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UPDATE TO PRESENTATION OF COMPREHENSIVE INCOME

Recently, FASB issued ASU no. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (referred to as “ASU”, hereinafter), which will supersede some of the guidance in Accounting Standards Codification Topic 220, Comprehensive Income. Simultaneously, the International Accounting Standards Board (IASB) issued amendments to IAS 1, Presentation of Financial Statements.

Though there is an effort towards convergence, differences between U.S. GAAP and IFRS remain.

For both U.S. GAAP and IFRS, the amendments require that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The option in current U.S. GAAP that permits the presentation of other comprehensive income in the statement of changes in stockholders’ equity has been eliminated.

The main provisions of ASU no. 2011-05 provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements:

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

As may be noted the ASU simply deals with the presentation of other comprehensive income. The changes do not modify the items that must be recognized in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Regardless, of whichever method the entity chooses, all reclassification adjustments for items reclassified from other comprehensive income to net income must be disclosed in the statement(s) where the components of net income and the components of other comprehensive income are presented.

Furthermore, in both cases, the tax effect for each component must be disclosed in the notes to the financial statements or presented in the statement in which other comprehensive income is presented. The amendments do not affect how earnings per share is calculated or presented.

FASB’s summary also said that differences in reporting comprehensive income between U.S. GAAP and IFRS remain. In particular, there are some differences between the types of items reported in other

comprehensive income and the requirements for reclassifying those items into net income. FASB said that removing certain presentation options will make it easier to compare statements of comprehensive income prepared using the different standards.

The amendments in the ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2011. For nonpublic entities, the amendments are effective for fiscal years ending after Dec. 15, 2012, and interim and annual periods thereafter. Early adoption is permitted, because compliance with the amendments is already permitted.

The IASB's amendments to IAS 1 are effective for financial years beginning on or after July 1, 2012..

The IASB said requiring other comprehensive income to be presented as part of, or in close proximity to, the profit or loss (income) statement will make it easier for users of financial statements to assess the effect of other comprehensive income items on the overall performance of an entity and improve comparability between IFRS and U.S. GAAP.

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