

ROLE AND SIGNIFICANCE OF STATEMENT OF OTHER COMPREHENSIVE INCOME– IN RESPECT OF REPORTING COMPANIES' PERFORMANCE

Ildiko Orbán Ms. Tamás Dékán

*University of Debrecen, Centre of Agricultural and Applied Economic Sciences, Faculty of Applied Economics and Rural Development, Institute of Accounting and Finance, Debrecen, Hungary
orbani@agr.unideb.hu*

Abstract: *A commonly accepted rule-system, which name was International Financial Reporting Standards (IFRS) created the framework for represent the financial performance, and other facts related to the company's health. In the system of IFRS profit is not equal to income less expenses, this deviation led to the other comprehensive income, OCI term. IFRS have created the term of other comprehensive income, but knowledge and using of it is not widespread. In this paper I tend to present the meaning and essence of this income category, and to reveal how it is work in corporate practice. As basis of the research, definitions and formats related to the statement of comprehensive income will be presented in the paper first. In order to get a clear picture about the differences between the income statements, I make a comparison of the IFRS and the Hungarian Accounting Act in the field of performance's representation. As a result of my comparison I've stated that the EU accepted the international financial reporting standards to present the financial performance of publicly traded companies, and as EU member state it is obligatory for the Hungarian companies as well. This is the reason why Hungary's present task is taking over the IFRS mentality. After the comparative analysis I've examined the Statement of other comprehensive income in the practice of 11 listed companies in the Budapest Stock Exchange. The Premium category includes those companies' series of liquid shares, which has got broader investor base. The aim of this examination was to reveal if the most significant listed companies calculate other comprehensive income and what kind of items do they present in the statement of OCI. As a result of the research we can state that statement of other comprehensive income is part of the statement of total comprehensive income in general, and not an individual statement. Main items of the other comprehensive income of the examined companies are the following: gains and losses on remeasuring available-for-sale financial assets, gains/losses on hedging instruments in a cash flow hedge, or in an investment hedge, and gains/losses arising from translating the financial statements of foreign operations. In Hungary the IFRS consolidated report is obligatory for the listed companies at Budapest Stock Exchange, and most of these companies present other comprehensive income, but the significance and aim of this kind of income is not commonly known yet.*

Keywords: reporting, corporate performance, income, other comprehensive income, OCI, income statement, international financial reporting standards, IFRS

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Introduction

Frameworks create the conceptual basis for IFRS, it (I1):

- a cohesive understanding of IFRSs (Framework facilitates consistent and logical formulation of IFRSs),
- a basis for judgement in applying IFRSs (Framework established the concepts that underlie the estimates, judgements and models on which IFRS financial statements are based),
- a basis for continuously updating IFRS knowledge and IFRS competencies.

In the Framework we can find definitions of the elements directly related to performance (income statement), such as (I2):

- **Income:** Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
- **Expense:** Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

The definition of income encompasses both revenue and gains. “**Revenue** arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent. **Gains** represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. Gains represent increases in economic benefits and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in the IFRS Framework.” (I2)

The definition of expenses encompasses losses as well as ordinary activities related expenses. “Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. **Losses** represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Framework.” (I2)

Profit, however, is not explicitly defined in the Framework. “The Framework does not define profit or loss, and nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss.” (I3) From our study we know that profit is equal income less expenses, so income increases it, expense reduces it. It curious, but we can say that profit is not equal to income less expenses as defined in the Framework (this deviation led to the **other comprehensive income, OCI** term later, but it doesn't have definition in the Framework).

IFRS have created the term of other comprehensive income, but knowledge and using of it is not widespread. In this paper I tend to present the meaning and essence of this income category, and to reveal how it is work in corporate practice.

Statement of Comprehensive Income

IAS 1 Presentation of Financial Statements sets out the overall requirements for financial statements, (structure, minimum requirements for content, overriding concepts, etc). The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows. (I4)

IAS 1 defines **profit or loss** as the total of income less expenses, excluding the components of OCI, and prescribes line-items for profit or loss (I7). Curiosity of this profit or loss statement: no extraordinary items in it. Expenses may be classified by nature (NOE) or by function (FOE).

Income statement is a financial statement that summarizes the various transactions of a business during a specified period, showing the net profit or loss. Income statement/ profit or loss statement measures a company's financial performance over a specific accounting period, indicates how the revenue (money received from the sale of products and services) is transformed into net income (the result after all expenses and taxes).

International Financial Reporting Standards do not prescribe the exact format of the income statement but we can get a better picture from IFRS Taxonomy. IFRS tend to use the statement of comprehensive income instead of the income statement. Statement of comprehensive income aggregates income statement and other comprehensive income which is not reflected in profits and losses.

IAS 1 permits the statement of comprehensive income to be presented as a choice of the entity (I4):

- in a single **statement of comprehensive income** (similar to general income statement in that it calculates a subtotal for net income and then has a section for other comprehensive income (OCI))
- in two statements: **a statement of profit or loss** (separate income statement displaying components of profit or loss) and **a statement of other comprehensive income** (that begins with profit or loss, the bottom line of the income statement) and displays components of other comprehensive income).

The demand for the presentation of total income has led to the introduction of total comprehensive income, which includes profit or loss for a period plus other comprehensive income recognised in that period. (I7) "**Total comprehensive income** is 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" (I4), from transactions and other events and circumstances from non-owner sources. The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time. Financial performance is presented in the form of the statement of profit or loss and other comprehensive income. **Other comprehensive income, OCI** includes items of income or expense, that are not recognized in profit or loss as required or permitted by other IFRS.

The components of other comprehensive income include (I4):

- changes in revaluation surplus (IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets)
- actuarial gains and losses on defined benefit plans recognised in accordance with IAS 19 (employee benefits)

- gains and losses arising from translating the financial statements of a foreign operation (IAS 21 The effects of changes in foreign exchange rates)
- gains and losses on remeasuring available-for-sale financial assets (IAS 39 Financial Instruments: Recognition and Measurement)
- the effective portion of gains and losses on hedging instruments in a cash flow hedge (IAS 39 Financial Instruments: Recognition and Measurement).

As we can see in the 1. table in the IFRS column, the statement of comprehensive income should include the following minimum items (I4):

(income statement part)

- revenue,
- finance costs,
- share of the profit or loss of associates and joint ventures accounted for using the equity method,
- tax expense,
- 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 disposal of the assets or disposal group(s) constituting the discontinued operation,
- profit or loss,

(+ statement of other comprehensive income part)

- each component of other comprehensive income classified by nature,
- share of the other comprehensive income of associates and joint ventures accounted for using the equity method,
- total comprehensive income.

The following items must also be disclosed in the statement of comprehensive income as allocations for the period (I4):

- profit or loss for the period attributable to non-controlling interests and owners of the parent,
- total comprehensive income attributable to non-controlling interests and owners of the parent

Additional line items may be needed to fairly present the entity's results of operations, when the format is permitted to the entities.

The category of extraordinary profit/loss doesn't exist in the statement of comprehensive income, no items may be presented in this statement (or in the income statement, if separately presented) nor in the notes as extraordinary items.

Certain items must be disclosed separately either in the statement of comprehensive income or in the notes, including (I4):

- write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs,
- restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring,
- disposals of items of property, plant and equipment,
- disposals of investments,
- discontinuing operations,
- litigation settlements,
- other reversals of provisions.

Comparison of income statement regulated by IFRS/IAS and the Hungarian Accounting Act

In order to get a clear picture about the differences between the reports, and the income statements in particular, I've made a comparison of the IFRS and the Hungarian Accounting Act in the field of performance's representation. I've summarized my results in the Table 1.

As a result of my comparison I've stated that the EU accepted the international financial reporting standards to present the financial performance of publicly traded companies, and as EU member state it is obligatory for the Hungarian companies as well. This is the reason why Hungary's present task is taking over the IFRS mentality.

The methods of presenting the income in the above mentioned statements are the same in the IFRS, and in the Hungarian Accounting Act (Hungarian Accounting Act, 2000. C. Act). (1. Figure) Expenses recognised in profit or loss should be analysed either by nature (raw materials, staff costs, depreciation, etc.) or by function (cost of sales, administrative expenses, etc). If an entity categorises by function, then additional information on the nature of expenses – at a minimum depreciation, amortisation and employee benefits expense – must be disclosed.

1. table: Comparison of Income statements regulated by IFRS/IAS and the Hungarian Accounting Act

	IFRS/IAS	Hungary: Accounting Act (2000. C. Act)
Scope of regulation	Use of IFRS/IFRIC is obligatory to the entities who made decisions about it.	Use of Act is obligatory to all business forms, which are specified in the Act.
Components of financial statements	<ul style="list-style-type: none"> ➤ A statement of financial position (balance sheet) ➤ a statement of comprehensive income for the period (or an income statement and a statement of other comprehensive income) ➤ a statement of changes in equity for the period ➤ a statement of cash flows for the period ➤ notes, comprising a summary of accounting policies and other explanatory note 	<ul style="list-style-type: none"> ➤ the balance sheet ➤ the profit and loss account ➤ the notes to the financial statements
Business report	No regulation	Obligatory, but not as a part of the report
Format of income statement/profit or loss statement	No strict regulation, or scemes, just recommendation for the format of income statement.	Obligatory sequence of the items, optional format
Other comprehensive income	Companies have to present their all comprehensive income for a period: <ul style="list-style-type: none"> - in a single statement (all items of income/expense) - in two statements (an income statement and a statement of other comprehensive income) 	No separate statement
Methods of income statement	By nature and by function of expenses (NOE or FOE)	By nature and by function of expenses
Main lines/categories in income statement	As a minimum, a company shall include in the statement of (comprehensive) income the following lines (1. IAS): <ul style="list-style-type: none"> ➤ Revenue ➤ Finance costs ➤ Share of the profit or loss of investment in associates and jointly controlled entities (accounted for using equity method) 	Main (obligatory) categories in the income statement:: <ul style="list-style-type: none"> ➤ Operatnig profit or loss ➤ Result on financial transactions ➤ Profit/loss on ordinary activities ➤ Extraordinary profit ➤ Profit before tax ➤ Tax liability ➤ Profit after tax

	<ul style="list-style-type: none"> ➤ Tax expense ➤ 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 disposal of the assets or disposal group(s) constituting the discontinued operation ➤ Profit or loss ➤ Each component of other comprehensive income classified by nature ➤ Share of the other comprehensive income of associates and joint ventures accounted for using the equity method ➤ Total comprehensive income 	<ul style="list-style-type: none"> ➤ Use of retained earnings for dividends ➤ Approved dividends ➤ Profit or loss for the year
Extraordinary items	Not existing category	Different from ordinary activities (separate presentation)
Presentation of dividends	Obligatory presentation of Earning per share, EPS (IAS 33)	Obligatory: presentation of amount of Approved dividends No obligation for presentation of EPS.
Presentation of discontinued operations	Presentation in the income statement (not extraordinary activities) or in the Notes (IFRS 5)	Presentation in the Notes

Source: Own presentation by KOROM – MADARASINÉ SZIRMAI – MIKLÓ SINÉ ÁCS – MOLNÁR – SIKLÓSI – SIMON – SZTANÓ – SZTANÓ NÉ, 2001 and ORBÁN, 2006 and I5 and I6

Other comprehensive income – in the practice of Hungarian listed companies

In the Budapest Stock Exchange (BÉT) companies can introduce shares to the market in three categories: premium category, standard category, and T category. The Premium category includes those companies' series of liquid shares, which has got broader investor base. (I8)

In the next table encompasses all listed companies, which are in the Premium category in the BÉT.

2. table:Other Comprehensive Income in the Financial Statements of Companies in the Premium Category at BÉT (2012)

Companies	OCI in the Report	Items in OCI
ANY Nyrt.	-	- gains and losses on remeasuring available-for-sale financial assets
Appeninn Nyrt.	-	-
Business Telecom Nyrt.	Not available	-
CIG Pannónia Életbiztosító Nyrt.	+	- gains and losses arising from translating the financial statements of a foreign operation - gains and losses on remeasuring available-for-sale financial assets
FHB Nyrt.	+	- gains and losses arising from translating the financial statements of a foreign operation - gains and losses on remeasuring available-for-sale financial assets - the effective portion of gains and losses on hedging instruments in a cash flow hedge
Magyar Telekom Nyrt.	+	- gains and losses arising from translating the financial statements of a foreign operation - gains and losses on remeasuring available-for-sale financial assets
MOL Nyrt.	+	- gains and losses arising from translating the financial statements of a foreign operation - gains and losses on remeasuring available-for-sale financial assets - the effective portion of gains and losses on hedging instruments in a cash flow hedge - the effective portion of gains and losses on hedging instruments in an investment hedge + - share of the OCI of associated companies
OTP Bank Nyrt.	+	- gains and losses arising from translating the financial statements of a foreign operation

		<ul style="list-style-type: none"> - gains and losses on remeasuring available-for-sale financial assets - the effective portion of gains and losses on hedging instruments in a cash flow hedge - the effective portion of gains and losses on hedging instruments in an investment hedge
PannErgy Nyrt.	-	-
Rába Nyrt.	+	<ul style="list-style-type: none"> - the effective portion of gains and losses on hedging instruments in a cash flow hedge
Richter Gedeon Nyrt.	+	<ul style="list-style-type: none"> - actuarial gains and losses on defined benefit plans recognised in accordance with IAS 19 - gains and losses arising from translating the financial statements of a foreign operation - gains and losses on remeasuring available-for-sale financial assets

Source: Own presentation by I9, and I10

As we can see in the 2. table, 11 companies are in the Premium category in the BÉT of which the Statement of Other Comprehensive Income of one company is not available, and three of them haven't got other comprehensive income. 7 companies have got OCI. Main items of them are the following: gains and losses on remeasuring available-for-sale financial assets, gains/losses on hedging instruments in a cash flow hedge, or in an investment hedge, and gains/losses arising from translating the financial statements of foreign operations. In some cases the Statement of OCI comprises of tax effect of other comprehensive income in the same statement, as well. (e.g. FHB)

Summary

In the system of IFRS profit is not equal to income less expenses, this deviation led to the other comprehensive income, OCI term. IFRS have created the term of other comprehensive income, but knowledge and using of it is not widespread. As basis of the research, definitions and formats related to the statement of comprehensive income were presented in the paper first. In order to get a clear picture about the differences between the income statements, I make a comparison of the IFRS and the Hungarian Accounting Act in the field of performance's representation. As a result of my comparison I've stated that the EU accepted the international financial reporting standards to present the financial performance of publicly traded companies, and as EU member state it is obligatory for the Hungarian companies as well. After the comparative analysis I've examined the Statement of other comprehensive income in the practice of 11 listed companies in the Budapest Stock Exchange. The Premium category includes those companies' series of liquid shares, which has got broader investor base. The aim of this examination was to reveal if the most significant listed companies calculate other comprehensive income and what kind of items do they present in the statement of OCI. As a result of the research we can state that statement of other comprehensive income is part of the statement of total

comprehensive income in general, and not an individual statement. Main items of the other comprehensive income of the examined companies are the following: gains and losses on remeasuring available-for-sale financial assets, gains/losses on hedging instruments in a cash flow hedge, or in an investment hedge, and gains/losses arising from translating the financial statements of foreign operations. In Hungary preparing the IFRS consolidated report is obligatory for the listed companies at Budapest Stock Exchange, and most of these companies present other comprehensive income, but the significance and aim of this kind of income is not commonly known yet. Most Hungarian companies deal with the IFRS, but not sufficiently extensively, so nowadays Hungary's task is to learn the IFRS mentality in deep context.

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