"Dimitrie Cantemir" Christian University
Knowledge Horizons - Economics
Volume 7, No. 1, pp. 33–37
P-ISSN: 2069-0932, E-ISSN: 2066-1061

www.orizonturi.ucdc.ro

THE COMPREHENSIVE INCOME – A NEW DIMENSION IN MEASURING THE FINANCIAL RESULTS BY APPLYING IFRS

Victor MUNTEANU[1], Alice ȚÎNȚĂ[2], Simina VERA[3], Lavinia COPCINSCHI[4], Anda LACEANU[5], Carmen LUSCHI[6]

[1] *"Dimitrie Cantemir" Christian University, Faculty of Finance, Banks and Accountancy, E-mail: a2c_vm@yahoo.com*
[2] *Romanian American Universiy Bucharest, Faculty of Internal and International Commercial Finance-Banking Relations, E-mail: alicetinta@yahoo.com*
[3] *"Valahia" Universiy Târgovişte, E-mail: siminavera@yahoo.com*
[4] *"Valahia" Universiy Târgovişte, E-mail: lavinia.copcinschi@gmail.com*
[5] *"Valahia" Universiy Târgovişte, E-mail: anda.laceanu@gmail.com*
[6] *"Valahia" Universiy Târgovişte, E-mail: troteacarmenluiza@yahoo.com*

Abstract *A premise of the normalization accounting, the globalization is characterized by the interaction of financial, material and human resources at international level. It develops and diversifies the transactions produced by economic entities, which influences the opportunity of processing and communication of information. A normalization of the synthesis situation (financial reporting) concerning the comprehensive income which would replace or complete the traditional format of the income statement has become a permanent joint project initiated by IASB and FASB to achieve convergence between the standards of IFRS and USA GAAP.*

Key words:
Global result, IFRS, US GAAP, the IASB accounting normalization, fair value

1. Definition and general positions

From a conceptual point of view, the determination and the report of comprehensive income serves to the presentation of a single size (integrated) of all items of income, expenses, gains and losses, aiming at increasing transparency of financial relations. Replacing or supplementing the traditional income statement with a global format which integrates in the current result including all the operations which transited directly in the equity is based on the fact that the proper size of the performance is not given by the indicative of the net result but of that value which measures the variation of equity (assessed in market values) or otherwise said, the enrichment of the shareholders.

Previously this approach of the normalization, in the accounting theory there were often made critics on the practice according to which, certain elements of the nature of the outcome passed the account of profit and losses impacting the equity and which became thereby amorphous elements yet potentially information. The attitudes towards these practices are different as there are different interested users. Most points in using the presentation of the global outcome were expressed as a result of what FASB and SFAS 130- issued. The reporting of the global result, a standard became mandatory starting with the subsequent reporting date of December 15, 1997.

The authors O' Hanlon and Pope[1] and Dhaliwal[2] have emphasized the fact that regarding the assessing of stock returns, the global outcome provides rarely information in addition to those already presented in the net accounting.

On the contrary, Hirst and Hopkins,[3] Maines and McDaniel,[4] Biddle and Choi[5] have sustained empirically the relevant decisional part of the global result. Meanwhile it is not excluded the fear that some elements, which currently are not part of the income statement, by including them in the overall result it would be given an informational value much higher than their real significance.

After releasing SFAS 130, both at the level IASB, but also as FASB, the issue of an evolved global result, being closely related to the treatment's differences from the evaluating at a fair value (e.g. fixed assets revaluation result IAS 16, the accounting gains and losses from investments in foreign entities - SFAS 52, IAS 21, unrealized gains and losses of the financial instruments available for sale - SFAS 115, IAS 39).

In this context, the fair value becomes a fundamental means of assessing the financial performance, considering that by the use of it are corrected some difficulties of accounting in historical costs, often incriminated for the differences between the reported values and their economic reality. In this case, an asset can generate income by increasing its fair value; since the decision to hold an asset has economic consequences that financial statements should disclose the profit thus generated would be relevant in assessing management. From this perspective, new concerns about performance and presentation of comprehensive income reflects the difficulty of dissociating income flows from operating activities, income flows resulting from changes in balance sheet values.[6]

Since not all the changes in IFRS fair value of assets and liabilities are reported in the income statement of the period in which these changes are recognized, it was gradually considered that the net result cannot be seen as a complete measure of financial performance, prompting - it thus focusing efforts towards the normalization of reporting comprehensive income.

We conclude that the overall performance of the entity, as its main shareholder information, resulting from combining equally two factors: the performance of the operation and performance of investment alternatives in the choice made by the entity.

2. The Expression of the Comprehensive Income

The comprehensive income as an expression in terms of performance variation incumbent shareholders' equity (net assets balance sheet value) can be expressed by the equation:

$$Rgt = (VBt - VBt\text{-}1) - Dt - OC, \qquad (1)$$

Where:
Rgt = comprehensive income at the end of period *t*;
VBt = equity (at book value) at the end of period *t*;
Dt = the dividends at the end of period *t*;
OC = capital transactions with owners in period *t*.

The outcome is determined by the net asset variations over a period. Balance sheet approach is based on neoclassical economic theory, according to which company management aims at maximizing major business value.

A formula developed from the perspective of an approach by income expenditure proposed by teachers Jeopardy C. and M. Dumitru:[7]

Profit / loss for the period recognized (a) profit or loss:

(+/-) Income / expenses, gains / losses recognized directly in equity;

(+/-) Profit / loss effect of changes in accounting policies;

(+/-) Profit / loss effect correction of fundamental errors;

= *The comprehensive income*

The two approaches differ in the way different accounting firm transactions. In Table 1 are presented some comparative elements on the two approaches result:

Table 1. Double approach to outcome; comparative items

Active approach – liabilities (balance sheet)	**Addressing expenses – income (income statement)**
• transactions are accounted for according to their impact on the assets and liabilities • income and expenses are accounted for by the rules of assets or liabilities; • highlights the accounting rules and accounting rules for valuing assets and liabilities; • main financial document is balance; • outturn account is of secondary importance.	• transactions are recorded as income or expenses by the fundamental principles: the precautionary principle, the principle of independence exercises; • attach minor variations of assets and liabilities; • main financial document of the results; • balance is of secondary importance

Source: *own processing*

Following representation (Figure 1) combines the two perspectives:

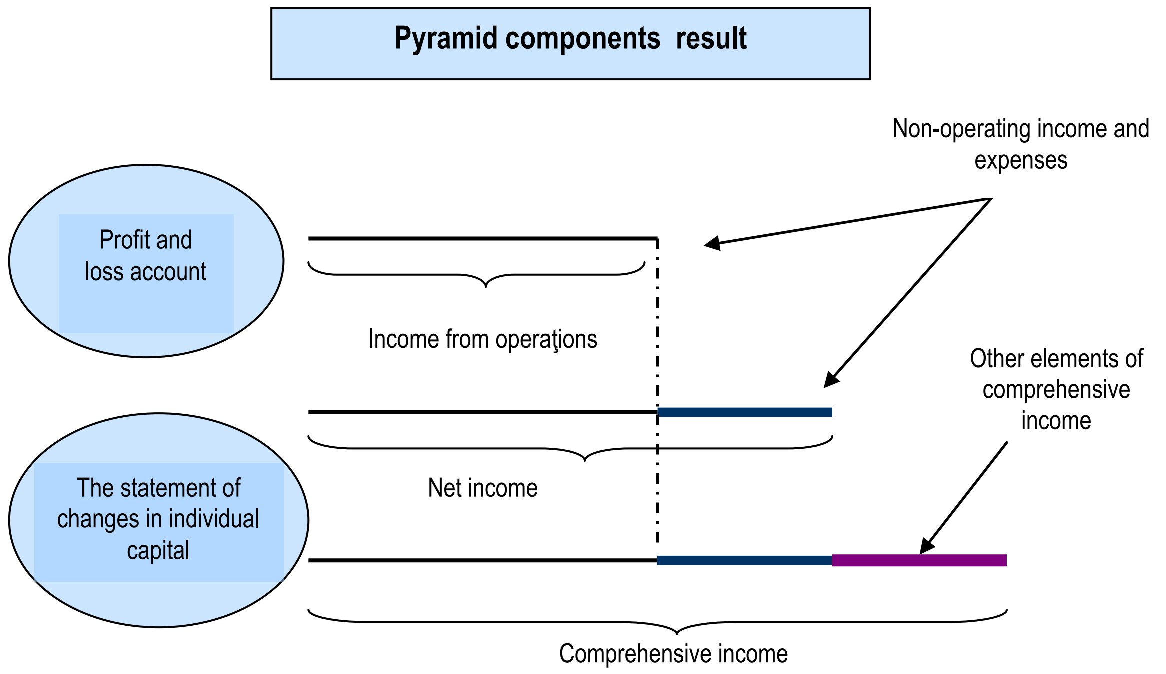

Figure 1. Pyramid components result[8] (own processing)

The accumulated accounting adjustments and the changing elements of the net situation and unassigned to shareholders are combined under the name of other *elements of comprehensive income.* They form, together with net income, comprehensive income and asset values corresponding to variation and liabilities recognized directly in equity and especially attributable to the application of specific rules on fair value accounting . If the theoretical evaluation of all balance sheet items at fair value, the result per share would correspond to the overall variation of the stock exchange.

Generally, according to the conceptual framework both revenue and profit are included in the category of positive results, as both expenditure and losses are negative[9], which sustain the image of an account of comprehensive income or transparent surplus *(clear accounting surplus)*. However, in practice of the standards previously issued by the IASB, especially those in the fair value, we can find numerous accounting rules that reflect patterns of net earnings or stale surplus (*dirty surplus accounting*), the fair value adjustments are recorded in net income, but transferred directly to equity, the model away from the Conceptual framework rules (*e.g. changes in fair value of financial instruments available for sale - IAS 39: 55*[10]*, the changes in value of tangible assets held at fair value - IAS 4:39*[11] *p.m. etc.*).

3. The Relevance of the Comprehensive Income Reporting

The concepts concerning the result have represented a point of controversy. In the US the concept of normalization comprehensive income in the general accounting principles (US GAAP) was achieved only after 15 years since its introduction to the theory and practice of accounting. This discrepancy is mainly due to the fact that the presentation of performance is not only a matter of outcome reporting in one format or another, but involves issues in the assessment and recognition of items in the financial statements.

The suggestion of introducing a new concept is determined by the fact that the Group's net profit was one of the causes of fraud and stock market overvaluation that has characterized recent years.[12] Many financial scandals of the last decade were due to net earnings manipulation. The new financial situation has distinct categories on economic operations, financial activities, investing activities and taxes payment.

The concept of *comprehensive income* is placed at the intersection of controversial perspectives. On the one hand, in terms of accounting theory, but also of the empirical behavioral studies it requires a separate presentation. On the other hand, accounting research positions has not appeared harmonized yet in terms of relevance and impact of information on the comprehensive income by its presentation on decision making behavior of investors in capital markets. The construction of an accounting model in accordance with the objective of supporting investment decisions in capital markets justifies the considerable importance which the normalizers offer to the studies based on real data of capital markets concerning the relevance levels that the information contained in comprehensive income and its components gains during the evaluation processes. According to their setters, each entity will need to consider the content, the sequencing and the format of the presentation and the descriptions used for line items to achieve a fair presentation in the specific circumstances of that entity.

Since the results of these studies will be the relevance that will lead to a final form of performance reporting, in this section we will analyze these issues, highlighting both the variety of approaches and also how the proposals can be found in normalizing the disclosure of the comprehensive income.

The current accounting standards allow entities to report the comprehensive income either in a format similar to the profit and loss account, as part of a performance situation, or in a situation which changes in that equity. In the traditional models, in which investors have a rational character and take into account all the relevant information equally, regardless of their position in the financial reporting, it is considered that the place or situation in which is presented the comprehensive income and its components do not have a special importance. Others authors[13] think that there weighs considerably the positioning of the comprehensive recovery mode in the accounting information in decision-making processes, preferring a comprehensive presentation of all elements in a different situation on financial performance. The opponents of the concept of the comprehensive income make two key criticisms in recent IASB proposals on performance reporting:

- elements which fall within other comprehensive income can mislead the performance measurement and value accounting entity[14] and can facilitate handling by management;
- could reduce the capacity and quality of information carrying amounts.[15]

These conflicting opinions stress the importance of the way in which the new reporting format of performance will be achieved, it will have consequences for the efficiency of capital markets, and hence the use of accounting information to determine the market value of an entity and exchange rate. Oliver Ramond, Jean Francois Casta, Stephen Lin[16] identify the following main themes that mark the debates around the IASB-FASB joint project:

1. To what extent is relevant the comprehensive income and its components in the context of specific investment decisions of capital markets?
2. At the aggregate level, the overall result is a quantity that provides relevant information in addition to those provided by the net result and the result of exploitation?
3. At the individual level, other comprehensive income provides relevant information for determining the amount, in addition to those obtained by analyzing the net result?
4. In terms of relevance to the evaluation can there be observed differences in perception between other comprehensive incomes reported and unreported separately in this manner?

4. Conclusions

The introduction of a new concept of comprehensive income and the concerns to create a dedicated synthesis situation happened as a result of expanding the usage of fair value as the evaluation basis, a determined modification, in its turn, by the changing perspectives of the objectives of financial reporting, namely the primacy of providing useful information for decision making assessment of interests in entities the shareholders owned at the expense of exclusive assessment process resource administration by management.

In the Anglo-Saxon opinion the purpose of accounting is to inform investors. The central indicator should reflect market fluctuations. Ordering the measurement at a fair value of certain assets and liabilities (especially the financial ones) the referential IFRS adopts a broad of a financial performance. The criteria in measuring the performance are not limited only to an operational dimension. The entity's ability to optimize the management of its assets and liabilities is exhaustively surprised.

Therefore, the relevant amount in terms of performance is given by changing the size of investor's wealth, in other words changing its interest in the net assets of the entity marked at a fair value. The result can be a measure of performance only to the extent that incorporates all the changes in net asset size, independent of their nature, changes due to exploitation as well as changes due to market conditions, especially the ones of the fair value.

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