideration not only the realised incomes but the unrealised ones also, susceptible to realise in the future, and on the other hand supposes the passing from evaluation in historic costs to *fair value* evaluation.

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