Value Relevance of Comprehensive Income

Section 1:
Introduction

In this paper, one of the very contemporary issues of accounting, “income reporting” is under discussion. Should income be calculated completely on clean surplus basis or should the practice of bypassing certain items from income statement and directly reporting them in the statement of owners’ equity (dirty surplus) be followed. Smith & Reither (1996) found that companies tend to obscure dirty surplus flows by combining them with each other or with other categories of equity, resulting in significant search cost and efficiencies. Financial statement users preferences changed as a result of such issues and they emphasized the need for a statement of comprehensive income to improve the transparency of income inflows by presenting them in one statement (Cope et al, 1996).

Traditionally, managers (investors) have lobbied for less (more) comprehensive definitions of income (Biddle & Choi, 2003). The authors argue that managers prefer the narrower and controllable definition of net income on the basis of contracting arrangements, whereas investors demand a more comprehensive definition (clean surplus) believing that such a figure is less subject to manipulation and is more in accordance with the valuation theory. To cope with the issue standard setters over a period have introduced different standards such as Accounting Standards Board of UK introduced FRS 3 in 1992, New Zealand introduced FRS 2 in 1994 and the Financial Accounting Standard Board (FASB) issued SFAS No. 130, Reporting Comprehensive Income, in 1997, which required the disclosure of both net income and a comprehensive income (Luecke & Meeting, 1998). The SFAS No. 130 required companies to report comprehensive income in a primary financial statement, either a performance or a non-performance statement. However, studies have proved that companies are taking advantage of it; Mazza & Porco (2004) found that 83 percent companies in the US are reporting comprehensive income in statement of owners’ equity. FASB is reconsidering SFAS No. 130. IASB is also involved with the presentation of comprehensive income (Barker, 2004). Cauwenberge & Beelde (2007) stated that IAS 1, Presentation of financial statements allows but does not enforce a single comprehensive income statement. They further reported that since 2004, FASB & IASB are working together on
a performance-reporting project and one of the categories proposed which is becoming famous for reporting is the division between historical cost and fair value income (remeasurements). FASB and IASB are trying to introduce an income approach that will report both historic cost and fair value.

The second section of the paper discusses the background, followed by concepts of income. The third section discusses the value relevance of comprehensive income, fourth section relates the issue to theory and the final section concludes the paper.

Section 2:
Background of the Study
A true and fair calculation and presentation of income has been one of the prime objectives of accounting conceptual frameworks in order to make information more decision useful. However, the issue remains unresolved among preparers and users of financial statements since 1930s. During and before the said period, accounting information was mainly prepared with the assumption that management and creditors are going to be the primary users of the information created but then a shift occurred and the focus group changed to investors and stockholders. They were more interested in figures of income statement rather than balance sheet. As the focus of this new group was mainly on the income figure but not on issues like liquidity or risk, figures like earning per share gained fame. Thus companies started looking for ways to improve the figure of income by introducing rather unusual sources of income. The accounting definition of the term income was a little confined and it restrained the recognition of items that certainly needed an explanation as to what exactly should be the accounting treatment for them.

Concepts of Income
Income is normally referred to as changes in equity except those resulting from owners’ investment activities and distribution to owners. There are two approaches used to calculate income:

1. Income as a measure of performance of an enterprise and its management.
2. Income as an enhancement of investor wealth.

The first approach considers that income is generated only because of purposeful activities, in particular, due to the recurring consumption of fixed asset (cited in Newberry, 2003, p-328), whereas, other gains and losses that seem irrelevant to
purposeful activities are excluded and such changes in the value of capital are not treated as a part of income. This approach is also referred to as current operating performance. The approach implies the use of historical costs, its allocation and matching with revenues to determine income. In contrast, income as an enhancement of investor wealth concept captures income from investor’s angle and it is considered to be the difference between the amount invested and the amount either distributed or available for distribution (Newberry, 2003). In author’s opinion, the basic objective of this approach is to increase the invested wealth, so valuation takes precedence over matching costs with revenues and realizable values are important for assets and liabilities. The approach is also called an all-inclusive concept of income.

The FASB has adopted the enhancement of wealth approach or the asset-liability view as quoted sometimes in literature for the conceptual framework (Robinson, 1991, Newberry, 2003). FASB Concept Statement No 3 “Elements of Financial Statements of Business Enterprises (1980)” replaced the term “earnings” (used in FASB Statement No 1) with “Comprehensive Income”. The Concept Statement No. 3 was replaced by Concept Statement No. 6, “Elements of Financial Statements (1985a)”, which also extended its scope to not-for-profit organizations (Johnson et al 1995 p-129). Johnson et al (1995) stated that the board concluded that earnings is a narrow term as compared to comprehensive income and decided to make it a component of comprehensive income but it did not give any definition of the term earnings in any of its subsequent statements. FASB even after issuing SFAS No. 130 left with preparers of financial reports the ability to determine sub-components within net income. This gave a chance to preparers to promote their own sub-components of income (commonly referred to as Pro forma figures or street measures, such as EBIT & EBITDA), in order to divert users’ attention upward from net income and comprehensive income figures (Newberry, 2003). These pro-forma figures gradually excluded many items such as restructuring costs and even marketing cost and argued that these are non-recurring (Newberry, 2003). FASB’s adoption of enhancement of wealth concept had issues like failure to identify valuation models for assets and liabilities and retention of historical cost, e.g, FASB required continuous application of realization principle and at the same time required asset impairments, which was in line with the enhancement of wealth concept (Newberry, 2003).
The Executive Committee of the American Accounting Association (AAA) and Securities and Exchange Commission (SEC) were in favor of the all-inclusive income concept (Johnson et al, 1995). The Accounting Principles Board (APB) issued APB Opinion No. 9, “Reporting the Results of Operations (1966)” opting for the “all inclusive income approach” and the APB later reaffirmed the concept by issuing Opinion No. 20, Accounting Changes (1971), and Opinion No. 30, “Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (1973)” (Johnson et al, 1995).

**The term “Comprehensive Income”:**
The concept of all-inclusive income led to the creation of the term “comprehensive income”, which resulted due to the desire of financial statement users of having one figure for all non-owner changes in equity for a particular period (Robinson, 1991). He further argued that many items bypassing the income statement and going directly to owners’ equity led to many controversial issues, which formed the basis for having a figure that would include all components of income leading to changes in the overall financial position of organizations. The facts like increasingly complex business transactions, increasing diversity of business transactions, and the increasing sophistication of the user group called for comprehensive income and at the same time for the asset-liability approach for measuring earnings (Robinson, 1991).

FASB continued from the point where APB left and the board defined the term “comprehensive income” in its Concepts Statements in a way that was consistent with the all-inclusive approach of income (Johnson et al, 1995). However, by continuing with the use of the term “earnings” for measuring income, which was to some extent narrower than comprehensive income, the board gave way to report income using the current operating performance measure as well and thus the issue was that the FASB should ensure an all-inclusive income concept (Johnson et al, 1995).

**Clean Surplus Accounting:**
Under the clean surplus approach, all income items must pass through the income statement, which sometimes is referred to items that are reported above the line or items that pass through income statement (Barker and Isidro et al, 2004). They further explained that another option is that certain items bypass the income statement and are
directly reported in the statement of owners’ equity, which in practice is commonly known as dirty surplus (dirty surplus includes items that are reported below the line) e.g. unrealized holding gains and losses on available for sale securities, additional minimum pension liability adjustments, currency translations, gains and losses of cash flow hedges and asset revaluations. Cahan et al (2000) stated that, “Under “Clean Surplus” accounting, any change in book value is either due to income or dividends net of capital contributions from owners” (p-1273).

Cahan et al (2000) identified that in many countries like US, UK, Canada, Australia and New Zealand, accounting standards allow certain non-owner changes in assets and liabilities to bypass the statement reporting performance or earnings statement. They gave example of US where accounting standards allowed deviation from clean surplus for marketable securities, pension and financial instruments, which led to the concerns of financial statements users who called for the disclosure of comprehensive income; although the dirty surplus items were there either in the statements or in the form of notes but they were in disaggregated form.

Feltham & Ohlson (1995) presented a model to establish a relationship between a firm’s market value and accounting data concerning operating and financial activities. They concluded that market value of a firm equals the book value plus the net present value of expected future abnormal earnings. The same model has been empirically proved by Karathanassis & Spilioti (2005) stating the support for the Feltham & Ohlson.

Isidro et al (2004) pointed out that many researchers had the feeling that dirty surplus accounting might lead to mismeasurements of performance and value, and another important issue was that of cross-country variations in dirty surplus accounting, which would create problems in international comparisons. To measure the impact of dirty surplus accounting, the authors evaluated the data for 1993-2001 of four different countries, which included France, Germany, UK and US and found that there was little evidence to suggest that such practices and cross-country variations can actually make a significant difference. To prove their point, the impact of dirty surplus accounting was examined in contexts of economic based performance and the residual income valuation model. The result of the study suggested that there might be a problem of accuracy of performance measures if dirty surplus is omitted but did not conclude that dirty surplus
should be a significant problem the way it is perceived in such performance measures or in the application of the residual income valuation model.

Isidro et al (2006) conducted another study for France, Germany, UK and US for the period 1994-2001 and studied the empirical association between valuation errors from a standard empirical application of the residual income valuation model (RIVM) and the dirty surplus accounting flows. The study also presented the relationship between valuation errors and dirty surplus flows across pairs of countries and the differences that existed in these relationships. There was very limited evidence of cross-country difference in the relationship between these items, mostly involving US. Weak evidence was found of predicted relationships between valuation errors and dirty surplus flows in the US and could find little evidence elsewhere. Overall the study suggested that in applications of accounting-based valuation models, dirty surplus flows are not a consistent source of error or that cross-country differences in dirty surplus accounting poses a significant problem in international application of those models.

**Comprehensive Income:**

Comprehensive income is defined in Concepts Statements No 3 & 6 as “Comprehensive Income is the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners” (Johnson et al, 1995, p-129).

**Components of Comprehensive Income:**

Johnson et al (1995 p-133-134) noted that when the FASB came up with a definition for comprehensive income, items that were identified as components of comprehensive income included the following:

- Foreign currency translation adjustments, FASB Statement No. 52, Foreign Currency Translation (1981b), paragraph 13;
- Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date, statement 52, paragraph 20a;
- Gains and losses on intercompany foreign currency transactions that are of a long-term investment nature (that is, settlement is not planned or anticipated in
the foreseeable future), when the entities to the transaction are consolidated, combined or accounted for by the equity method in the reporting enterprise’s financial statements, Statement 52, Paragraph 20b;

- A change in the market value of a future contract that qualifies as a hedge of an asset reported at fair value unless paragraph 11 requires earlier recognition of a gain or loss in income because high correlation has not occurred, FASB Statement No. 80, Accounting for Future Contracts (1984a), paragraph 5;
- Unrealized holding gains and losses on available-for-sale securities, FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (1993), paragraph 13;
- Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category, Statement 115, paragraph 15c;
- Subsequent increases in the fair value of available-for-sale securities previously written down as impaired, Statement 115, paragraph 16;
- Subsequent decrease in the fair value of available-for-sale securities, if not an other-than-temporary impairment, previously written down as impaired, Statement 115, paragraph 16;
- The excess of the additional pension liability over unrecognized prior service cost (that is, net loss not yet recognized as net periodic pension cost), FASB Statement No. 87, Employers’ Accounting for Pensions (1985b), paragraph 37.

Cope et al (1996) stated that even after introducing comprehensive income in Concepts Statements, FASB did not adopt a standard requiring reporting comprehensive income rather it kept on with the all-inclusive income approach. They referred to the Association for Investment Management and Research (AIMR), which was one of the largest users of financial statement information and was quite influential, became very skeptical about some of the exceptions that were kept by FASB in standards that allowed certain items to bypass the income statement and go directly to the equity section of the balance sheet.

The authors further illustrated that “Financial Reporting in the 1990s and Beyond (1993)”, a report by the Financial Accounting Policy Committee of AIMR, where it identified two such examples that allowed items to bypass income statement and these were FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity.
Securities (1983) and FASB Statement No. 52, Foreign Currency Translation (1981). Further embarking on the issue AIMR discussed specific items from these standards such as Unrealized Losses on Portfolio of Marketable Securities Held for Sale and Accumulated Net Gain or Loss from the Translation of Foreign Currencies.

The basic objective of introducing the all-inclusive income was to report all changes in a period from sources other than transactions with owners and ensure consistency of this standard (Cope et al., 1996) but the practice of bypassing certain items from the income statement was basically thinning the very foundation of the all-inclusive approach adopted by FASB. They further reported that AIMR report came up with the argument that there is a lack of concrete conceptual base that can support FASB’s standards allowing certain items to bypass income statement and directly be reported in the equity section of balance sheet.

Moreover they stated that the basic idea of the report was to point out items which were performance related but were not reported in statement of financial performance. The report proposed that bringing an end to such practice of bypassing items from income statement will help in building a strong conceptual basis for the reporting of income components and by including them in statement of income or financial performance, reporting could become representationally faithful (Cope et al., 1996). The authors also stated about the report identifying users, those had to go through a cumbersome process of gathering scattered value relevant information from financial statements and accordingly structural changes were proposed. Johnson et al (1995) stated that FASB decided to include a project of comprehensive income to its technical agenda on September 13, 1995.

Johnson et al (1995) mentioned that while FASB was trying to look for ways to report income, the United Kingdom Accounting Standard Board (ASB) in its Financial Reporting Standard (FRS) 3, Reporting Financial Performance (1992), introduced a “statement of total recognized gains and losses” as a supplement to the “profit and loss account” (the UK equivalent to the US income Statement), the bottom line of that statement was somewhat similar to the FASB’s definition of comprehensive income. They also mentioned that FRS 3 also called for the presentation of a “note of historical cost profits and losses”, which was a condensed summary of the profit and loss account and the objective of the note was to present the profits or losses of entities on a historical
cost basis, making the bottom line of the note equivalent to what was commonly referred to as “net income” in the US.

In New Zealand, FRS 2, issued in 1994 (applicable to all financial periods beginning on or after January 1, 1995) made it obligatory to disclose comprehensive income as part of a separate statement of changes in equity, known as the Statement of Movements in Equity (Cahan et al, 2000).

**FASB Exposure Draft:**

Smith & Reither (1996) stated that in response to the concerns raised by financial statements users for having an all-inclusive income measure, the FASB issued in June 1996, the Exposure Draft (ED), Proposed Statement of Financial Accounting Standards, “Reporting Comprehensive Income”. The exposure draft proposed that companies should display all changes in equity other than those resulting from transactions with owners in their capacity as owners in a statement of performance (Smith & Reither, 1996). The main aim of the draft was to streamline the flow of components of comprehensive income and make them go through a statement of performance, which at that time was reported directly in equity (Smith & Reither, 1996). Further the authors mentioned that in the exposure draft, items that used to bypass the income statement were given the name “Other Comprehensive Income (OCI)”, e.g. foreign currency adjustments, minimum pension liability adjustments and unrealized gains and losses on available-for-sale securities.

**Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income**

In June 1997, FASB issued Statement of Financial Accounting Standard No. 130, “Reporting Comprehensive Income” (effective for fiscal year after December 15, 1997), which was the first practical step to ensure that companies do report comprehensive income (Official Release, FASB 130, 1997). The FASB official release (1997) further stated that this Statement required that all items that are deemed to be recognized as components of comprehensive income under accounting standards, be reported in a financial statement, which will be as prominent as other financial statements (Official Release, FASB 130, 1997). Further the statement did not require specific format for presenting comprehensive income but all enterprises were supposed to present the figure for comprehensive income in a financial statement (Official Release, FASB 130, 1997).
The Statement required that organizations should categorize items of other comprehensive income by their nature in a financial statement and display the accumulated figure for other comprehensive income in the statement of equity without including it in either retained earnings or additional paid-in capital and another requirement was the reclassification of financial statements for prior periods for the purpose of comparisons (Official Release, FASB 130, 1997).

Section 3:
Value relevance of Comprehensive Income

With the introduction of Statement 130, new doors were opened for researchers. Many studies focused on observing the effects of Statement 130 on financial reporting and its impact on enterprises’ value. Campbell et al (1999) in their paper reviewed the presentation alternatives defined by the Statement and conducted a survey of 73 firms, which were amongst the early adopters of the statement, although the Statement was effective after December 15, 1997, some companies responded quickly to it. The authors observed that of the 73 companies, 39 reported comprehensive income in statement of stockholders’ equity, 22 opted for a separate statement and 12 combined income statement and comprehensive income. They observed that for the majority group that reported comprehensive income in statement of stockholders’ equity, other comprehensive income was, on average immaterial or negative whereas, for the other two groups, other comprehensive income was relatively material and a positive amount. Another observation was that companies that were quite large opted for the statement of stockholders’ equity. The authors proposed that looking at the early adopters, other companies might perceive comprehensive income less favorably and an even greater proportion may choose the statement of stockholders’ equity for reporting comprehensive income. In another study by Jordan & Clark (2002) for a sample of financial services firms, they observed that after SFAS No. 130, majority of the firms (63%) opted to report comprehensive income in a statement of changes in stockholders’ equity (SCSE). They observed a significant association between the direction and size of the components of other comprehensive income and the format chosen for reporting comprehensive income. Firms with positive and/or large OCI tend to report it in a performance based statement and firms with negative and/or small OCI preferred the SCSE.
Hirst and Hopkins (1998) conducted a study to show whether judgment of the users of financial statements will differ when they are provided with financial statements with no comprehensive income display (pre-SFAS No. 130) and financial statements with comprehensive income prominently displayed in the income statement (post-SFAS No. 130). The authors argued that the income statement presentation of comprehensive income made information easier to extract and understand. The authors concluded that there was a difference in the judgments made under the two displays. The study also provided evidence that reporting comprehensive income in income statement kept a check on earnings management whereas, reporting comprehensive income in statement of changes in equity tended to give cover to such management activities (Hirst and Hopkins, 1998). Another study by Hunton et al (2006) proved that more transparent reporting requirements reduced earnings management in the area of increased transparency or changed the focus of earnings management to less visible methods.

Another important study was conducted by Dhaliwal et al (1999), where they concluded that they could not found any evidence to say that comprehensive income had a more strong association with returns/market value or it was a better indicator of future cash flows/income than net income rather net income had a strong association with the market value of equity and predicted future cash flows and income in a better manner. However, the only component of comprehensive income, which improved association between income and returns, was the marketable securities adjustment and the rest of the components of other comprehensive income were considered as factors adding noise to comprehensive income (Dhaliwal et al, 1999). The study also posed questions with respect to the appropriateness of items included in SFAS 130 and besides that there was a need of a uniform comprehensive income disclosure for all industries. Pinto (2005) observed that foreign currency translation adjustments were significantly value relevant for investors. Furthermore, the study suggested that investors needed supplemental disclosures on foreign operations in order to form accurate perceptions regarding exchange rate exposure. Brimble & Hodgson (2004) found evidence that incorporation of revaluations of non-current operating assets and the non-reporting of extraordinary items in CI significantly reduced the value relevance, with net income from operations the dominant valuation metric.
Biddle & Choi (2006) examined the comprehensiveness of income. They observe that over a period of time, investors have always lobbied for a more comprehensive presentation of income, whereas managers have lobbied to exclude items over which they have less control. The authors tried to justify these divergent views by allowing that different measures of income may be more decision useful in different applications. The authors empirically examined three applications, which were information content, predictive ability and executive compensation contracting. The two income approaches, i.e., the ‘all-inclusive (comprehensive) income’ and ‘current operating performance’ were considered along with component sets. They concluded that in different applications, different definitions of income provided diverse decision usefulness and disclosing of comprehensive income components separately was decision useful.

Cahan et al (2000) carried out a study to examine the value relevance of mandated comprehensive income disclosures. Although all the information related to other comprehensive income was already contained either in equity on balance sheet or in footnotes yet financial statements users lobbied and influenced FASB to introduce standards such as SFAS No. 130, in the issuance of which AIMR’s role was instrumental (Cahan et al 2000). The study was aimed at providing market-based evidence on the usefulness of accounting standards (such as SFAS No. 130, NZ FRS 2, UK FRS 3), which required the disclosure of comprehensive income. For the said purpose market-based tests were conducted. First the authors looked for evidence to prove that other comprehensive income items provide information that is incremental to the aggregated figure of comprehensive income and secondly, whether the incremental value relevance of other comprehensive items relative to net income increased after the introduction of standards mandating their reporting. For the test, fixed assets revaluation and foreign currency translation adjustments were considered and no such evidences were discovered. The authors suggested that their results were in accordance with prior researches such as Dhaliwal et al (1999) and that individual disclosure had no additional value to investors.

In another empirical study conducted by Dehning & Ratliff (2004) who examined data for firms in periods immediately before and after the issuance of SFAS No. 130, observed that there was no difference in the market response to comprehensive income adjustments between the period and this was in accordance with the efficient market
hypothesis, which suggests that solely because of the placement of information, there is no change in the way the market values information.

Chambers et al (2007) provided evidence for the post SFAS 130 period that OCI is priced by investors on a dollar-for-dollar basis as is predicted by economic theory for transitory income items. They observed that foreign currency translation adjustment and unrealized gains/losses on available-for-sale securities were priced by investors. Further, in the post-SFAS 130 period, the type of financial statement in which firms reported OCI and its components affected pricing, which was in consistency with the conclusions of prior research. Interestingly, they observed that investors paid greater attention to OCI information reported in the statement of changes in equity, rather than in a statement of financial performance, which they thought was due to the fact that investors became more familiar in the post-SFAS 130 period with the predominant reporting of OCI and its components in the statement of changes in equity. The findings of the study were deemed to be relevant to both the FASB and IASB.

Such different views of researchers were signaling to the FASB to reassess the usefulness of SFAS No. 130, and as a result FASB joined hands with IASB to look for a solution. The IASB and FASB are presently involved in a project on reporting comprehensive income known as Joint International Working Group on Performance Reporting, 2005 (Cauwenberge & Beelde 2007). IASB Accounting model mixes two income determination systems; historical cost accounting and fair value accounting.

Cauwenberge & Beelde (2007) concluded that research has proved that claims for exclusive reliance on a single concept of income are untenable; rather an income display that explicitly features both concepts is advocated. Such a dual income display should then correspond to the categorization of comprehensive income, which is under consideration (Cauwenberge & Beelde 2007). In the course of the project one tentative decision reached was to introduce a comprehensive income statement that would replace the current income statement. Such a statement referred to as Statement of Recognized Income and Expenses, would divide historical cost income and fair value income (remeasurements). The statement would contain a subtotal based on historical cost while the total comprehensive income would include fair value remeasurements (Cauwenberge & Beelde 2007).
In response to the IASB Discussion Paper (2008), *Preliminary Views on Financial Statement Presentation* that proposed to extend the ‘fair value’ measurement concept into an aggregated comprehensive income statement, Goncharov & Hodgson (2008) conducted a study. They using 56,700 European firm years from sixteen countries, examined valuation, prediction and conservatism issues and observed that net income dominated aggregated comprehensive income as a shareholder valuation metric and in predicting cash flows. The authors argued that in contrast to the conservative attributes of income, the aggregated comprehensive income figure helped in a more timely recognition of good news over bad news, thus reducing the agency contracting role for debt. Another finding of the study was that disaggregated components of comprehensive income did provide incremental situation specific information. The authors observed that the functional aggregation of income, which mixed operating capital increments with unrealized gains and with realized historic net income, introduced considerable noise and reduced the utility of the contracting role. Thus the authors suggested that the IASB needed to consider how to disaggregate and report income by event nature with a clear delineation on capital increments, permanence of income, and unrealized financial gains.

**Section 4:**

**In Context of Theory**

By closely observing the issue of comprehensive income, it may be inferred that here also exists an agency problem between managers and investors. From the theory stand
point managers are interested in reporting net income in order to have better contracts such as compensation contracts, bonus contracts, debt contracts etc (contracting theory). In contrast, investors are more interested in the figure of comprehensive income which is subject to less manipulation and is more in accordance with the valuation theory.

Section 5:
Conclusion
Presently the main issues under consideration are that should there be a single or a double performance statement of comprehensive income? Should earning per share be calculated on the basis of comprehensive income and should recycling be a requirement or to decide whether to allow it or to refrain from it (Cauwenberge & Beelde, 2007). It may be presumed that the issue is not whether to use net income or comprehensive income but to determine, which one to give preference over the other. If the comprehensive income approach is given weightage, then there might be a problem for users, who may not be able to extract the different diagnostic characteristics of its components (Tarca, 2006). And if other comprehensive income is reported in less important financial statements, its visibility is reduced and that in turn increases its chances of being overlooked (Robinson, 1991). Thus it is a challenge for the standard setters to measure the relevance of comprehensive income and other comprehensive income for the purpose of valuation. Many empirical researches are being carried out to find a way out.

Lately the FASB & IASB have proposed changes for financial statements. A group of international professionals are consulted by the two standard setting bodies, which includes members from rating agencies, security analysts, accounting firms and preparers and are asked to prepare a proposal for the overhaul of financial statements. Information regarding the organization of balance sheet, income statement and statement of cash flows in to five sections is presented in the proposal (Cain, 2008).
References:


