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Procedia Economics and Finance 20 (2015) 218 – 223

Procedia Economics and Finance

www.elsevier.com/locate/procedia

7th International Conference on Globalization and Higher Education in Economics and Business Administration, GEBA 2013

Comprehensive income, a new dimension in performance measurement and reporting

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Abstract

This paper addresses the comprehensive income in terms of the concept of calculation, reporting, relevance, its relationship to the net income. Study methodology is based on critical analysis of literature and the empirical researches regarding comprehensive income and its consequences on financial reporting. The findings confirm that both net income and comprehensive income are useful in measuring the performance of a company. This paper can be a useful material for other future studies on deepening the concept of comprehensive income.

Peer-review under responsibility of the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi.

Keywords: Comprehensive income; net income; IFRS; relevance.

1. Introduction

The image of the accounting truth is associated with accurate and precise statements, without errors without bias and hesitation. But we can not speak of "truth" in general but only in the specific manner. When asked “What is the most relevant measure of performance?“, the theoretical and empirical specialised literature found approaches and explanations that are far from eliminating the current concerns to provide answers as adequate as possible to this highly controversial concept.

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Peer-review under responsibility of the Faculty of Economics and Business Administration, Alexandru Ioan Cuza University of Iasi.
doi:10.1016/S2212-5671(15)00068-4

Performance should be measured and reported as information relevant for the financial statement users, which means that this concept is part of all paradigms known by the accountancy in its evolution from the technique, art of accounting records, information tool and social intermediation tool.

This paper aims to determine the relevance of the comprehensive income for assessment as well as its predictive capacity in determining profitability, of the expected cash flows.

The research methodology consists of the critical review of the specialized literature on the importance of the comprehensive income in assessment and forecast, compared with the net income. The documentation results reveal that there are both followers and critics of the comprehensive income, often tilting the balance in favour of the net income, especially in respect of the latter's predictive ability.

2. Performance is assessed differently depending on the interests of the financial statement users

The offer of information on the company performance is one of the important objectives of the financial statements in order to meet the requirements of a wide range of users in making economic decisions.

Managers are interested in the overall performance, while investors are interested in the profitability of the investments, and creditors in the solvency of the company.

From a historical perspective, the concept of accounting result is perceived differently compared to the concept of economic results.

Basu (1997) created a model by which it predicts the correlation between returns and accounting profit when the future economic performance is likely to deteriorate (periods of adverse information) or to appreciate (periods of favourable information). The accounting profit is operationalized with the net profit for the accounting period reported in the profit and loss account and the economic profit is reflected through the market return construction calculated based on the price of the securities. Thus, Basu manages to defuse the tension between the two known economic categories in relation to the profit resulting in the increase of the informational efficiency.

The General Accounting Framework sees profit as a performance measure or as a reference basis for the calculation of certain indicators, such as return on investment or earnings per share. Profit is assessed from the perspective of the income and expense items which in turn partly depend on the concepts of capital and capital maintenance.

In the accounting concept, we find the following definitions for result:

a) incomes are increases in the economic benefits recorded throughout the accounting period as inflows or increases in assets or decreases of debts resulting in increases of equity capital, other than those related to contributions from equity capital participants.

b) expenditures are recorded decreases in the economic benefits during the accounting period in the form of outflows or reductions of assets or increases in liabilities that result in decreases in the equity capital other than those related to the distribution to the equity capital participants.

We can see that the conceptual approaches of the results in the opinion of the General Accounting Framework identify all the essential characteristics of the results without specifying the criteria that must be fulfilled in order to be recognized as incomes and expenses.

The accounting conceptual framework distinguishes between actual revenue and earnings though both categories correspond to the definition of income. Actual revenues are generated from ordinary activities of the entity, being known under different names: sales, interest, dividends, royalties and leases.

Earnings are increases in the economic benefits meaning that they have the same nature as the income. These earnings are no obtained from current activities of the company and in compliance with the requirements of the General Accounting Framework they are usually presented separately at the net value without going through the offset relationship between incomes and expenses.

Moreover, losses correspond to the definition of the expenses with the same nature as theirs. Like earnings, losses are recognized and presented separately at the net value, given their importance in the economic decision-making process.

Two main concepts are known concerning performance: the operating income and the “all-inclusive” income. The operating income is generated by the current operations of the business entity, based on the historic cost concept. The follower of the ”all inclusive” concept believe that all the elements influencing the size of capitals