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COMPREHENSIVE INCOME – PAST, PRESENT AND FUTURE

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Abstract

At present, the performance measurement in accounting is achieved with the help of the comprehensive income, which contains the determined result in the profit and loss account, also the profits and losses are accepted directly in the equity. However, not so long ago, the comprehensive income was only a concept debated at the academic level, at present it has become reality. The reason consists in the changes made for IAS 1 regarding the obligation to draft the statement of the comprehensive income by all the companies applying IFRS. Do the companies have experience in preparing the statement of the comprehensive income? What element from other gains and losses has the greatest weight in preparing the statement of the comprehensive income? Does the statement of the comprehensive income offer more pertinent information than the result from the profit and loss account? These are the questions which are answered in the above study.

Keywords: comprehensive income, net income, IFRS, industrial companies.
JEL classification: L16, P24

1. INTRODUCTION

Firstly, the performance was measured through the result presented in the profit and loss account. This approach tends ''to be rather disregarded'', adopting the notion of comprehensive income. The term comprehensive income appeared for the first time in 1980 in the American normative texts (SFAC 3). They needed 4 years (SFAC 5) 1984, to mention its content and its difference in comparison with the net income. ’’The gains correspond to what an entity got or perhaps to reasonably consider receiving from its incomes what it sacrificed to produce and distribute these incomes, too” (SFAC 3). ”The comprehensive income is an extensive estimate of the effects of an entity’s transactions and other events, considering all the variations of the own capital, excepting those resulting from amounts or distributions to owners” (SFAC 5) [5].

If the definition of the concept needed 4 years, its putting into practice needed 13 years. SFAS 130/1997 Reporting comprehensive income regulates its application for the exercises which started after the fifteenth December 1997. At the content level, comprehensive income is presented as the sum between the net income (calculated and presented in the profit and loss account) and other comprehensive incomes (presented as the total of the registrations levied upon the equity). At the form level, comprehensive income can appear, either in the profit and loss account, or in a statement of the comprehensive income, or in a statement of changes in equity.

Other countries adopted norms with similar objectives. Accounting Standards Board (ASB) from Great Britain was the first standardiser which adopted the notion of comprehensive income in 1992, through the norm FRS 3 Statement of total accepted gains and losses. This statement presents the total of gains and losses, rather noticed, than accomplished. This statement includes all the results of the period and all the registrations in the equity that mirror gains or losses allotted to the shareholders. The changes of values seen in the balance sheet will be registered in the comprehensive income account, which offers a more complete image of the company’s performance. The publication of such statement is justified by ASB through the fact that the Britannic accountancy rules or the legal provisions allow directly the finding in the equity of some gains and losses, as well as the revaluation of the intangible assets, differences from conversion, latent gains or losses upon the financial instruments, gains and losses appeared from the retirement pensions funds. Thus, the statement of the gains and losses becomes an intermediary statement between the profit and loss account in historical costs and the balance sheet in real values. Along with the statement of the gains and losses, the companies must present a statement which has to mirror the changes of the equity.

In 1998 the representatives of The Council for Accountancy Standards from Canada belonging to ICCA participated, along with the representatives of the standardising bodies from USA, New Zealand, Australia and Great Britain, as well as the IASB representatives (this group of standardisers is known as G4+1), in the publication of a special report concerning a new statement to present the performance. The proposals in G4+1 aimed at the manner in which the elements specific to performance must be classified, regrouped and presented so that they should meet the objectives of the financial statements (to tell information about the financial statement, the financial results and the evolution of the financial statement which are useful to a wide range of users). Therefore, the group of standardisers G4+1 recommended to write out only a statement which presents the financial performance containing the following three columns: the results of the working activity; the results of the finance activity and other treasury activities; other gains and losses.

A great part of the G4+1 project’s proposals has been the basis for the statement of the comprehensive income recommended now by IAS 1: the presentation of the financial statements. IASB revised the standard IAS 1 in 1997 so as to introduce the second statement of the results regarding the changes of the equity which could present either all the variations of the equity or the variations of the equity others than those regarding transactions with the owners - this statement being known as the statement of the comprehensive income. We consider that the objective of each statement is so different, that IASB should not have demanded the companies to make a choice. Owing to this fact, IAS 1 revised in 2007 demands the entities that, starting with the budgetary year 2009 they have to present both the statement of the equity variation and the statement of the comprehensive income. The statement of the comprehensive income can be made either: in a single statement of the comprehensive income (here, there will be presented the incomes and expenses which are found at present in the profit and loss account, as well as the gains and losses accepted directly in the equity); or in two statements: on the one hand, the profit and loss account, and, on the other hand, the statement of the comprehensive income (here, it will be presented the accounting result calculated in the profit and loss account, as well as the gains and losses accepted directly in the equity).

2. WHAT IS THE COMPREHENSIVE INCOME?

A company gets profit by carrying on two types of activities: the ones through which there are combined or transformed the production factors in goods whose sale value is superior to the value of the production factors and activities which lead to gains thanks to the value growth of the production factors belonging to the companies. The involved decisions by these two activities are so different that, there separation is inevitable so as to appreciate the fairness of the managerial decisions. It has to exist a clear distinction between the change of the value resulted from production and the change of the value which appear as time passes by [7]. At present this distinction is no longer so obvious. Even more elements are evaluated in fair value, and the gains obtained following the increase of the assets value, as the case of real estate investments, biological assets, the assets owned for sale, are presented in the incomes from current activities.

The purchase of any asset is considered a satisfactory investment as long as the updated value of the treasury future flows generated by its use is superior to the updated value of future cashing generated by the alternative use of the amount which would be obtained, at present, by selling the asset. No matter how fixed the intention to use an asset for a long period, it is wise for the asset to be sold and invested in another one, when it is discovered an opportunity of superior profitableness. Therefore, the goods are not purchased not only to benefit from the quotas, but also to benefit from the expected changes of the general or relative prices. Referring to this aspect, Chambers R. J (1994) considers that only the comprehensive income can be used to evaluate the performance of the company and its managers.

The comprehensive income contains the result established in the profit and loss account as well as other gains and losses accepted directly in the equity. Other comprehensive income comprises items of income and expenses that are not recognised in the profit or loss account as required or permitted by other IFRSs. The components of other comprehensive income include (IASB, 2008):

(a) changes in revaluation surplus (see IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets);

(b) actuarial gains and losses on defined benefit plans accepted in accordance with paragraph 93A of IAS 19 Employee Benefits;

(c) gains and losses arising from translating the financial statements of a foreign operation (see IAS 21 The Effects of Changes in Foreign Exchange Rates);

(d) gains and losses on remeasuring available-for-sale financial assets (see IAS 39 Financial Instruments: Recognition and Measurement);

(e) the effective quota of gains and losses on hedging instruments in a cashing.

We ask ourselves what was the reason for which IASB eliminated these gains and losses from the profit and loss account? We consider that the answer consists of the existence of a doubled approach to calculate the result: current operating concept and all inclusive concept. According to current operating concept in the profit and loss account there are included only the consequences of the operational, ordinary, activities of the period, and they report on the equity, the operations which do not target the exploitation. The exploitation operations are considered as usual, recurrent, which allow the prevision of the company's future performances. The partisans of the performance evaluation based on the resulted current operating concept, tend to measure the managers' performance, keeping restrictively only the elements controlled by them. According to all inclusive concept all the elements which affect the increase or decrease of the equity during the period, excepting the distribution of dividends or the decreases of capital by distributing to the shareholders or partners, respectively their contribution, belongs to the area of measuring the financial performance.

The partisan's current operating concept gives up to all the elements, which are not outstanding to present the performance, upon the balance sheet. Bernheim Y. (1998) stipulates the same double approach of the result:

- To approach the company performance beginning with the transactions it achieved during the period, translated through the difference between its incomes and expenses;
- To approach its patrimonial enrichment measured through the difference between its net asset at the beginning and the end of the considered period.

This double approach has the goal to meet the two types of users' different needs, to measure the performance of activities, current operating concept, and the one to measure the enrichment, in a patrimonial conception of the company, all inclusive concept. The comprehensive income corresponds to the second approach.

Do the companies have experience in preparing the statement of the comprehensive income? What element from other gains and losses has the greatest weight in preparing the statement of the comprehensive income? Does the statement of the comprehensive income offer more pertinent information than the result from the profit and loss account? In order to answer to these questions we started with a positive research which dealt with the analysis of the yearly reports published by the 59 industrial companies in Europe, to find out, to what extent these entities prepared the statement of the comprehensive income for the budgetary year 2008, as well as what element has the greatest weight within other gains and losses reported by these entities. Casta J.F. (2007) estimates that the positive theory of accountancy tends to explain and foresee the behaviour of the producers and users of the accounting information, having the goal to present the genesis of the financial statements. As a result, the positive theory of accounting goals is meant to show what has to be done, but also to explain the noticed practices in order to elaborate behaviour rules. The methodology of the positive theory consists of enlarging hypotheses upon the factors which influence the accounting practices and testing their availability empirically.

3. DO THE COMPANIES HAVE EXPERIENCE IN PREPARING THE STATEMENT OF THE COMPREHENSIVE INCOME?

IAS 1 revised in 1997 did not enforce a special frame concerning the statement of the comprehensive income, but the option to obtain the performance that should mirror either all the changes, or the changes of the own capital, others than those from transactions of capital with the owners and distributions to owners.

The first model - The statement of losses and gains, the performance presentation mirrored all the transactions, either gains or losses, which are being registered directly in the equity, without conveying in transit the profit and loss account. Such a model had to contain:

a) The profit or the loss of the period;
b) Every element of income and expense, as it is demanded by other standards or interpretations, which is accepted directly in the own capital, and the total of these elements;
c) The total of incomes and expenses of the period (calculated as the sum between a and b) presenting separately the amounts owned by the shareholders of the parent company and those owned by the minority shareholders;
d) For every component of capital, the cumulative effect of the changes in the accounting policy and the correction of the significant errors, according to IAS 8.

The second model - The statement of changes in equity, larger, contained, along with the elements mentioned above, the following aspects:

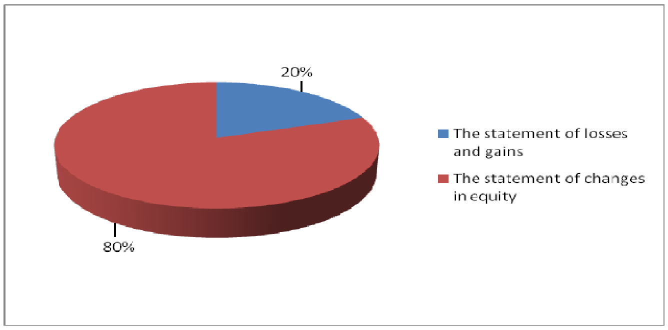
a) The transactions of capital with the owners and the distributions to them;
b) The balance account of the reported profit or the loss reported at the beginning of the period and also the changes during the period on the date of the balance sheet;
c) The reconciliation between the accounting value of every category of social capital, premiums of capital and every reserve at the beginning and the end of the period, presenting every change minutely.

As results in the presentation made above, IAS 1 revised in 1997, demanded that it must be written out the statement of the comprehensive income, at the choice with the presentation of a statement which has to mirror all the variations of the own capital. We consider that the objective of the two statements is so different, that IASB should not have demanded the companies to make a choice. *The statement of losses and gains* is a statement which mirrors the company's global performance, whereas *The statement of changes in equity*, as the title suggests, is a simple presentation of the changes in the own capital, rather irrelevant in our opinion, to present a pertinent piece of information.

The provisions of the standard IAS 1 revised in 1997 were applied till the budgetary year 2008 inclusively. The authors analysed the financial statements of the budgetary year 2008 for the 59 industrial companies in Europe. The purpose of this analysis was the one to give an answer to the following two questions: Do the companies have experience in preparing the statement of the comprehensive income? What element from the category ''other gains and losses'' has the greatest weight in the statement of the comprehensive income?

Following the achieved study, it was noticed that 46 entities present the financial statements according to IFRS, 5 entities present the financial statements according to US GAAP and 8 entities did not publish the yearly report for 2008 just this time. Our study concentrated upon the 46 entities which apply IFRS. Within these entities it was noticed that 9

European industrial entities write out the statement of the comprehensive income. It results that the industrial entities do not have experience in preparing the statement of the comprehensive income because, as results in Figure no. 1, there are only 20% of the number of analysed entities which preferred the first method of reporting the financial performance of an entity.



At present, IAS 1 revised in 2007, eliminated the option of choosing between two models of reporting the variation of equity, imposing on entities to write out both the statement of the comprehensive income and the statement of the variation in equity. An entity shall present all items of income and expense accepted in a period:

(a) in a single statement of comprehensive income, or

(b) in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

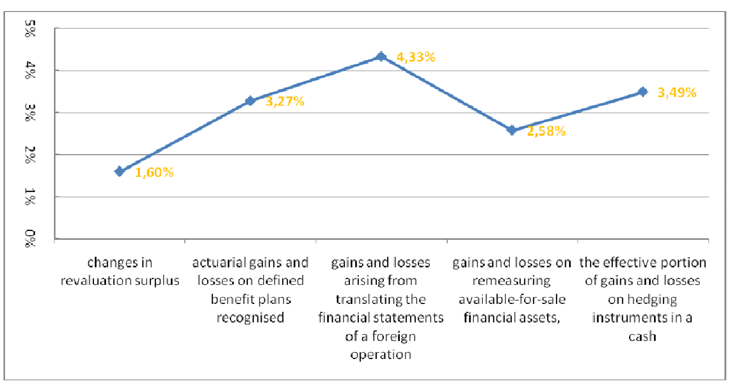
The recourse at the two statements has nevertheless an inconvenient, by all means unavoidable, the fact that a great importance can be given to a statement in the detriment of another. Thus we highly recommend, if the proposals in the analysed project are approved, the entities will have to write out a single statement of the company's performance.

An entity shall disclose the amount of income tax relating to each component of other comprehensive income, including reclassification adjustments, either in the statement of comprehensive income or in the notes. An entity may present components of other comprehensive income either: net of related tax effects, or before related tax effects with one amount shown for the aggregate amount of income tax relating to those components. An entity shall disclose reclassification adjustments relating to components of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were accepted in other comprehensive income in previous periods. Reclassification adjustments arise, for example, on disposal of a foreign operation (IAS 21), on derecognition of available-for-sale financial assets (IAS 39) and when a hedged forecast transaction affects profit or loss (paragraph 100 of IAS 39). Reclassification adjustments do not arise on changes in revaluation surplus accepted in accordance with IAS 16 or IAS 38 or on actuarial gains and losses on defined benefit plans accepted in accordance with paragraph 93A of IAS 19. These components are accepted in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to yielded earnings in subsequent periods as the asset is used or when it is unaccepted (see IAS 16 and IAS 38). Actuarial gains and losses are reported in yielded earnings in the period that they are accepted as other comprehensive incomes (IAS 19) [8].

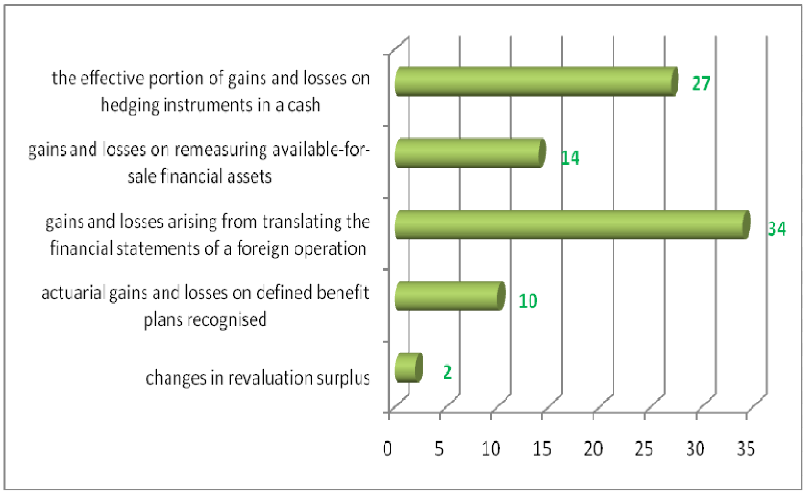
4. WHAT ELEMENT OF OTHER GAINS AND LOSSES HAS THE HIGHEST WEIGHT IN THE STATEMENT OF THE COMPREHENSIVE INCOME?

The gains and losses accounted directly in the equity are not defined clearly in the IASB general frame but they belong to the category of incomes and expenses, according to it. We ask ourselves what was the reason for which IASB eliminated these gains and losses from the profit and loss account? We consider that the answer consists of the existence of a doubled approach to calculate the result: current operating concept and all inclusive concept. According to current operating concept in the profit and loss account there are included only the consequences of the operational, ordinary, activities of the period, and they report on the equity, the operations which do not target the exploitation. The exploitation operations are considered as usual, recurrent, which allow the prevision of the company's future performances. The partisans of performance evaluation based on the result current operating concept, tend to measure the managers' performance, keeping restrictively only the elements controlled by them. According to all inclusive concept all the elements which affect the increase or decrease of the equity during the period, excepting the distribution of dividends or the decreases of capital by distributing to the shareholders or partners, respectively their contribution, belongs to the area of measuring the financial performance. The partisans current operating concept give up to all the elements, which are not outstanding to present the performance, upon the balance sheet.

Authors analysed to what extent the gains and losses accepted directly in the equity influence the financial performance of the industrial entities in Europe. Following the accomplished study it was noticed that for 41.3% of the entities subject to the analysis, other comprehensive income have a significant impact upon the comprehensive income. Therefore, for these entities, if the net income is positive, the value other comprehensive income is negative and superior, leading to a negative comprehensive income. Or, if the net income is negative, the value other comprehensive income is positive and superior, leading to a positive comprehensive income. For the rest of 58.7% entities subject to analysis, other comprehensive income have a positive value, the same as the net income. For these entities, other comprehensive income represents 27.8% of the comprehensive income. Following the analysed study it was noticed that the values of the elements that compose other comprehensive income have the following gravities, as results in *figure no. 2* below.



In the category of gains and losses accounted directly in the equity there are included: changes in revaluation surplus, actuarial gains and losses on defined benefit plans which are accepted; 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 cashing. By analysing the frequency with which the analysed entities present the components of other comprehensive income resulted the following hierarchy presented in *figure no. 3*.



It is noticed that, both as value and frequency, the gains and losses arising from the translation of the financial statements within a foreign operation have the greatest weight within other gains and losses accounted directly in the equity.

4.1. GAINS AND LOSSES ARISING FROM THE TRANSLATION OF THE FINANCIAL STATEMENTS WITHIN A FOREIGN OPERATION

IAS 21 *The effects of changes in foreign exchange rates* - revised, brought a series of changes among which we mention:

- The elimination of the option to capitalize the differences of exchange rate in case of the acquisitions in foreign currency, when the enterprise has no possibility to protect itself against the increase of the exchange rate;
- The elimination of the distinction between the foreign autonomous entities and the foreign non autonomous entities, this distinction being replaced, indirectly, by the notions of functional currency and presentation currency.

The functional currency, defined as the currency of the primary medium in which the company operates, is the currency used to revaluate the assets, liabilities and the current transactions of the entity. The presentation currency is the currency yielded to present the financial statements. A group must identify for each of its entities the functional currency and change the financial statements of these entities in the currency of presentation chosen by the group. Normally, the functional currency of a foreign subsidiary is either the local currency, or the currency of the parent company.

In case the functional currency is the *local currency*, the conversion of the elements in the financial statements of the subsidiary is being achieved by using the *method of closing exchange rate,* which supposes the following stages:

- The conversion of the assets and liabilities at the closing exchange rate ;
- The conversion of the elements of the equity at the historical exchange rate;
- The conversion of expenses and incomes at the exchange rate on the date of their acceptance (in practice it is used a medium exchange rate of the period);
- The registration of the exchange rate differences at *equity* to the position *conversion differences*. The conversion differences accepted in the equity will be transferred in the profit and loss account when the foreign entity is sold. Following this transfer, the comprehensive income does not change. In exchange, the equity will be decreased or increased, in accordance with the case, fact that will involve a change in reverse order in the profit and loss account.

In case the functional currency is the currency of the *parent* company, the conversion of the elements in the financial statements of the subsidiary is achieved by using the method of historical exchange rate which supposes the following stages:

- The conversion of the monetary elements at the closing exchange rate;
- The conversion of the non monetary elements at the historical exchange rate when the transactions took place;
- The conversion of the non monetary elements evaluated in fair value at the exchange rate on the date they were evaluated in fair value.
- The conversion of the elements of expenses and incomes at the exchange rate afferent to the elements it refers (when this exchange rate cannot be established it is used the medium exchange rate of the period);
- The registration of the exchange rate differences in the profit and loss account, at incomes or expenses from the differences of the exchange rate.

A foreign entity which presents the financial statements in currency afferent to a hyper-inflationist economy, must analyse again the financial statements according to IAS 29 before exchanging them in the currency of presentation belonging to the entity which prepares the financial statements. We ask ourselves: Why at the method of the historical exchange rate, the conversion differences are registered in the profit and loss account and at the method of closing exchange rate, the conversion differences are registered in the equity? The method of the historical cost is used when the functional currency is the currency of the parent company and it is supposed that the transactions would be registered by the parent company and not by the subsidiary. For example, in the case of an intangible asset, if it is purchased directly by the parent company, the establishment of the asset value in functional currency would be achieved at the exchange rate on the date of the purchase, and the value of that asset would not be changed following the variations of the exchange rate. These variations are generally registered in the profit and loss account at incomes and expenses from exchange rate differences. So this method is perfectly justified, because otherwise, if it was used the closing exchange rate, the value of the asset would include the exchange rate differences, too, and we know that IAS 21 did not allow this treatment.

The method of the closing exchange rate is used when the functional currency is the currency of the subsidiary. The use of the exchange rate at the end of the budgetary year for the conversion of the elements in the balance sheet, excepting the equity, can be assimilated with the evaluation in fair value, and the IFRS tendency in order to accept the variations of the fair values in the equity. Because the variations of the exchange rate influence the financial performance of the company, regardless of the adopted method, the conversion differences are to be found in the statement of the comprehensive income, either in the net result, if it was used the method of the historical exchange rate, or within the gains and losses, if it was used the method of the closing exchange rate. 74% of the analysed entities (34 entities) accepted in accountancy gains and losses arising from the translation of the financial statements within a foreign operation.

4.2 THE EFFECTIVE PORTION OF GAINS AND LOSSES ON HEDGING INSTRUMENTS IN A CASHING

Another element accounted directly in the equity without passing through the profit and loss account, which is then presented in the statement of comprehensive income is the gain (or the loss) for the instruments of meeting and securing the risks associated with the cash flow, for the efficient part. *The security of the risk associated with the cash flow* covers the exposure to the risks associated with the changes of the cash flow:

- To an asset or to an accepted debt, *as* the case of future interest payments, for a liability with variable rate;
- To a very probable transaction as the case of an anticipated sale or purchase of stocks;
- To the exchange rate for a firm commitment, as the case of a contract closed in order to buy or sell an asset at a fixed price, in the currency reported by the company. For this statement we are going to present the accounting of security and its influence upon the company's performance.

The part of the gain or the loss for an instrument of security, considered to be an *efficient* coverage is accepted directly in the *equity* and the *inefficien*t part in the *profit and loss account*. If the anticipated transaction accepts a financial asset or a *financial* debt, the gain and loss associated, accepted previously in the own capital, must be transferred to the profit and loss account. If the covered anticipated coverage accepts an asset and a *non financial* debt, the gain and the loss associated, accepted previously in the own capital, must be transferred either to the profit and loss account, or eliminated and taken into consideration the initial evaluation of the purchase cost or the initial evaluation of the debt. An entity shall adopt one of the presented variants and apply it to all the securities against risks. In order to secure the risk of the cash flows which do not form an asset or a debt, the gain and the loss in the equity must be accepted in the profit and loss account when the transaction takes place.

The gains or the losses accepted in the equity are transferred in the profit and loss account in the following statements:

- when the secured foreseen transaction affects the profit or the loss (For example, when a foreseen sale or buying takes place);
- the security does not meet the criteria belonging to the accounting of security against risks;
- it is no longer stipulated that the foreseen transaction should take place;
- the entity revokes the assignment.

  An example of instrument meant to secure the cash flows is the case of a forward contract which allows the establishment of the interest rate for an operation which will take place in the future, the future cash flows being the secured element and the forward contract being the instrument of security. The risk protection differs from the accounting of security because the risk security is a business decision, while the accounting of security is a type of accounting [9]. The risk security supposes the assignment of a financial instrument derived or underived as compensation of the fair value variation or the cash flows of a secured element. The accounting of security is applied if the following requirements are met: The enunciation of the conditions, a formal documentation, the efficiency of the security. More than a half of the analysed entities (58,7%) lead to an accounting of security and the gains and losses on hedging instruments in a cashing, for these entities represent on the average 3,49% of their comprehensive income.

4.3 GAINS AND LOSSES ON REMEASURING AVAILABLE-FOR-SALE FINANCIAL ASSETS

IAS 39 divides the financial instruments into four categories:

a. *Loans and claims,* evaluated at the liquidated cost and also subject to the depreciation test, which contain: the financial assets with fixed or determinable payments which are not quoted on an active market as the claims of the clients, the debts towards the suppliers, the loans between the companies, other claims and debts from exploitation, the loans given to the staff, the loans from banks;
b. *Investments owned till the payment date* which contain: the assets with fixed or determinable (others than the claims issued by a third party which the company is able to keep till the payment date) as well as the liabilities issued by a third party and the titles of claim bearing interest. Their evaluation is achieved at the liquidated cost and is also subject to the depreciation test. A company does not have to classify an asset as being kept till the payment date, if during the current budgetary year or the previous two budgetary years, sold or reclassified a significant number of such sales before the payment date.
c. *Financial instruments in fair value through the profit and loss account* contain the assets owned for transaction or the ones which can be evaluated *in fair value* even from their initial acceptance. In this category we mention the assets purchased with the main goal to obtain profits on short term, as well as the titles of sale immediately negotiable, the claims redeemed by the company, the derived instruments (without the instruments of security) and liquidities. Their evaluation is achieved in fair value and the changes in fair value are accepted *in the profit and loss account*.
d. *Financial instruments available for sale,* which contain all the instruments not found above, as well as the intangible titles of the portofolio activity, unconsolidated participating titles and the sales in shares on long term. The evaluation is achieved *in fair value* and the changes in fair value are accepted in the equity and become the object of a depreciation test.

As it is noticed from the above mentioned aspects, both the financial instruments owned for transaction and the financial instruments available for sale are evaluated in fair value, but the variations of the fair value are accepted differently, in the profit and loss account for the ones owned for transactions and in the equity for the ones available for sale. According to the way in which it is decided the classification of these instruments, the decisions of the users which rely on the result in the profit and loss account, in the analysis regarding the performance of the company, can be affected significantly. Here is one more argument, for which the performance must be analysed taking into account the comprehensive income which contains the gains and losses accepted directly in the own capital. 30,4% of the analysed entities accept in accountancy the changes of the fair value of the assets available for sale, representing 2,58% of the comprehensive income value.

4.4 ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT PLANS WHICH ARE ACCEPTED

An entity will have to accept a percentage from the actuarial gains and losses as income or expense, if the cummulated actuarial gains and losses, not accepted as net ones, at the end of the anterior reporting period surpass the higher value between:

(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and

(b) 10% of the fair value of any plan assets at that date.

These margins will be calculated and put into practice separately for every established plan of assets. If the actuarial gains and losses do not surpass the limit of 10%, the entity can pass to their acceptance in the comprehensive income statement systematically. For the analysed entities, the value of the actuarial gains and losses accepted in the equity represents 3,27% of the comprehensive income.

4.5. CHANGES IN REVALUATION SURPLUS

A company gets profit by carrying on two types of activities: the ones through which there are combined or transformed the production factors in goods whose sale value is superior to the value of the production factors and activities which lead to the gains thanks to the growing value of the production factors belonging to the companies. The involved decisions by these two activities are so different that, there separation is inevitable so as to appreciate the fairness of the managerial decisions. It has to exist a clear distinction between the change of the value resulted from production and the change of the value which turn up as time passes by [7].

At present this distinction is no longer so obvious. Even more elements are evaluated in fair value, and the gains obtained following the growing value of the assets, as the case of real estate investments, biological assets, the assets owned for sale, are presented in the incomes from current activities. If we remember, IAS 1 does not require the peculiarity of the incomes from the current activities in the profit and loss account, this position contains very heterogeneous elements: incomes from the sale of goods, gains from real estate investment, biological assets, and assets owned for sale, as well as other very different elements. To know the performance of the company minutely, the users must know how to look in the bills and explain the incomes from current activities and, last but not least, to know how to read the statement of comprehensive income.

The purchase of every asset is considered a satisfactory investment as long as the updated value of the treasury future flows generated by its use is superior to the updated value of future cashings generated by the alternative use of the amount which would be obtained at present by selling the asset. No matter how fixed the intention to use an asset for a long period, it is wise to sell the asset and invest in another one, when it is discovered an opportunity of superior profitableness. Therefore, the goods are not purchased not only to benefit from the same quotas, but also to benefit from the expected changes of the prices, general or relative. Chambers R. J (1994) considers that only the comprehensive income can be used to evaluate the performance of the company and its managers.

We ask ourselves: Does the gain or the loss show the performance of the company by revaluating the assets? In order to show this aspect, we propose the following example [10]. We assume two enterprises having an initial equity of 4.000 um. The accounting value of a land owned by every of the two companies is 1.000 um at the end of the year N, if the its market value is 5.000 um. During the year N, the companies registered only expenses with the staff amounting 3.000 um. The former enterprise accomplishes the revaluation of the asset and the latter one sells the owned asset, at its market value of 5.000 um. In this problem we do not take into account the impact generated by the tax on profit. The gain by the revaluation of the assets is not registered in the profit and loss account but it directly affects the equity of the entity.

Table no.1 The statement in the profit and loss account

	Company I	Company II
Incomes by yielding the assets	0	5.000
Expenses regarding the yielded assets	0	(1.000)
Expenses with the staff	(3.000)	(3.000)
The result of the exercise	(3.000)	1.000

It was reached this statement because, for the first company, the non accomplished profits resulted from the revaluation of the assets, were registered in the equity without conveying a transit through the profit and loss account.

Table no. 2 The statement of the equit

	Company I	Company II
Initial own capital	4.000	4.000
Reserve currency from revaluation	4.000	0
The result of the exercise	(3.000)	1.000
Final own capital	5.000	5.000

If we calculate the variation of the equity we get the same result, meaning 1.000 um. This variation shows how much the company enriched and mirrors the indicator known as comprehensive income.

Table no.3 The statement of the comprehensive income for the analysed enterprise

	Company I	Company II
Income by selling the assets	0	4.000
Expenses with the staff	(3.000)	(3.000)
Income by revaluating the assets	4.000	0
The comprehensive income	1.000	1.000

Then it is asked: Which of the two companies is more performant? Analysing the result in the profit and loss account we could say that the second company is more performant because it got profit. Yet it is not true because both companies enriched with the same amount, the first one by increasing the value of the land and the second one by the gain obtained by selling the land. Therefore, both entities are equal in performance and the statement of the comprehensive income mirrors this reality. That is why the comprehensive income tends to become the main indicator in the evaluation of a company's performance. Nevertheless, only two companies of the 46 companies subject to the analysis made the revaluation of the tangible assets and/or the intangible assets.

5. DOES THE STATEMENT OF THE COMPREHENSIVE INCOME OFFER MORE PERTINENT INFORMATION THAN THE RESULT FROM THE PROFIT AND LOSS ACCOUNT?

The USA crisis from 1929 emphasized the issue regarding the responsibility taken by the managers concerning the shareholders and the evaluation of their activity became in the following years one of the essential objectives of accountancy. There are two approaches regarding the concept of result: the narrow result (the one we know as the net result, calculated as the difference between gains and expenses) and a comprehensive income having as basis the balance sheet and it is established as variation of the net asset between two budgetary years, excepting the transactions with the owners. These conceptual differences involve different ways of accepting the transactions and the events undertaken by an entity.

The supporters of the net result as a main indicator in the measurement of the entity's financial performance consider the use of the historical cost as a key element of this concept of result. The historical cost allows getting the objective information and admitting only the gains effectively achieved. Ijiri (1975) considers that only the historical cost allows the managers to show if they used the resources given to them by the owners efficiently. But the nowadays standardisers consider that, accountancy should offer more pertinent and efficient information, useful to take decisions and they don't have to limit to the measurement of the managers' performance. It is necessary that accountancy should measure the global performance which is the consequence not only of the internal decisions but also the influence of many external factors such as interest rate, inflation rate etc. Cahan et al. (2000) demonstrate that the comprehensive income is more strongly correlated to the profit of the Stock Market than to the net result. At the same time, Biddle and Choi (2003) [2] demonstrate that the net result is the best explanatory variable for the remuneration of the managers. This conclusion does not cause the pertinence of the comprehensive income but it suggests that more indicators can be used to appreciate the performance of an entity.

The standardisers want a real putting into practice of the comprehensive income concept, whereas the practitioners and the users, very attached to the traditional net income do not want a new definition of the result and demand an empirical authentication of the comprehensive income superiority as performance indicator. The comprehensive income is the consequence of the transition from the historical cost to the fair value. The coexistence of the evaluation in historical cost and fair value, which currently prevail within IFRS, is difficult to be accomplished, that is why there are currently debates over a possible evaluation „*full fair value*". In such type of accountancy the comprehensive income is by far the most pertinent indicator to measure the financial performance of an entity. Nevertheless, when making foresights the net result will always be superior to the comprehensive income.

6. CONCLUSIONS

The present version of the IAS 1 offers the option, starting with the budgetary year 2009, to present the incomes and expenses of an entity either in a unique statement of the comprehensive income, or in two statements: a profit and loss account followed by a statement of the comprehensive income. The statement of the comprehensive income includes the incomes and expenses registered traditionally, in the profit and loss account, at which there are added other gains and losses accepted directly in the equity (according to the general frame IASB, these gains and losses are also considered incomes or expenses).The need to write out the statement of the comprehensive income comes from the popularization of the fair value concept which tends to be used even more in the evaluation of the balance sheet elements according IFRS. As the fair value often corresponds to a market value, the financial statements according IFRS tend to mirror not only the economic development of the entity but also the economic development of the financial markets.

Following the achieved study by analysing the yearly reports for the budgetary year 2008 for 46 European industrial companies which apply IFRS it was noticed that only 9 companies have written out the statement of the comprehensive income, for the budgetary year 2008 (the standard IAS 1 provided for the budgetary year 2008 the option to choose between the preparation of the statement of losses and gains and the statement of changes in equity). For the analysed entities which got a favourable comprehensive income, other gains and losses accepted directly in the equity represent on an average, 27.8% of the comprehensive income. Within other gains and losses, the most considerable weight is owned by the gains and losses arising from the translation of the financial statements within a foreign operation.

The American standardisers and the international ones want to enforce the comprehensive income as the company's indicator of performance. Nevertheless, the users and accountants demand genuine proofs concerning the superiority of the comprehensive income towards the net income. The empirical studies upon this topic are a bit numerous and their results are often contradictory to reach genuine conclusions. Most of them emphasize the link existing between the comprehensive income and the value or the Stock Market profitableness of the entity, as well as the fact that users of the accounting information do not know the significance of the comprehensive income indicator. This topic could be debated in the future by analysing the way in which the information offered by the comprehensive income statement influences the taking of decisions by users.

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