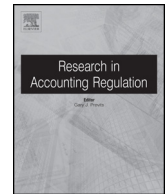




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Research Report

Presentation formats of other comprehensive income after accounting standards update 2011-05

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ABSTRACT

Using S&P 500 entities, this study examines presentation formats of “Other Comprehensive Income” after ASU 2011-05. This study finds that 92 percent of entities presented in two separate but consecutive statements after ASU 2011-05 and 94 percent of the entities that presented in a statement of changes in shareholders’ equity before ASU 2011-05 switched to two separate but consecutive statements after ASU 2011-05. This reflects the practitioners’ view that presenting net income and other comprehensive income together in a single continuous statement may create confusion among financial statement users, but is inconsistent with the FASB’s initial position that only allowed a single continuous statement. Thus, pros and cons of both formats should be further evaluated by standard-setters so that a more useful presentation format can be adopted by more entities. This study also documents that presentation formats do not seem to be associated with the specific industries and the propensity to report negative other comprehensive income after ASU 2011-05.

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1 Introduction

According to the FASB Concepts Statement 6, *Elements of Financial Statements*, 1985, other comprehensive income (“OCI” hereafter) is defined as “the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources”. In other words, OCI is part of total comprehensive income but generally excluded from net income (FASB Statement of Financial Accounting Standards (“SFAS” hereafter) 130, 1997). Although the definition of OCI is stated in the accounting standards, it is often considered incomplete and lacks clarity (Yen, Hirst, & Hopkins, 2007). Hence, confusion is often created about which components should be included in OCI and whether OCI should be viewed as part of an entity’s performance. In addition, much debate has taken place about where to present OCI in the financial

statements and the presentation formats of OCI have gone through substantial changes for decades.

In June, 2011, the FASB issued Accounting Standards Update (“ASU” hereafter) 2011-05, *Presentation of Comprehensive Income*, which is effective for fiscal years beginning after December 15, 2011 for public entities. Under ASU 2011-05, entities are allowed to present OCI in one of two presentation formats – (1) a single continuous statement of comprehensive income that includes both net income and other comprehensive income, and (2) two separate but consecutive statements of (i) a traditional income statement and (ii) a statement of comprehensive income. Based on hand-collected OCI presentation formats of S&P 500 entities, this study examines which presentation format is predominantly adopted after ASU 2011-05, and whether the selection of a specific presentation format is related to the specific industries and entity characteristics.

Prior studies (Bamber, Jiang, Petroni, & Wang, 2010; Chambers, Linsmeier, Shakespeare, & Sougiannis, 2007; Hirst & Hopkins, 1998; Lee, Petroni, & Shen, 2006; Maines & McDaniel, 2000) document that OCI presentation formats before ASU 2011-05 influence how financial statement

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information is utilized. Moreover, [Du, Stevens, and McEnroe \(2015\)](#) suggest that financial statement users process information about OCI differentially even after ASU 2011-05, depending on the presentation formats. Thus, it should be of interest to financial statement users to examine how entities present OCI after ASU 2011-05. In the Exposure Draft, the FASB proposes only one presentation format—a single continuous statement. However, the FASB later allows both presentation formats based on the practitioners' concern that presentation of OCI in a single continuous statement would deemphasize net income, and proximity of OCI and net income would obscure differences of these two.¹ Thus, this study also provides evidence on whether the predominant OCI presentation format after ASU 2011-05 is consistent with the FASB's initial position or the practitioner's view.

2 History of presentation formats of other comprehensive income

Before SFAS 130, three items – foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale securities – were presented on a balance sheet as separate components of shareholders' equity, bypassing the income statement. However, some financial statement users expressed concerns about financial reporting abuse that may result from bypassing the income statement (p.5, SFAS 130). They also pointed out a lack of consistency in the presentation of OCI. Thus, the FASB issued SFAS 130 in June 1997. Under SFAS 130, entities were allowed to present OCI items – the above three items and unrealized gains or losses on derivatives (i.e., cash flow hedge) – in one of three presentation formats.

- (1) In a single continuous statement of comprehensive income that includes both net income and other comprehensive income
- (2) In two separate but consecutive statements of (i) a traditional income statement and (ii) a statement of comprehensive income
- (3) In a statement of changes in shareholders' equity

Although they were given three options for presenting OCI under SFAS 130, entities were encouraged to present OCI using one of the income statement-type presentation formats – (1) and (2) above, as the FASB believed higher quality financial reporting (i.e., higher comparability, consistency and transparency) can be achieved through income statement-type presentation formats.²

In spite of the FASB's encouragement, the majority of entities reported OCI in a statement of changes in shareholders'

¹ Allowing both presentation formats, the FASB asserts that presentation of OCI in two separate but consecutive statements increases prominence of comprehensive income and achieves the objective of reporting OCI in a single continuous statement.

² [Yen et al. \(2007\)](#) analyze 278 comment letters in response to the FASB's exposure draft of SFAS 130. According to [Yen et al. \(2007\)](#), the FASB's exposure draft advocated a single continuous statement but 83 percent of the comment letters were concerned that investors would be confused by a single continuous statement.

Table 1
Sample distribution.

Panel A: Industry distribution of sample			
SIC Industry Classification	Number of Entities	%	
Agriculture, Forestry and Fishing	1	0.2%	
Mining	31	6.2%	
Construction	6	1.2%	
Manufacturing	201	40.2%	
Transportation, Communications, Electric, Gas and Sanitary Services	67	13.4%	
Wholesale Trade	8	1.6%	
Retail Trade	42	8.4%	
Finance, Insurance and Real Estate Services	88	17.6%	
Other	54	10.8%	
Total	2	0.4%	
Total	500	100.0%	

Panel B: Timing of implementation of ASU 2011-05			
Timing of Implementation of ASU 2011-05	One Statement	Two Separate Statements	Total
1st Fiscal Year End After December 15, 2011	25 Entities (5.0%)	170 Entities (34.0%)	195 Entities (39.0%)
2nd Fiscal Year End After December 15, 2011	16 Entities (3.2%)	286 Entities (57.2%)	302 Entities (60.4%)
3rd Fiscal Year End After December 15, 2011	0 Entities (0.0%)	1 Entities (0.2%)	1 Entities (0.2%)
No OCI After ASU 2011-05	2 Entities (0.4%)		2 Entities (0.4%)
Total	41 Entities (8.2%)	456 Entities (91.2%)	500 Entities (100.0%)

This table provides the distribution of the sample. Panel A provides the industry distribution of the sample. Panel B provides the distribution of the sample by the timing of implementing ASU 2011-05. OCI is other comprehensive income.

equity under SFAS 130 ([Bamber et al., 2010](#); [Bhamornsiri & Wiggins, 2001](#); [Chambers et al., 2007](#); [Jordan & Clark, 2001](#); [Pandit & Phillips, 2004](#)). Thus, the FASB issued ASU 2011-05 in June 2011, which no longer permits entities to present OCI in a statement of changes in shareholders' equity. By issuing ASU 2011-05, the FASB expected to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported as OCI.

3 Sample

This study relies on hand-collected OCI reporting formats one year before and in the year ASU 2011-05 was adopted for the entities that belong to the S&P 500 index as of December 2011.³ Then, using the financial data from the Compustat dataset, this study investigates entity characteristics in relation to selection of the specific OCI presentation format in the year each entity adopted ASU 2011-05. Panel A of [Table 1](#) exhibits industry distribution of the sample based on Standard Industrial Classification. The majority of entities belong to the manufacturing industry (40.2 percent), followed by financial industry (17.6 percent), transportation (13.4 percent), services (10.8 percent) and retail (8.4 percent).

³ December 2011 is the first fiscal year end after ASU 2011-05 became effective for the public companies with calendar fiscal year end.

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