Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 130

Reporting Comprehensive Income

Statement of Financial Accounting Standards No. 130
Reporting Comprehensive Income

STATUS

Issued: June 1997

Effective Date: For fiscal years beginning after December 15, 1997

Affects: Amends APB 28, paragraphs 2 and 30(a)
Amends FAS 52, paragraph 13
Amends FAS 80, paragraph 5
Amends FAS 87, paragraphs 37 and 38
Amends FAS 109, paragraphs 35 and 36
Amends FAS 115, paragraphs 13, 15(c), 15(d), and 16

Affected by: Paragraph 14 amended by FAS 160, paragraph C9(a)
Paragraph 17 amended by FAS 158, paragraph F4(a), and FSP FAS 115-2/FAS 124-2, paragraph A3(a)
Paragraph 19 amended by FAS 158, paragraph F4(b), and FSP FAS 115-2/FAS 124-2, paragraph A3(b)
Paragraph 19A added by FSP FAS 115-2/FAS 124-2, paragraph A3(c)
Paragraph 20 amended by FAS 158, paragraph F4(c)
Paragraph 21 deleted by FAS 158, paragraph F4(d)
Paragraph 22 amended by FAS 160, paragraph C9(b)
Paragraph 27 amended by FAS 135, paragraph 4(w)
Paragraph 129 amended by FAS 160, paragraph C9(c)
Paragraph 130 amended by FAS 158, paragraph F4(e)
Paragraph 131 amended by FAS 154, paragraph C19(d), and FAS 158, paragraph F4(f)
Paragraph 132 amended by FSP FAS 158-1, paragraph 13

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncement: SOP 02-2

SUMMARY

This Statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement.

This Statement requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position.

This Statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required.

Statement of Financial Accounting Standards No. 130

Reporting Comprehensive Income

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INTRODUCTION

1. This Statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. It does not address issues of recognition[1] or measurement for comprehensive income and its components.

2. Historically, issues about income reporting were characterized broadly in terms of a contrast between the so-called current operating performance (or dirty surplus) and the all-inclusive (or clean surplus) income concepts. Under the current operating performance income concept, extraordinary and nonrecurring gains and losses are excluded from income. Under the all-inclusive income concept, all revenues, expenses, gains, and losses recognized during the period are included in income, regardless of whether they are considered to be results of operations of the period. The Accounting Principles Board largely adopted the all-inclusive income concept when it issued APB Opinion No. 9, *Reporting the Results of Operations,* and later reaffirmed the concept when it issued APB Opinions No. 20, *Accounting Changes,* and 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.*

[1]"Recognition is the process of formally recording or incorporating an item in the financial statements of an entity. Thus, an asset, liability, revenue, expense, gain, or loss may be recognized (recorded) or unrecognized (unrecorded). *Realization* and *recognition* are not used as synonyms, as they sometimes are in accounting and financial literature" (Concepts Statement No. 6, *Elements of Financial Statements,* paragraph 143; footnote reference omitted).

3. Although the Board generally followed the all-inclusive income concept, occasionally it made specific exceptions to that concept by requiring that certain changes in assets and liabilities not be reported in a statement that reports results of operations for the period in which they are recognized but instead be included in balances within a separate component of equity in a statement of financial position. Statements that contain those exceptions are FASB Statements No. 12, *Accounting for Certain Marketable Securities,*[2] No. 52, *Foreign Currency Translation,* No. 80, *Accounting for Futures Contracts,* No. 87, *Employers' Accounting for Pensions,* and No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

4. Some users of financial statement information expressed concerns about the increasing number of comprehensive income items that bypass the income statement. Currently, an enterprise is required to report the accumulated balances of those items in equity. However, because of the considerable diversity as to how those balances and changes in them are presented in financial statements, some of those users urged the Board to implement the concept of comprehensive income that was introduced in FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises* (which was superseded by FASB Concepts Statement No. 6, *Elements of Financial Statements*), and further described in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises.*

5. As a first step in implementing the concept of comprehensive income, this Statement requires that all items that meet the definition of components of comprehensive income be reported in a financial statement for the period in which they are recognized. In doing so, this Statement amends Statements 52, 80, 87, and 115 to require that changes in the balances of items that under those Statements are reported directly in a separate component of equity in a statement of financial position be reported in a financial statement that is displayed as prominently as other financial statements. Items required by accounting standards to be reported as direct adjustments to paid-in capital, retained earnings, or other nonincome equity accounts are not to be included as components of comprehensive income. (Refer to paragraphs 108-119.)

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

6. This Statement applies to all enterprises that provide a full set of financial statements that report financial position, results of operations, and cash flows.[3] This Statement does not apply to an enterprise that has no items of other comprehensive income in any period presented or to a not-for-profit organization that is required to follow the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.*

7. This Statement discusses how to report and display comprehensive income and its components. However, it does not specify when to recognize or how to measure the items that make up comprehensive income. Existing and future accounting standards will provide guidance on items that are to be included in comprehensive income and its components.

Definition of Comprehensive Income

8. Comprehensive income is defined in Concepts Statement 6 as "the change in equity [net assets] of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners" (paragraph 70).

9. In Concepts Statement 5, the Board stated that "a full set of financial statements for a period should show: Financial position at the end of the period, earnings (net income) for the period, comprehensive income (total nonowner changes in equity) for the period, cash flows during the period, and investments by and distributions to owners during the period" (paragraph 13, footnote references omitted). Prior to issuance of this Statement, the Board had neither required that an enterprise report comprehensive income, nor had it recommended a format for displaying comprehensive income.

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[2]Statement 12 was superseded by Statement 115.

[3]Investment companies, defined benefit pension plans, and other employee benefit plans that are exempt from the requirement to provide a statement of cash flows by FASB Statement No. 102, *Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale,* are not exempt from the requirements of this Statement if they otherwise apply.

Use of the Term Comprehensive Income

10. This Statement uses the term *comprehensive income* to describe the total of all components of comprehensive income, including net income.[4] This Statement uses the term *other comprehensive income* to refer to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. This Statement does not require that an enterprise use the terms *comprehensive income* or *other comprehensive income* in its financial statements, even though those terms are used throughout this Statement.[5]

Purpose of Reporting Comprehensive Income

11. The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. Prior to the issuance of this Statement, some of those changes in equity were displayed in a statement that reports the results of operations, while others were included directly in balances within a separate component of equity in a statement of financial position.

12. If used with related disclosures and other information in the financial statements, the information provided by reporting comprehensive income should assist investors, creditors, and others in assessing an enterprise's activities and the timing and magnitude of an enterprise's future cash flows.

13. Although total comprehensive income is a useful measure, information about the components that make up comprehensive income also is needed. A single focus on total comprehensive income is likely to result in a limited understanding of an enterprise's activities. Information about the components of comprehensive income often may be more important than the total amount of comprehensive income.

Reporting and Display of Comprehensive Income

[Note: For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), paragraph 14 should read as follows:]

14. All components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income shall be displayed in the financial statement where the components of other comprehensive income are reported.

[Note: After the adoption of Statement 160, by business entities that prepare consolidated financial statements, or after the adoption of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions* (effective prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009) by not-for-profit entities that prepare consolidated financial statements, paragraph 14 should read as follows:]

14. All components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. A total amount for comprehensive income shall be displayed in the financial statement where the components of other comprehensive income are reported. In accordance with paragraph 38(a) of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* as amended, if an entity has an outstanding noncontrolling interest (minority interest), amounts for both comprehensive income attributable to the parent and comprehensive income attributable to the noncontrolling interest in a less-than-wholly-owned subsidiary are reported on the face of the financial statement in which comprehensive income is presented in addition to presenting consolidated comprehensive income.

Classifications within Comprehensive Income

15. This Statement divides comprehensive income into net income and other comprehensive income. An enterprise shall continue to display an amount for net income. An enterprise that has no items of other comprehensive income in any period presented is not required to report comprehensive income.

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[4]This Statement uses the term *net income* to describe a measure of financial performance resulting from the aggregation of revenues, expenses, gains, and losses that are not items of other comprehensive income as identified in this Statement. A variety of other terms such as *net earnings* or *earnings* may be used to describe that measure.

[5]Paragraph 40 of Concepts Statement 5 states that "just as a variety of terms are used for net income in present practice, the Board anticipates that total nonowner changes in equity, comprehensive loss, and other equivalent terms will be used in future financial statements as names for comprehensive income."

Classifications within net income

16. Items included in net income are displayed in various classifications. Those classifications can include income from continuing operations, discontinued operations, extraordinary items, and cumulative effects of changes in accounting principle. This Statement does not change those classifications or other requirements for reporting results of operations.

Classifications within other comprehensive income

17. Items included in other comprehensive income shall be classified based on their nature. For example, under existing accounting standards, other comprehensive income shall be classified separately into foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, transition assets or obligations associated with pension or other postretirement benefits, unrealized gains and losses on debt and equity securities classified as available-for-sale, and amounts recognized in other comprehensive income for debt securities classified as available-for-sale and held-to-maturity related to an other-than-temporary impairment recognized in accordance with FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, when a portion of the impairment was not recognized in earnings. Additional classifications or additional items within current classifications may result from future accounting standards.

Reclassification adjustments

18. Adjustments shall be made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. For example, gains on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income as unrealized holding gains in the period in which they arose must be deducted through other comprehensive income of the period in which they are included in net income to avoid including them in comprehensive income twice. Those adjustments are referred to in this Statement as *reclassification adjustments.*

19. An enterprise shall determine reclassification adjustments for each classification of other comprehensive income, except as noted in paragraph 19A. The requirement for a reclassification adjustment for Statement 52 foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

19A. An enterprise shall only determine reclassification adjustments for amounts recognized in other comprehensive income related to other-than-temporary impairments of debt securities classified as held-to-maturity when the loss is realized as a result of a sale of the security or an additional credit loss occurs. If the security is sold, paragraphs 8 and 11 of Statement 115 provide guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future. If the held-to-maturity debt security is not sold and additional credit losses do not occur, the amount recognized in other comprehensive income shall be accounted for in accordance with FSP FAS 115-1 and FAS 124-1 (that is, the amount shall be amortized over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows).

20. An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements. Therefore, for all classifications of other comprehensive income, an enterprise may use either (a) a gross display on the face of the financial statement or (b) a net display on the face of the financial statement and disclose the gross change in the notes to the financial statements.[6] Gross and net displays are illustrated in Appendix B. An example of the calculation of reclassification adjustments for Statement 115 available-for-sale securities is included in Appendix C.

21. [This paragraph has been deleted. See Status page.]

[6]If displayed gross, reclassification adjustments are reported separately from other changes in the respective balance; thus, the total change is reported as two amounts. If displayed net, reclassification adjustments are combined with other changes in the balance; thus, the total change is reported as a single amount.

Alternative Formats for Reporting Comprehensive Income

[Note: For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), paragraph 22 should read as follows:]

22. An enterprise shall display comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. This Statement does not require a specific format for that financial statement but requires that an enterprise display net income as a component of comprehensive income in that financial statement. Appendix B provides illustrations of the components of other comprehensive income and total comprehensive income being reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity.

[Note: After the adoption of Statement 160, by business entities that prepare consolidated financial statements, or the adoption of Statement 164 (effective prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009) by not-for-profit entities that prepare consolidated financial statements, paragraph 22 should read as follows:]

22. An enterprise shall display comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements. This Statement does not require a specific format for that financial statement but requires that an enterprise display net income as a component of comprehensive income in that financial statement. Appendix B provides illustrations of the components of other comprehensive income and total comprehensive income being reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity. In accordance with paragraph 38(c) of ARB 51, as amended, if an entity has an outstanding noncontrolling interest, the components of other comprehensive income attributable to the parent and noncontrolling interest in a less-than-wholly-owned subsidiary are required to be disclosed as part of its equity reconciliation.

23. Although this Statement does not require a specific format for displaying comprehensive income and its components, the Board encourages an enterprise to display the components of other comprehensive income and total comprehensive income below the total for net income in a statement that reports results of operations or in a separate statement of comprehensive income that begins with net income.

24. An enterprise may display components of other comprehensive income either (a) net of related tax effects or (b) before related tax effects with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items.

25. An enterprise shall disclose the amount of income tax expense or benefit allocated to each component of other comprehensive income, including reclassification adjustments, either on the face of the statement in which those components are displayed or in the notes to the financial statements. Alternative formats for disclosing the tax effects related to the components of other comprehensive income are illustrated in Appendix B.

Reporting Other Comprehensive Income in the Equity Section of a Statement of Financial Position

26. The total of other comprehensive income for a period shall be transferred to a component of equity that is displayed separately from retained earnings and additional paid-in capital in a statement of financial position at the end of an accounting period. A descriptive title such as *accumulated other comprehensive income* shall be used for that component of equity. An enterprise shall disclose accumulated balances for each classification in that separate component of equity on the face of a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. The classifications shall correspond to classifications used elsewhere in the same set of financial statements for components of other comprehensive income.

Interim-Period Reporting

27. APB Opinion No. 28, *Interim Financial Reporting,* clarifies the application of accounting principles

and reporting practices to interim financial information, including interim financial statements and summarized interim financial data of publicly traded companies issued for external reporting purposes. An enterprise shall report a total for comprehensive income in condensed financial statements of interim periods.

Amendments to Existing Pronouncements

28. APB Opinion No. 28, *Interim Financial Reporting,* is amended as follows:

a. In the first sentence of paragraph 2, as amended by FASB Statement No. 95, *Statement of Cash Flows,* the term *comprehensive income,* is inserted before *and cash flows.*

b. In paragraph 30(a), the phrase *and net income* is replaced by *net income, and comprehensive income.*

29. In the last sentence of paragraph 13 of FASB Statement No. 52, *Foreign Currency Translation,* the phrase *separately and accumulated in a separate component of equity* is replaced by *in other comprehensive income.*

30. FASB Statement No. 80, *Accounting for Futures Contracts,* is amended as follows:

a. In the third sentence of paragraph 5*, a separate component of stockholders' (or policyholders') equity* is replaced by *other comprehensive income.*

b. In the last sentence of paragraph 5, as amended by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* the phrase *shall be included as part of other comprehensive income and* is inserted after *those assets.*

31. FASB Statement No. 87, *Employers' Accounting for Pensions,* is amended as follows:

a. In the last sentence of paragraph 37, as amended by FASB Statement No. 109, *Accounting for Income Taxes,* the phrase *as a separate component (that is, a reduction) of equity* is replaced by *in other comprehensive income.*

b. Paragraph 38 is amended as follows:

(1) In the first sentence, *the balance accumulated in a* is inserted before *separate.*

(2) The following sentence is added to the end of paragraph 38:

> Eliminations of or adjustments to that balance shall be reported in other comprehensive income.

32. FASB Statement No. 109, *Accounting for Income Taxes,* is amended as follows:

a. In the first sentence of paragraph 35, *other comprehensive income,* is inserted after *extraordinary items.*

b. In the first sentence of paragraph 36, *to other comprehensive income or* is inserted after *credited directly.*

33. FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* is amended as follows:

a. Paragraph 13 is amended as follows:

(1) In the second sentence, *as a net amount in a separate component of shareholders' equity until realized* is replaced by *in other comprehensive income.*

(2) In the last sentence, *a separate component of shareholders' equity* is replaced by *other comprehensive income.*

b. In paragraph 15(c), *recognized in a separate component of shareholders' equity* is replaced by *reported in other comprehensive income.*

c. In the first sentence of paragraph 15(d*), such as accumulated other comprehensive income,* is inserted after *shareholders' equity.*

d. In the last sentence of paragraph 16, both references to *the separate component of equity* are replaced by *other comprehensive income.*

Effective Date and Transition

34. The provisions of this Statement shall be effective for fiscal years beginning after December 15, 1997. Earlier application is permitted. If comparative financial statements are provided for earlier periods, those financial statements shall be reclassified to reflect application of the provisions of this Statement. The provisions of this Statement that require display of reclassification adjustments (paragraphs 18-21) are not required, but are encouraged, in comparative

financial statements provided for earlier periods. Initial application of this Statement shall be as of the beginning of an enterprise's fiscal year; that is, if the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year shall be reclassified.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of five members of the Financial Accounting Standards Board. Messrs. Cope and Foster dissented.

Messrs. Cope and Foster dissent from this Statement because it permits an enterprise to display the items of other comprehensive income identified in this Statement with less prominence and to characterize them differently from other items of comprehensive income that are currently included in net income. The Board's conceptual framework does not define earnings or net income, nor does it provide criteria for distinguishing the characteristics of items that should be included in comprehensive income but not in net income. The qualitative characteristics of the items currently classified as items of other comprehensive income have not been conceptually distinguished from those items included in net income. Messrs. Cope and Foster believe that items of other comprehensive income can be as significant to measurement of an enterprise's economic and financial performance as those items of comprehensive income that are currently included in measuring net income, and that the comparability and the neutrality of reported information are adversely affected if some items of comprehensive income are omitted from reports on economic and financial performance. Therefore, they have concluded that this Statement should have required that items of other comprehensive income be reported in a statement of financial performance, preferably in a single statement in which net income is reported as a component of comprehensive income.

Messrs. Cope and Foster believe that a primary objective in undertaking a project on reporting comprehensive income was to significantly enhance the visibility of items of other comprehensive income. They do not believe that this Statement will achieve that objective. Messrs. Cope and Foster think that it is likely that most enterprises will meet the requirements of this Statement by providing the required information in a statement of changes in equity, and that displaying items of other comprehensive income solely in that statement as opposed to reporting them in a statement of financial performance will do little to enhance their visibility and will diminish their perceived importance. Thus, it is their view that this Statement will inappropriately relegate certain items of comprehensive income to a lesser standing, having less visibility than other items of comprehensive income that are included in net income, and will do so for the foreseeable future.

Another objective of the project on reporting comprehensive income was to encourage users of financial statements to focus on the components that constitute comprehensive income rather than limiting their analyses solely to the amounts reported as net income and earnings per share. The current, apparent market fixation on earnings per share is evidence that some users exclude other measures of performance from their analyses. Messrs. Cope and Foster believe that permitting items of other comprehensive income to be reported solely in a statement of changes in equity does not achieve the foregoing objective and may, in fact, divert the attention of some users of financial statements from those items of comprehensive income, thereby diminishing their understanding of the economic and financial performance of the reporting enterprise. For users of financial statements to fully understand and appropriately analyze the economic and financial performance of an enterrise, all items of other comprehensive income must be reported in a statement of financial performance, as was proposed in the Exposure Draft of this Statement.

Messrs. Cope and Foster believe that the Board inappropriately failed to respond to the clear and unequivocal call from users of financial statements for the transparent presentation of all items of comprehensive income, whose request is acknowledged in paragraphs 40 and 41 of this Statement. While many respondents to the Exposure Draft asserted that users would be confused by the presentation of comprehensive income, the users that testified at the public hearing on this project categorically denied that that would be the case.

Messrs. Cope and Foster also note that, as evidenced by the basis for conclusions in the Exposure Draft, the Board held views similar to theirs when it issued that document. The stated objective in the Exposure Draft was "to issue a Statement that requires that an enterprise report all components of comprehensive income in one or two statements of financial performance for the period in which those items are recognized." Messrs. Cope and Foster believe that the basis for conclusions supporting this Statement provides little, if any, rationale as to why, having determined at the time it issued the Exposure Draft that comprehensive income is clearly a measure of financial performance, the Board subsequently concluded it should not require presentation of comprehensive income in a statement of financial performance (paragraphs 58-67). In fact, paragraph 67 of this Statement acknowledges the conceptual superiority of displaying comprehensive income in a statement of performance.

Finally, based on the Board's tentative conclusions, at this time it seems that a future standard on accounting for hedging and derivative instruments likely will provide that certain gains and losses on transactions in derivative instruments not be included in the determination of net income when they occur, but be reported as items of other comprehensive income. Much concern recently has been expressed about derivative instruments and their effects on the financial position and performance of various enterprises. The Board's project on accounting for derivative instruments and hedging activities was undertaken to enhance the visibility and understanding of those transactions and their effects on financial position and performance. Messrs. Cope and Foster believe that if certain of those effects are reported as items of other comprehensive income, application of this Statement in conjunction with that reporting is likely to do little to achieve that objective. In their view, that is inappropriate, particularly when the potential for significant impact that derivative instruments have on an enterprise's performance is an important concern.

Members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

35. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

36. The term *comprehensive income* was first introduced in Concepts Statement 3, which was issued in December 1980. However, the term comprehensive income was used to communicate the same notion as *earnings* in FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* which was issued in November 1978.[7] The Board decided to use comprehensive income rather than earnings in Concepts Statement 3 because it wanted to reserve earnings for possible use to designate a different concept that was narrower than comprehensive income.

37. In Concepts Statement 5, the Board concluded that comprehensive income and its components should be reported as part of a full set of financial statements for a period. The Board also described earnings as part of comprehensive income in that Concepts Statement, indicating that earnings was narrower than comprehensive income, and provided illustrations of possible differences between earnings and comprehensive income. Earnings was described as being similar to net income in current practice, except for cumulative effects of changes in accounting principles, which are included in present net income but are excluded from earnings.

38. In December 1985, Concepts Statement 6 superseded Concepts Statement 3, expanding the scope to encompass not-for-profit organizations. Concepts

[7]Comprehensive income also is the concept that was referred to as earnings in other conceptual framework documents: *Tentative Conclusions on Objectives of Financial Statements of Business Enterprises* (December 1976), FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement* (December 1976), FASB Exposure Draft, *Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises* (December 1977), and FASB Discussion Memorandum, *Reporting Earnings* (July 1979).

Statement 6 does not alter the definition of comprehensive income provided in Concepts Statement 3.

39. Prior to the issuance of this Statement, the Board had not required that comprehensive income and its components be reported as part of a full set of financial statements. However, several accounting standards required that certain items that qualify as components of comprehensive income bypass a statement of income and be reported in a balance within a separate component of equity in a statement of financial position. Those items are:

a. Foreign currency translation adjustments (Statement 52, paragraph 13)
b. 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 20(a))
c. 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 20(b))
d. A change in the market value of a futures contract that qualifies as a hedge of an asset reported at fair value pursuant to Statement 115 (Statement 80, paragraph 5)
e. A net loss recognized pursuant to Statement 87 as an additional pension liability not yet recognized as net periodic pension cost (Statement 87, paragraph 37)
f. Unrealized holding gains and losses on available-for-sale securities (Statement 115, paragraph 13)
g. 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 15(c))
h. Subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of available-for-sale securities previously written down as impaired (Statement 115, paragraph 16).

40. Users of financial statements expressed concerns about the practice of reporting some comprehensive income items directly within a balance shown as a separate component of equity. Among those expressing concerns was the Association for Investment Management and Research (AIMR). In its 1993 report, *Financial Reporting in the 1990s and Beyond,* the AIMR urged the Board to implement the concept of comprehensive income for several reasons. Two of those reasons were to discontinue the practice of taking certain items of comprehensive income directly to equity and to provide a vehicle for addressing future accounting issues, such as the display of unrealized gains and losses associated with financial instruments. In that report, the AIMR noted that it has long supported the all-inclusive income concept.

41. The Accounting Policy Committee of the Robert Morris Associates also indicated support for what it referred to as an all-inclusive income statement at a 1995 meeting with the Board by stating that "net income should include the effect of *all* of the current period's economic transactions and other activity of the entity."

42. There is also international precedent for moving toward an all-inclusive income concept. In 1992, the United Kingdom Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 3, *Reporting Financial Performance.* That standard introduced a "statement of total recognized gains and losses" as a supplement to the "profit and loss account," which is equivalent to the U.S. income statement. The amount for "recognized gains and losses relating to the year" in the statement of total recognized gains and losses is analogous to comprehensive income.

43. Largely in response to the precedent set by the ASB, other international standard setters have focused attention on reporting financial performance. As part of its efforts to promote international harmonization, the Board discussed reporting comprehensive income with the ASB as well as with standard setters from the International Accounting Standards Committee (IASC), the Canadian Institute of Chartered Accountants, the Australian Accounting Research Foundation, and the New Zealand Society of Accountants.

44. In July 1996, the IASC issued an Exposure Draft, *Presentation of Financial Statements,* which included a proposed requirement for a new primary financial statement referred to as a "statement of non-owner movements in equity." The purpose of that statement would be to highlight more prominently gains and losses, such as those arising from revaluations and deferred exchange differences, that are not reported in the income statement under existing

IASC standards.[8] The IASC's proposed requirement is similar in concept to this Statement's requirement for reporting comprehensive income and the ASB's requirement for a statement of total recognized gains and losses.

45. In addition to users' concerns about reporting comprehensive income items in equity and the desire for international harmonization, the project on reporting comprehensive income became more urgent because of the increasing use of separate components in equity for certain comprehensive income items. In that regard, a recent motivating factor for adding the comprehensive income project to the Board's technical agenda was the Board's financial instruments project, which is expected to result in additional comprehensive income items.

Financial Instruments Project

46. Many financial instruments are "off-balance-sheet." In the derivatives and hedging portion of the financial instruments project, the Board has proposed that all derivative instruments should be recognized and measured at fair value. Moreover, Board members believe that most, if not all, financial instruments ultimately should be recognized and measured at fair value because fair values generally are more decision useful (that is, more relevant), more understandable, and more practical to use than cost or cost-based measures.

47. The use of fair values to measure financial instruments necessarily raises questions about how the resulting gains and losses should be reported. Certain constituents expressed concern that using fair values will (a) cause more gains and losses to be recognized than currently are recognized and (b) increase the volatility of reported net income.

48. While measuring financial instruments at fair value results in recognizing gains and losses on those instruments, it does not necessarily follow that those gains and losses must be reported in the income statement as part of net income. The Board believes that it is appropriate and consistent with the definition of comprehensive income provided in the Concepts Statements to include some gains and losses in net income and to exclude others from net income and report them as part of comprehensive income outside net income. Furthermore, reporting separately gains and losses in a financial statement would make those gains and losses more transparent than if they were only included within the equity section of a statement of financial position.

49. In response to the concerns discussed in paragraphs 40-48, the Board added a project on reporting comprehensive income to its agenda in September 1995. The Board's objective was to issue a Statement that requires that an enterprise report all components of comprehensive income in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set.

50. An FASB Exposure Draft, *Reporting Comprehensive Income,* was issued in June 1996. The Board received 281 comment letters on the Exposure Draft, and 22 individuals and organizations presented their views at a public hearing held in November 1996.[9] In addition, the Board discussed the Exposure Draft in meetings with constituents, the Financial Instruments Task Force, and the Financial Accounting Standards Advisory Council. The comments from those groups, comment letters, and public hearing testimony were considered by the Board during its redeliberations of the issues addressed by the Exposure Draft at public meetings held in 1997. This Statement is a result of those Board meetings and redeliberations.

Benefits and Costs

51. In accomplishing its mission, the Board follows certain precepts, including the precept to promulgate standards only when the expected benefits of the information exceed the perceived costs. The Board endeavors to determine that a standard will fill a significant need and that the costs imposed to meet that standard, as compared to other alternatives, are justified in relation to the overall benefits of the resulting information.

52. Based on the recommendations by users of financial statements, the increasing use of separate accounts in equity for certain comprehensive income

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[8]In redeliberations of the IASC Exposure Draft, the proposed requirement for a separate statement of nonowner movements in equity has been modified. As of April 1997, the IASC tentatively decided to require that an enterprise present, as a separate component of its financial statements, a statement showing (a) the net profit or loss for the period, (b) each item of income and expenses and gains and losses which, as required by other standards, are recognized directly in equity, and the total of those items, (c) the total of both item (a) and item (b) above, and (d) the cumulative effect of changes in accounting policy and the correction of fundamental errors.

[9]The public hearings on the comprehensive income Exposure Draft and the June 1996 FASB Exposure Draft, *Accounting for Derivative and Similar Financial Instruments and for Hedging Activities,* were held jointly.

items, and issues arising in the financial instruments project, the Board concluded that a standard on reporting comprehensive income was needed. This Statement should help facilitate a better understanding of an enterprise's financial activities by users of financial statements because it will result in enhanced comparability within and between enterprises by providing more consistency as to how the balances of components of other comprehensive income and changes in them are presented in financial statements. Moreover, this Statement provides a method for reporting comprehensive income that should prove helpful in addressing and resolving issues that potentially include items of comprehensive income now and in the future. Because enterprises already accumulate information about components of what this Statement identifies as other comprehensive income and report that information in a statement of financial position or in notes accompanying it, the Board determined that there would be little incremental cost associated with the requirements of this Statement beyond the cost of understanding its requirements and deciding how to apply them.

Conclusions on Basic Issues

Scope

53. The Board decided to limit the project's scope to issues of reporting and display of comprehensive income so that it could complete the project in a timely manner. The Board concluded that timely completion was important because of the project's relationship to the project on accounting for derivatives and hedging activities.

54. Although the scope of the project was limited to issues of reporting and display, the Board recognizes that other more conceptual issues are involved in reporting comprehensive income. Such issues include questions about when components of comprehensive income should be recognized in financial statements and how those components should be measured. In addition, there are conceptual questions about the characteristics of items that generally accepted accounting principles require to be included in net income versus the characteristics of items that this Statement identifies as items that are to be included in comprehensive income outside net income. Furthermore, there are several items that generally accepted accounting principles require to be recognized as direct adjustments to paid-in capital or other equity accounts that this Statement does not identify as being part of comprehensive income. (Refer to paragraphs 108-119.) The Board expects to consider those types of issues in one or more broader-scope projects related to reporting comprehensive income.

55. The Board considered whether not-for-profit organizations should be permitted to follow the provisions of this Statement and decided that those organizations should continue to follow the requirements of Statement 117. Because Statement 117 requires that those organizations report the change in net assets for a period in a statement of activities, those organizations already are displaying the equivalent of comprehensive income.

Issues Considered

56. The issues considered in this project were organized under the following general questions: (a) whether comprehensive income should be reported, (b) whether cumulative accounting adjustments should be included in comprehensive income, (c) how components of comprehensive income should be classified for display, (d) whether comprehensive income and its components should be displayed in one or two statements of financial performance, and (e) whether components of other comprehensive income should be displayed before or after their related tax effects.

Reporting of comprehensive income

57. The Board considered the following issues about reporting comprehensive income: (a) whether all items that are or will be recognized under current and future accounting standards as items of comprehensive income should be reported in a statement of financial performance, (b) whether a total amount for comprehensive income should be displayed, (c) how the total amount of comprehensive income should be labeled or described, and (d) whether a per-share amount for comprehensive income should be displayed.

Reporting all items of comprehensive income in a statement of financial performance

58. The Exposure Draft proposed that changes in the accumulated balances of income items currently required to be reported directly in a separate component of equity in a statement of financial position (unrealized gains and losses on available-for-sale-securities, minimum pension liability adjustments, and translation gains and losses) should instead be reported in a statement of financial performance. In deliberations leading to the Exposure Draft, the Board

noted that those items would be included in a statement of financial performance under the all-inclusive income concept.

59. Some respondents to the Exposure Draft stated that information about the components of other comprehensive income already was available elsewhere in the financial statements and that it was unnecessary for the Board to require that information to be reported separately and aggregated into a measure of comprehensive income. Other respondents agreed that the components of other comprehensive income should be displayed in a more transparent manner. However, a majority of those respondents indicated that until the Board addresses the conceptual issues discussed in paragraph 54, it was premature for the Board to require that the components be reported in a statement of financial performance.

60. Most respondents to the Exposure Draft asserted that the requirement to report comprehensive income and its components in a statement of financial performance would result in confusion. Much of that confusion would stem from reporting two financial performance measures (net income and comprehensive income) and users' inability to determine which measure was the appropriate one for investment decisions, credit decisions, or capital resource allocation. Many of those respondents argued that the items identified as other comprehensive income were not performance related and that it would be not only confusing but also misleading to require that those items be included in a performance statement. Finally, some respondents indicated that comprehensive income would be volatile from period to period and that that volatility would be related to market forces beyond the control of management. In their view, therefore, it would be inappropriate to highlight that volatility in a statement of financial performance. Other respondents said that comprehensive income was more a measure of entity performance than it was of management performance and that it was therefore incorrect to argue that it should not be characterized as a performance measure because of management's inability to control the market forces that could result in that measure being volatile from period to period.

61. Many respondents suggested that the Board could achieve the desired transparency for the components of other comprehensive income by requiring that they be displayed in an expanded statement of changes in equity or in a note to the financial statements. Respondents said that either of those types of display would be more acceptable than display in a performance statement because the components of other comprehensive income would not be characterized as being performance related.

62. In response to constituents' concerns about the requirement in the Exposure Draft to report comprehensive income and its components in a statement of financial performance, the Board considered three additional approaches in its redeliberations. The first approach would require disclosure of comprehensive income and its components in a note to the financial statements. The second approach would require the display of comprehensive income and its components in a statement of changes in equity. The third approach would require the reporting of comprehensive income and its components in a financial statement that is displayed with the same prominence as other financial statements, thereby permitting an enterprise to report the components of comprehensive income in one or two statements of financial performance as proposed by the Exposure Draft or in a statement of changes in equity if that statement was presented as a financial statement.

63. The Board decided against permitting an enterprise to disclose comprehensive income and its components in a note to the financial statements. The Board acknowledged that it could justify note disclosure because it would provide important information in the interim while the conceptual issues surrounding comprehensive income reporting were studied in more depth. However, the Board decided that such disclosure would be inconsistent with the Concepts Statements, which both define comprehensive income and call for the reporting of it as part of a full set of financial statements. The Board also agreed that only disclosure of comprehensive income and its components was inconsistent with one of the objectives of the project, which was to take a first step toward the implementation of the concept of comprehensive income by requiring that its components be displayed in a financial statement.

64. The Board also decided against requiring that an enterprise display comprehensive income and its components in a statement of changes in equity. APB Opinion No. 12, *Omnibus Opinion—1967,* requires that an enterprise report changes in stockholders' equity accounts other than retained earnings whenever both financial position and results of operations are presented. However, paragraph 10 of Opinion 12 states that "disclosure of such changes may take the form of separate statements or may be made in the

basic financial statements or notes thereto." The Board agreed that it was important for information about other comprehensive income and total comprehensive income to be displayed in a financial statement presented as prominently as other financial statements that constitute a full set of financial statements. Because Opinion 12 permits an enterprise to report changes in equity in a note to the financial statements, the Board agreed that if it required an enterprise to display comprehensive income and its components in a statement of changes in equity that it would first have to implement a requirement for all enterprises to provide such a statement. The Board also acknowledged that the Securities and Exchange Commission requires that public enterprises provide information about changes in equity but, similar to Opinion 12, those requirements permit an enterprise to display that information in a note to the financial statements.[10] The Board noted that some enterprises might not have items of other comprehensive income and decided that it would be burdensome to require that those enterprises provide a statement of changes in equity when the impetus for that requirement did not apply to them. The Board also noted that some enterprises might have only one item of other comprehensive income and that those enterprises might prefer to report that item below net income in a single statement instead of creating a separate statement of changes in equity to report that amount.

65. The Board decided that it could achieve the desired transparency for the components of other comprehensive income and at the same time be responsive to the concerns of its constituents by permitting a choice of displaying comprehensive income and its components (a) in one or two statements of financial performance (as proposed by the Exposure Draft) or (b) in a statement of changes in equity. The Board decided that if an enterprise opted to display comprehensive income in a statement of changes in equity, that statement must be presented as part of a full set of financial statements and not in the notes to the financial statements.

66. The Board also decided that until it addresses the conceptual issues surrounding the reporting of comprehensive income, it should not require presentation of comprehensive income as a measure of financial performance. Consequently, the Board agreed to eliminate references to comprehensive income as a performance measure in the standards section of the final Statement. Therefore, this Statement requires that all items that are recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements that constitute a full set of financial statements that report financial position, results of operations, and cash flows.

67. The Board decided to encourage an enterprise to report comprehensive income and the components of other comprehensive income in an income statement below the total for net income or in a separate statement of comprehensive income that begins with net income as originally proposed by the Exposure Draft. The Board believes that displaying comprehensive income in an income-statement-type format is more consistent with the Concepts Statements and therefore is conceptually superior to displaying it in a statement of changes in equity. That type of display also is consistent with the all-inclusive income concept. Furthermore, display of comprehensive income in an income-statement-type format provides the most transparency for its components. Also, it may be more practical for an enterprise that has several items of other comprehensive income to display them outside a statement of changes in equity. Finally, display in an income-statement-type format is consistent with the Board's desire to implement a broader-scope project on comprehensive income that ultimately could move toward reporting comprehensive income and its components in a statement of financial performance.

Displaying a total for comprehensive income

68. The Board decided to retain the requirement in the Exposure Draft to display a total amount for comprehensive income in the financial statement in which its components are displayed regardless of whether an enterprise chooses to display those components in an income-statement-type format or in a statement of changes in equity. The Board agreed that that total will demonstrate articulation between an enterprise's financial position at the end of the period and all aspects of its financial activities for the period,

[10]SEC Regulation S-X, Section 210.3-04, "Changes in Other Stockholders' Equity," states that "an analysis of the changes in each caption of other stockholders' equity presented in the balance sheets shall be given in a note or separate statement. This analysis shall be presented in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed with all significant reconciling items described by appropriate captions."

thereby enhancing the understandability of the statements. Also, that total will provide enhanced comparability between enterprises by providing a benchmark for users.

Describing the total for comprehensive income

69. The term *comprehensive income* is used consistently in this Statement to describe the total of all components of comprehensive income, including net income. However, the Board decided not to require that an enterprise use that term in financial statements because it traditionally has not specified how particular amounts should be labeled and often has simply required that a "descriptive label" be used. In practice, a variety of terms, such as net income, net earnings, or earnings, are used to describe the total appearing at the bottom of a statement that reports the results of operations.

70. Many respondents to the Exposure Draft indicated that the term comprehensive income should not be used. They said that the term is misleading because the amount is neither "comprehensive" nor "income." Although the Exposure Draft did not require use of the term comprehensive income, its consistent usage throughout the document (and in its title) gave respondents the impression that it was required.

71. The Board discussed whether using the term comprehensive income would be misleading. The Board agreed that comprehensive income is "income" because changes in equity (changes in assets and liabilities) are identified by the Concepts Statements as revenues, expenses, gains, and losses. The Board acknowledged that comprehensive income will never be completely "comprehensive" because there always will be some assets and liabilities that cannot be measured with sufficient reliability. Therefore, those assets and liabilities as well as the changes in them will not be recognized in the financial statements. For example, the internally generated intangible asset often referred to as intellectual capital is not presently measured and recognized in financial statements. The Board agreed that comprehensive income is "comprehensive" to the extent that it includes all recognized changes in equity during a period from transactions and other events and circumstances from nonowner sources. The Board acknowledged that there are certain changes in equity that have characteristics of comprehensive income but that are not presently included in it. (Refer to paragraphs 108-119.) Those items may be addressed in a broader-scope project on comprehensive income.

72. In considering other terminology that could be used to describe the aggregate total referred to by this Statement as comprehensive income, the Board acknowledged that in paragraph 13 of Concepts Statement 5, the terms *comprehensive income* and *total nonowner changes in equity* are used as synonyms: "A full set of financial statements for a period should show . . . comprehensive income (total nonowner changes in equity) for the period" (footnote reference omitted). In paragraph 40 of that Concepts Statement the Board noted that:

> Just as a variety of terms are used for net income in present practice, the Board anticipates that total nonowner changes in equity, comprehensive loss, and other equivalent terms will be used in future financial statements as names for comprehensive income.

Nonetheless, the term comprehensive income is used consistently throughout the remainder of Concepts Statement 5 and throughout Concepts Statement 6.

73. In its redeliberations, the Board discussed whether it should continue using the term comprehensive income in this Statement. The Board believes that as a result of the Exposure Drafts on comprehensive income and derivatives and hedging, the term comprehensive income has become more familiar and better understood. Although some constituents argued that the items described as other comprehensive income are not "true" gains and losses, they are defined as gains and losses by the Concepts Statements. Therefore, the Board decided that it is appropriate to continue using the term comprehensive income rather than total nonowner changes in equity in this Statement.

74. The Board also reasoned that once it addresses the conceptual issues in a broader-scope project on comprehensive income, it can consider requiring comprehensive income to be reported in a statement of financial performance. If comprehensive income was ultimately to be reported in a statement of financial performance, the term comprehensive income is more descriptive of a performance measure than are other terms such as total nonowner changes in equity. Therefore, the Board decided that it would be instructional to continue using the term comprehensive income throughout this Statement. However, it decided to clarify that the term comprehensive income is not required and that other terms may be used to describe that amount. The Board decided to make that clarification by including a footnote reference to paragraph 40 of Concepts Statement 5 in this Statement.

Displaying per-share amounts for comprehensive income

75. The Exposure Draft proposed that a public enterprise should display a per-share amount for comprehensive income. The Board thought that it was important that comprehensive income receive appropriate attention and was concerned that it could be perceived as being inferior to measures such as net income if a per-share amount were not required. Moreover, the Board decided that a requirement to display a per-share amount would impose little or no incremental cost on an enterprise.

76. Most respondents were opposed to the requirement for a per-share amount for comprehensive income. They argued that a per-share amount would give comprehensive income more prominence than net income and would result in confusion, especially if analysts quote earnings per share for some enterprises and comprehensive income per share for others. Many respondents suggested that until the Board addresses the conceptual issues involved in reporting comprehensive income (such as when components of comprehensive income should be recognized in financial statements, how those components should be measured, and the criteria for inclusion of those items in net income or in other comprehensive income), it was premature to require a per-share amount for it.

77. The Board decided to eliminate the requirement for a per-share amount for comprehensive income in this Statement. The Board agreed with those respondents that said the conceptual issues involved in reporting comprehensive income should be addressed before requiring a per-share amount. Furthermore, the Board thought that a requirement for a per-share amount was inconsistent with its decisions to (a) permit an enterprise to display comprehensive income and its components in a statement of changes in equity and (b) not require an enterprise to report comprehensive income as a performance measure.

Including cumulative accounting adjustments in comprehensive income

78. In addressing what items should be included in comprehensive income, the Board considered whether the effects of certain accounting adjustments related to earlier periods, such as the principal example in current practice—cumulative effects of changes in accounting principles—should be reported as part of comprehensive income. Revenues, expenses, gains, and losses of the current period—including those that bypass the income statement and go directly to equity—are all clearly part of comprehensive income and were not at issue.

79. The Board considered the definition of comprehensive income in Concepts Statement 5, which states that "comprehensive income is a broad measure of the effects of transactions and other events on an entity, comprising *all recognized changes in equity* (net assets) of the entity during a period . . . except those resulting from investments by owners and distributions to owners" (paragraph 39; footnote reference omitted; emphasis added). Concepts Statement 5 further indicates that comprehensive income includes cumulative accounting adjustments. The Board continues to support that definition and, therefore, decided to include cumulative accounting adjustments as part of comprehensive income.

80. The Board considered two alternatives for displaying cumulative accounting adjustments in financial statements: (a) include cumulative accounting adjustments in comprehensive income by displaying them as part of other comprehensive income and (b) include cumulative accounting adjustments in comprehensive income by continuing to display them as part of net income.

81. The first alternative, display cumulative accounting adjustments as part of other comprehensive income, would have allowed the Board to begin to implement the concept of earnings as described in Concepts Statement 5, because cumulative accounting adjustments would no longer be included in net income. Concepts Statement 5 describes *earnings* as "a measure of performance for a period and to the extent feasible excludes items that are extraneous to that period—items that belong primarily to other periods" (paragraph 34, footnote reference omitted). Earnings, so defined, excludes cumulative effects of changes in accounting principle. Nonetheless, earnings have been included in net income since Opinion 20. As a result, earnings is similar to, but not necessarily the same as, net income in current practice.

82. The Board committed at the outset to limit the project's scope to display of comprehensive income. The Board's decision to continue to display cumulative accounting adjustments as part of net income resulted more from adherence to that scope commitment than to the merits of the arguments for either alternative.

Display of components of comprehensive income

83. The Board considered two issues related to the display of components of comprehensive income: (a) whether comprehensive income should be divided into two broad display classifications, net income and other comprehensive income, and (b) how other comprehensive income should be classified for display in a financial statement.

Dividing comprehensive income into net income and other comprehensive income

84. The Board decided that comprehensive income should be divided into two broad display classifications, net income and other comprehensive income. The Board reasoned that the division would generally preserve a familiar touchstone for users of financial statements.

85. For similar reasons, the Board also decided not to change the remaining display classifications of net income (that is, continuing operations, discontinued operations, extraordinary items, and cumulative-effect adjustments).

Display classifications for other comprehensive income

86. The Board looked to both the Concepts Statements and current practice in considering how the components of other comprehensive income might be classified for purposes of display. The Concepts Statements provide general guidance about classification, with homogeneity of items being identified as a key factor and the need to combine items that have essentially similar characteristics (and the need to segregate those that do not have similar characteristics) being emphasized.

87. In identifying current practice, the Board considered the results of an FASB staff study of a sample of financial statements that revealed that most enterprises classify balances of items of other comprehensive income in the equity sections of their statements of financial position according to the accounting standards to which those items relate. Because those accounting standards result in items of comprehensive income that are quite different from one another (for example, the items arising under Statement 52 on foreign currency are quite different from those arising under Statement 87 on pensions), the staff's findings were that existing practice is consistent with the guidance in the Concepts Statements.

88. Based on those considerations, the Board decided that the classification of items of other comprehensive income should be based on the nature of the items. The Board also concluded that the current practice of classifying items according to existing standards generally is appropriate at the present time. However, future standards may result either in additional classifications of other comprehensive income or in additional items within current classifications of other comprehensive income.

89. The Board also considered the need to display reclassification adjustments. Those adjustments are necessary to avoid double counting certain items in comprehensive income. For example, gains realized during the current period and included in net income for that period may have been included in other comprehensive income as unrealized holding gains in the period in which they arose. If they were, they would have been included in comprehensive income in the period in which they were displayed in other comprehensive income and must be offset in the period in which they are displayed in net income.

90. The current-period change in the balance of particular items of other comprehensive income could be displayed gross or net. If reported gross, reclassification adjustments are reported separately from other changes in the balance; thus, the total change is displayed as two amounts. If reported net, reclassification adjustments are combined with other changes in the balance; thus, the total change is displayed as a single amount. Both approaches are illustrated in Appendix B, Format A.

91. The Board decided that an enterprise should use a gross display for classifications of other comprehensive income where it is practicable to ascertain the amount of reclassification adjustments for particular items within that classification. The Board concluded that it should be practicable for an enterprise to calculate reclassification adjustments for securities and other financial instruments and for foreign currency translation items but that it is not practicable for an enterprise to calculate reclassification adjustments for minimum pension liability adjustments. Therefore, an enterprise is required to use a gross display for classifications of other comprehensive income resulting from gains and losses on securities and other financial instruments and for foreign currency items and to use a net display for the classification of other comprehensive income resulting from minimum pension liability adjustments.

92. The Board decided that under a gross display, an enterprise could display reclassification adjustments either as a single section within other comprehensive income or as part of the classification of other comprehensive income to which those adjustments relate (such as foreign currency items or gains and losses on available-for-sale securities). However, if all reclassification adjustments are displayed in a single section within other comprehensive income, they should be descriptively labeled so that they can be traced to their respective classification within other comprehensive income. For example, the reclassification adjustments should be labeled as relating to available-for-sale securities or foreign currency items.

93. The notice for recipients of the Exposure Draft asked if it would be practicable to determine reclassification amounts for (a) gains and losses on available-for-sale securities, (b) foreign currency items, and (c) minimum pension liability adjustments. A majority of the respondents that commented on reclassification adjustments generally agreed that it would be practicable to determine reclassification adjustments for available-for-sale securities and foreign currency items but that it would not be practicable to determine a reclassification adjustment for minimum pension liability adjustments.

94. In response to other comments from constituents about reclassification adjustments, the Board decided to (a) include an example illustrating the calculation of reclassification adjustments for available-for-sale securities, (b) clarify that the requirement for a reclassification amount for foreign currency translation adjustments is limited to translation gains and losses realized upon sale or complete or substantially complete liquidation of an investment in a foreign entity, (c) encourage, but not require, reclassification adjustments for earlier period financial statements presented for comparison to the first period in which this Statement is adopted, and (d) permit an enterprise to display reclassification adjustments on the face of the financial statement where comprehensive income is reported or in a note to the financial statements. Therefore, for all classifications of other comprehensive income other than minimum pension liability adjustments, an enterprise may either (1) use a gross display on the face of the financial statement or (2) use a net display on the face of the financial statement and disclose the gross changes in the notes to the financial statements.

95. The Board also decided that an enterprise should display the accumulated balance of other comprehensive income in the equity section of the statement of financial position separately from retained earnings and additional paid-in capital and use a descriptive title such as *accumulated other comprehensive income* for that separate component of equity. So that users of financial statements are able to trace the component of other comprehensive income displayed in a financial statement to its corresponding balance, the Board decided that an enterprise should disclose accumulated balances for each classification in that separate component of equity on the face of a statement of financial position, in a statement of changes in equity, or in notes to the financial statements. Each display classification should correspond to display classifications used elsewhere in the same set of financial statements for components of other comprehensive income.

Display of comprehensive income in one or two statements of financial performance

96. The Exposure Draft proposed that an enterprise should be required to display the components of comprehensive income in either one or two statements of financial performance. In addressing whether comprehensive income should be displayed in one or two statements of financial performance, the Board noted that accounting standards in the United Kingdom require that the equivalent to comprehensive income be displayed in two statements. The Board concluded that a two-statement approach might be preferred by many constituents. However, some enterprises with few items of other comprehensive income might prefer to display comprehensive income by means of a single statement and they should not be prohibited from doing so.

97. Respondents to the Exposure Draft provided mixed views about whether the Board should permit a choice of displaying comprehensive income in one statement or two statements of financial performance. Of the respondents that agreed with the Board's decision to permit a choice of one or two statements, some stated that the preparer should be allowed to decide which format best depicts the enterprise's other comprehensive income items. Most of the respondents that disagreed with the Board's decision to permit a choice of one or two statements indicated that the Board should mandate the two-statement approach because that type of display could alleviate confusion by clearly distinguishing between net income and comprehensive income. Based on comments from constituents, the Board found no compelling reason to eliminate either the one-statement

approach or the two-statement approach for those enterprises that choose to display comprehensive income in an income-statement-type format.

98. The Board also decided that an enterprise should use a "reconciled" format for reporting comprehensive income whereby the components of other comprehensive income are the reconciling amounts between net income and comprehensive income. That format makes the relationship between net income and comprehensive income more apparent and might better facilitate the transition to reporting comprehensive income.

99. Under a reconciled format, an enterprise that chooses to display comprehensive income in an income-statement-type format by using two statements should begin the second statement with net income, the bottom line of the first statement. An enterprise that chooses to display comprehensive income in an income-statement-type format by using one statement should include net income as a subtotal within that statement. An enterprise that chooses to display comprehensive income in a statement of changes in equity should display net income in that statement in such a way that it can be added to the components of other comprehensive income to arrive at total comprehensive income. Appendix B includes illustrations of a one-statement and two-statement approach as well as two illustrations of a statement-of-changes-in-equity approach.

Display of related tax effects

100. The Board had two competing objectives in considering whether the components of other comprehensive income should be displayed before or after their related tax effects. The first objective was to facilitate the traceability of reclassification adjustments from other comprehensive income to net income. Because the corresponding net income components generally are displayed before tax, to achieve that objective, reclassification adjustments must be displayed before tax and, consequently, other comprehensive income items also must be displayed before tax in a financial statement.

101. The second objective was to show clearly how other comprehensive income items change the accumulated balance in equity. Because accumulated other comprehensive income is displayed in the equity section of a statement of financial position net of tax, to achieve that objective, it is necessary to display the changes that are incorporated into that balance net of tax.

102. Some Board members were more concerned about the traceability of reclassification adjustments from other comprehensive income to net income than they were about the transfer of other comprehensive income items to their accumulated balance in equity. Therefore, they favored a display whereby an enterprise would show all components of other comprehensive income on a before-tax basis and display the tax effects of those items on one line, similar to the way in which the tax effects for income from continuing operations are displayed.

103. Other Board members thought that a net-of-tax display would be acceptable as long as adequate disclosure of the related tax effects was provided so that before-tax amounts could be ascertained. Furthermore, because of its decision to permit an enterprise to display comprehensive income and its components in a statement of changes in equity, the Board thought that a net-of-tax display of the components of other comprehensive income would be more practical in that statement because other items in that statement are displayed net of related tax effects.

104. The Board concluded that regardless of whether a before-tax or net-of-tax display was used, adequate disclosure of the amount of income tax expense or benefit allocated separately to individual components of other comprehensive income should be provided. Furthermore, the Board concluded that the tax disclosure provisions should be an integral part of the comprehensive income standard.

105. The Board decided that an enterprise should be permitted a choice of whether to display components of other comprehensive income on a before-tax basis or on a net-of-tax basis. Both display formats provide adequate information as long as disclosures of the related tax effects are provided.

Conclusions on Other Issues

Including Prior-Period Adjustments in Comprehensive Income

106. The Board considered whether items accounted for as prior-period adjustments should be included in comprehensive income of the current period. Opinion 9, as amended by FASB Statement No. 16, *Prior Period Adjustments,* requires that prior-period adjustments be reflected as retroactive restatements of the amounts of net income (and the components thereof) and retained earnings balances (as well as other affected balances) for all financial statements presented

for comparative purposes. In single-period financial statements, prior-period adjustments are reflected as adjustments of the opening balance of retained earnings. The Board decided that because of the requirement for retroactive restatement of earlier period financial statements, items accounted for as prior-period adjustments are effectively included in comprehensive income of earlier periods and, therefore, should not be displayed in comprehensive income of the current period.

Statement of Cash Flows Reporting

107. The Board considered whether the operating section of an indirect-method statement of cash flows or the reconciliation provided with the operating section of a direct-method statement of cash flows should begin with comprehensive income instead of net income as is required by FASB Statement No. 95, *Statement of Cash Flows.* When items of other comprehensive income are noncash items, they would become additional reconciling items in arriving at cash flows from operating activities and would add additional items to the statement of cash flows without adding information content. Thus, the Board decided not to amend Statement 95.

Other Items Reported in Equity

108. Certain items are presently recorded in equity that some respondents to the Exposure Draft thought should be considered as items of other comprehensive income. Those items are discussed below.

Deferred compensation expense and unearned ESOP shares

109. The Board considered whether unearned or deferred compensation expense, which is shown as a separate reduction of shareholders' equity pursuant to APB Opinion No. 25, *Accounting for Stock Issued to Employees,* should be included as an item of other comprehensive income. Paragraph 14 of Opinion 25 requires recognition of unearned compensation as a separate reduction of shareholders' equity if stock is issued in a plan before some or all of the services are performed by the employee. According to Opinion 25, in the subsequent periods in which the employee performs services to the employer, the employer is required to reduce the unearned compensation amount in shareholders' equity and recognize compensation expense for a corresponding amount. Therefore, those transactions have both equity and expense characteristics.

110. The Board also considered whether a reduction of shareholders' equity related to employee stock ownership plans (ESOPs) should be included as an item of other comprehensive income. AICPA Statements of Position 76-3, *Accounting Practices for Certain Employee Stock Ownership Plans,* and 93-6, *Employers' Accounting for Employee Stock Ownership Plans,* provide guidance on accounting for three types of ESOPs: leveraged, nonleveraged, and pension reversion.[11] The accounting for a leveraged ESOP results in a direct reduction to shareholders' equity in the form of a debit to unearned ESOP shares both when an employer issues shares or sells treasury shares to an ESOP and when a leveraged ESOP buys outstanding shares of the employer's stock on the open market. As ESOP shares are committed to be released (SOP 93-6) or are released (SOP 76-3), unearned ESOP shares are credited and, depending on the purpose for which the shares are released, (a) compensation cost, (b) dividends payable, or (c) compensation liabilities are debited. Transactions in which unearned ESOP shares are credited and compensation cost is debited have both equity and expense characteristics.

111. The Board agreed that it could be argued that the direct reductions to shareholders' equity under Opinion 25 and SOP 93-6 that will eventually be recognized as compensation expense are items of other comprehensive income. However, because those transactions involve the company's own stock, an argument also could be made that those are transactions with owners and hence are not other comprehensive income. In other words, those types of transactions have both equity (transaction with owners) characteristics and expense (comprehensive income) characteristics.

112. The Board concluded that it was beyond the scope of the project to determine whether deferred compensation expense and reductions to equity related to ESOPs were items of other comprehensive income. Therefore, until it makes a definitive decision about those items in a broader-scope project on comprehensive income, those transactions are to be

[11]SOP 93-6 superseded SOP 76-3 and is required for ESOP shares acquired after December 31, 1992. Employers are permitted, but not required, to apply the provisions of SOP 93-6 to shares purchased by ESOPs on or before December 31, 1992, that have not been committed to be released as of the beginning of the year of adoption.

considered as equity transactions and are not to be included as other comprehensive income.

Taxes not payable in cash

113. A reorganized enterprise may suffer net operating losses prior to reorganization that provide it with significant tax advantages going forward. SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code,* requires that a reorganized enterprise record a "full tax rate" on its pretax income although its actual cash taxes paid are minimal because of those net operating loss carryforwards. "Taxes not payable in cash" are reported in the income statement as an expense with a corresponding increase to paid-in capital in shareholders' equity.[12]

114. One respondent to the Exposure Draft contended that the amount credited to paid-in capital for taxes not payable in cash represented a "significant economic or cash flow benefit" and "is a change in equity from nonowner sources." Therefore, that respondent suggested that that amount should be included as an item of other comprehensive income.

115. The Board agreed that the credit to paid-in capital resulting from taxes not payable in cash is not a transaction with an owner. However, the Board decided that that credit derives from the accounting required upon reorganization that results in adjustments to equity accounts based on reorganization value. Therefore, although taxes not payable in cash is not a transaction with an owner, it does not qualify as comprehensive income because the credit to paid-in capital stems from transactions and accounting that took place upon reorganization. In effect, the credit to paid-in capital for taxes not payable in cash adjusts transactions that were recorded in equity in an earlier period and does not result from the current-period debit to income tax expense. Therefore, the Board decided that taxes not payable in cash should not be included as an item of other comprehensive income. In a broader-scope project, the Board may consider whether the initial accounting upon reorganization that results in adjustments to equity accounts based on reorganization value should result in the recognition of comprehensive income. If so, that would ultimately affect the reporting of taxes not payable in cash as part of comprehensive income.

Gains and losses resulting from contracts that are indexed to a company's shares and ultimately settled in cash

116. One respondent to the Exposure Draft indicated that the Board should consider whether a gain or loss arising from a contract that is indexed to a company's shares and ultimately settled in cash should be considered as an item of other comprehensive income. EITF Issue No. 94-7, "Accounting for Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,"[13] addresses four types of freestanding contracts that a company may enter into that are indexed to, and sometimes settled in, its own shares: (a) a forward sale contract, (b) a forward purchase contract, (c) a purchased put option, and (d) a purchased call option. Those contracts may be settled by physical settlement, net share settlement, or net cash settlement.

117. Issue 94-7 indicates that contracts that give the company a choice of net cash settlement or settlement in its own shares are equity instruments and should be measured initially at fair value. If such contracts are ultimately settled in cash, the amount of cash paid or received should be an adjustment to contributed capital. The Board considered whether the amount of cash paid or received (which represents a loss or gain on the contract) should be included as an item of other comprehensive income.

118. In Issue 94-7, the Emerging Issues Task Force reached a consensus that contracts that give the company a choice of net cash settlement or settlement in its own shares are equity instruments. Comprehensive income excludes all changes in equity resulting from investments by owners. Therefore, the Board decided that until it addresses that issue in a broader-scope project, a net cash settlement resulting from a change in value of such a contract should be treated as a change in value of an equity instrument and should not be considered as an item of comprehensive income.

Other paid-in capital transactions not addressed

119. The Board recognizes that there may be other transactions that are reported as direct adjustments to paid-in capital or other equity accounts that have

[12]Under SOP 90-7, "benefits realized from preconfirmation net operating loss carryforwards should first reduce reorganization values in excess of amounts allocable to identifiable assets and other intangibles until exhausted and thereafter be reported as a direct addition to paid-in capital."

[13]Issue 94-7 was combined with and codified in EITF Issue No. 96-13, "Accounting for Sales of Options or Warrants on Issuer's Stock with Various Forms of Settlement."

characteristics similar to items that the Board has identified as other comprehensive income. Instead of addressing those transactions on a piecemeal basis, the Board decided that transactions required by generally accepted accounting principles to be recognized in paid-in capital or other similar nonincome equity accounts are not to be displayed as other comprehensive income. However, the Board may collectively address those types of transactions in a broader-scope project on comprehensive income.

Display of Other Comprehensive Income under the Equity Method of Accounting

120. Under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* an investor records its proportionate share of the investee's net income (net loss) as investment income along with a corresponding increase (decrease) to the investment account. Several respondents to the Exposure Draft asked the Board to address the question of how an investor should record its proportionate share of the investee's other comprehensive income.

121. Paragraph 19(e) of Opinion 18 states that a transaction of an investee of a capital nature that affects the investor's share of stockholders' equity of the investee should be accounted for as if the investee were a consolidated subsidiary. Therefore, an investor records its proportionate share of the investee's equity adjustments for other comprehensive income (unrealized gains and losses on available-for-sale securities, minimum pension liability adjustments, and foreign currency items) as increases or decreases to the investment account with corresponding adjustments in equity. Under this Statement, an enterprise may elect to display other comprehensive income in an income-statement-type format (below net income or in a separate statement beginning with net income) or in a statement-of-changes-in-equity format.

122. The Board decided that the format in which an investee displays other comprehensive income should not impact how an investor displays its proportionate share of those amounts. Therefore, regardless of how an investee chooses to display other comprehensive income, an investor should be permitted to combine its proportionate share of those amounts with its own other comprehensive income items and display the aggregate of those amounts in an income-statement-type format or in a statement of changes in equity.

Other Comprehensive Income of Subsidiaries

123. The October 1995 FASB Exposure Draft of a proposed Statement, *Consolidated Financial Statements: Policy and Procedures,* would require that a portion of the net income or loss of a subsidiary that is not wholly owned be attributed to the noncontrolling interest (minority interest) on the basis of its proportionate interest in the subsidiary's net income or loss. The net income attributable to the noncontrolling interest would be deducted from consolidated net income to arrive at an amount called *net income attributable to the controlling interest.* If that Statement is finalized as proposed, the Board will have to determine whether other comprehensive income will be attributed to the noncontrolling and controlling interests on the same basis as items of net income and how the amounts attributed to those interests will be displayed.

Interim-Period Reporting

124. The Exposure Draft proposed that a publicly traded enterprise should be required to report an amount for total comprehensive income in condensed financial statements of interim periods issued to shareholders. In its redeliberations, the Board acknowledged that requiring information about total comprehensive income without requiring information about its components might result in a limited understanding of an enterprise's activities and considered whether it also should require a publicly traded enterprise to report the components of other comprehensive income at interim periods.

125. The Board was concerned that adding a requirement for interim-period financial information about the components of other comprehensive income might create a disincentive for voluntary reporting of interim financial information, particularly for those enterprises that disagree with the annual reporting of comprehensive income. The Board decided that if there is a significant difference between total comprehensive income and net income in interim periods, an enterprise would be inclined to explain that difference by disclosing the components. Furthermore, the Board decided that it should not alter the Exposure Draft's interim-period reporting requirements by mandating additional information. Therefore, the Board decided to retain the requirement for a publicly traded enterprise to report total comprehensive income in condensed financial statements of interim periods issued to shareholders.

Effective Date and Transition

126. The Board proposed in the Exposure Draft that this Statement should be effective for fiscal years beginning after December 15, 1996, for all enterprises. That effective date was established under the presumption that a Statement would be issued in the first quarter of 1997. Because the Statement was not issued until late in the second quarter of 1997, the Board decided to postpone the effective date until fiscal years beginning after December 15, 1997. In deciding on that effective date, the Board agreed that the costs and start-up time associated with implementing this Statement should be minimal and that, with the exception of reclassification adjustments, an enterprise will only be displaying information currently available in a different format.

127. The Board also decided to permit an enterprise, for fiscal years beginning prior to December 16, 1997, initially to apply the provisions of this Statement for a fiscal year for which annual financial statements have not previously been issued. If the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year must be reclassified.

128. The Board decided that an enterprise should be required to apply the provisions of this Statement to comparative financial statements provided for earlier periods to make them comparable to the financial statements for the current period. An enterprise should not encounter difficulties in reclassifying earlier periods' financial statements because the information required to be displayed by this Statement previously was displayed in the statement of changes in equity, the equity section of the statement of financial position, or in notes to the financial statements. The Board decided not to require, but to encourage, an enterprise to display reclassification adjustments for earlier period financial statements presented for comparison to the first period in which this Statement is adopted.

Appendix B

ILLUSTRATIVE EXAMPLES

[Note: For not-for-profit organizations and all other entities that prepare consolidated financial statements prior to the adoption of Statement 160 (effective for fiscal years, and interim periods within those fiscal years, beginning on or after 12/15/08), paragraph 129 should read as follows:]

129. This appendix provides illustrations of reporting formats for comprehensive income, required disclosures, and a corresponding statement of financial position. The illustrations are intended as examples only; they illustrate some recommended formats. Other formats or levels of detail may be appropriate for certain circumstances. An enterprise is encouraged to provide information in ways that are most understandable to investors, creditors, and other external users of financial statements. For simplicity, the illustrations provide information only for a single period; however, the Board realizes that most enterprises are required to provide comparative financial statements.

[Note: After the adoption of Statement 160, by business entities that prepare consolidated financial statements, or the adoption of Statement 164 (effective prospectively in the first set of initial or annual financial statements for a reporting period beginning on or after December 15, 2009) by not-for-profit entities that prepare consolidated financial statements, paragraph 129 and footnote 14 should read as follows:]

129. This appendix provides illustrations of reporting formats for comprehensive income, required disclosures, and a corresponding statement of financial position. The illustrations are intended as examples only; they illustrate some recommended formats. Other formats or levels of detail may be appropriate for certain circumstances. An enterprise is encouraged to provide information in ways that are most understandable to investors, creditors, and other external users of financial statements. For simplicity, the illustrations provide information only for a single period; however, the Board realizes that most enterprises are required to provide comparative financial statements.[14]

[14]Appendix A of ARB 51 illustrates one method for reporting comprehensive income if the entity has one or more less-than-wholly-owned subsidiaries.

130. Brackets are used to highlight certain basic totals that must be displayed in financial statements to comply with the provisions of this Statement. This Statement requires not only displaying those certain basic totals but also reporting components of those aggregates. For example, it requires reporting information about unrealized gains and losses on

available-for-sale securities, foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, and transition assets or obligations associated with pension or other postretirement benefits.

131. The illustrations use the term *comprehensive income* to label the total of all components of comprehensive income, including net income. The illustrations use the term *other comprehensive income* to label revenues, expenses, gains, and losses that are included in comprehensive income but excluded from net income. This Statement does not require that an enterprise use those terms in its financial statements. Other equivalent terms, such as *total nonowner changes in equity,* can be used as labels for what this Statement refers to as comprehensive income.

Format A: One-Statement Approach

Enterprise
Statement of Income and Comprehensive Income
Year Ended December 31, 20X9

Revenues		$140,000
Expenses		(25,000)
Other gains and losses		8,000
Gain on sale of securities		2,000
Income from operations before tax		125,000
Income tax expense		(31,250)
Income before extraordinary item		93,750
Extraordinary item, net of tax		(30,500)
[Net income		63,250]
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
[Comprehensive income		$ 80,250]

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit:

Other comprehensive income, before tax:		
Foreign currency translation adjustments[a]		$ 10,666
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$17,333	
Less: reclassification adjustment for gains included in net income	(2,000)	15,333
Defined benefit pension plans:[c]		
Prior service cost arising during period	(2,133)	
Net loss arising during period	(1,333)	
Less: amortization of prior service cost included in net periodic pension cost	133	(3,333)
Other comprehensive income, before tax		22,666
[Income tax expense related to items of other comprehensive income		(5,666)]
Other comprehensive income, net of tax		$ 17,000

*[This footnote has been deleted. See Status page.]

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Format B: Two-Statement Approach

Enterprise
Statement of Income
Year Ended December 31, 20X9

Revenues	$140,000
Expenses	(25,000)
Other gains and losses	8,000
Gain on sale of securities	2,000
Income from operations before tax	125,000
Income tax expense	(31,250)
Income before extraordinary item	93,750
Extraordinary item, net of tax	(30,500)
[Net income	$ 63,250]

Enterprise
Statement of Comprehensive Income
Year Ended December 31, 20X9

[Net income		$63,250]
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
[Comprehensive income		$80,250]

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit as illustrated in Format A.

*[This footnote has been deleted. See Status page.]

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Format C: Statement-of-Changes-in-Equity Approach (Alternative 1)

Enterprise
Statement of Changes in Equity
Year Ended December 31, 20X9

	Total	Comprehensive Income[a]	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Beginning balance	$561,500		$ 88,500	$23,000	$150,000	$300,000
Comprehensive income						
Net income	63,250	$63,250	63,250			
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment (see disclosure)	11,500	11,500				
Foreign currency translation adjustments	8,000	8,000				
Defined benefit pension plans:						
Net prior service cost (see disclosure)	(1,500)	(1,500)				
Net loss	(1,000)	(1,000)				
Other comprehensive income		17,000		17,000		
Comprehensive income		$80,250				
Common stock issued	150,000				50,000	100,000
Dividends declared on common stock	(10,000)		(10,000)			
Ending balance	$781,750		$141,750	$40,000	$200,000	$400,000

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]Alternatively, an enterprise can omit the separate column labeled "Comprehensive Income" by displaying an aggregate amount for comprehensive income ($80,250) in the "Total" column.

[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

Format D: Statement-of-Changes-in-Equity Approach (Alternative 2)

Enterprise
Statement of Changes in Equity
Year Ended December 31, 20X9

Retained earnings		
Balance at January 1	$ 88,500	
Net income	63,250	[$ 63,250]
Dividends declared on common stock	(10,000)	
Balance at December 31	141,750	
Accumulated other comprehensive income[a]		
Balance at January 1	23,000	
Unrealized gains on securities, net of reclassification adjustment (see disclosure)		11,500
Foreign currency translation adjustments		8,000
Defined benefit pension plans:		
Net prior service cost (see disclosure)		(1,500)
Net loss		(1,000)
Other comprehensive income	17,000	17,000
Comprehensive income		[$ 80,250]
Balance at December 31	40,000	
Common stock		
Balance at January 1	150,000	
Shares issued	50,000	
Balance at December 31	200,000	
Paid-in capital		
Balance at January 1	300,000	
Common stock issued	100,000	
Balance at December 31	400,000	
Total equity	$781,750	

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$ 13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$ 11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]All items of other comprehensive income are displayed net of tax.

[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

All Formats: Required Disclosure of Related Tax Effects Allocated to Each Component of Other Comprehensive Income

Enterprise
Notes to Financial Statements
Year Ended December 31, 20X9

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	$10,666	$(2,666)	$ 8,000
Unrealized gains on securities:			
Unrealized holding gains arising during period	17,333	(4,333)	13,000
Less: reclassification adjustment for gains realized in net income	(2,000)	500	(1,500)
Net unrealized gains	15,333	(3,833)	11,500
Defined benefit pension plans:			
Prior service cost from plan amendment during period	(2,133)	533	(1,600)
Less: amortization of prior service cost included in net periodic pension cost	133	(33)	100
Net prior service cost arising during period	(2,000)	500	(1,500)
Net loss arising during period	(1,333)	333	(1,000)
Defined benefit pension plans, net	(3,333)	833	(2,500)
Other comprehensive income	$22,666	$(5,666)	$17,000

Alternatively, the tax amounts for each component can be displayed parenthetically on the face of the financial statement in which comprehensive income is reported.

All Formats: Disclosure of Accumulated Other Comprehensive Income Balances

Enterprise
Notes to Financial Statements
Year Ended December 31, 20X9

	Foreign Currency Items	Unrealized Gains on Securities	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
Beginning balance	$ (500)	$25,500	$(2,000)	$23,000
Current-period change	8,000	11,500	(2,500)	17,000
Ending balance	$7,500	$37,000	$(4,500)	$40,000

Alternatively, the balances of each classification within accumulated other comprehensive income can be displayed in a statement of changes in equity or in a statement of financial position.

All Formats: Accompanying Statement of Financial Position

Enterprise
Statement of Financial Position
December 31, 20X9

Assets:	
Cash	$ 150,000
Accounts receivable	175,000
Available-for-sale securities	112,000
Plant and equipment	985,000
Total assets	$1,422,000
Liabilities:	
Accounts payable	$ 112,500
Accrued liabilities	78,583
Liability for pension benefits	130,667
Notes payable	318,500
Total liabilities	$ 640,250
Equity:	
Common stock	$ 200,000
Paid-in capital	400,000
Retained earnings	141,750
[Accumulated other comprehensive income	40,000]
Total equity	781,750
Total liabilities and equity	$1,422,000

Appendix C

ILLUSTRATIVE EXAMPLES OF THE DETERMINATION OF RECLASSIFICATION ADJUSTMENTS

132. This Statement requires that an enterprise determine reclassification adjustments for each classification of other comprehensive income. An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements.

133. This appendix provides illustrations of the calculation of reclassification adjustments for Statement 115 available-for-sale securities. Illustration 1 is of available-for-sale equity securities, and Illustration 2 is of available-for-sale debt securities. The illustrations are intended as examples only; they do not represent actual situations.

134. Illustrations 1 and 2 involve a nonpublic enterprise that follows the practice of recognizing all unrealized gains and losses on available-for-sale securities in other comprehensive income before recognizing them as realized gains and losses in net income. Therefore, the before-tax amount of the reclassification adjustment recognized in other comprehensive income is equal to, but opposite in sign from, the amount of the realized gain or loss recognized in net income.

Illustration 1: Statement 115 Available-for-Sale Equity Securities

135. The available-for-sale equity securities in this illustration appreciate in fair value. On December 31, 1997, Enterprise purchased 1,000 shares of equity securities at $10 per share, which it classified as available for sale. The fair value of the securities at December 31, 1998 and December 31, 1999 was $12 and $15, respectively. There were no dividends declared on the securities that were sold on December 31, 1999. A tax rate of 30 percent is assumed.

Calculation of Holding Gains

	Before Tax	Income Tax	Net of Tax
Holding gains recognized in other comprehensive income:			
Year ended December 31, 1998	$2,000	$ 600	$1,400
Year ended December 31, 1999	3,000	900	2,100
Total gain	$5,000	$1,500	$3,500

Amounts Reported in Net Income and Other Comprehensive Income for the Years Ended December 31, 1998 and December 31, 1999

	1998	1999
Net income:		
Gain on sale of securities		$ 5,000
Income tax expense		(1,500)
Net gain realized in net income		3,500
Other comprehensive income:		
Holding gain arising during period, net of tax	$1,400	2,100
Reclassification adjustment, net of tax	0	(3,500)
Net gain (loss) recognized in other comprehensive income	1,400	(1,400)
Total impact on comprehensive income	$1,400	$ 2,100

Illustration 2: Statement 115 Available-for-Sale Debt Securities

136. The available-for-sale interest-bearing debt securities (bonds) in this illustration were purchased at a premium to yield 6.5 percent. Interest income is included in net income based on the historical yield, and the bonds decline in fair value during the first two years in which they are held.

137. On December 31, 1995, registration of Micki Inc.'s 8-year, 8 percent debentures, interest payable annually, became effective and the entire issue of $10,000,000 was sold at par. At the end of each of the next four years, the closing prices and the related market interest rates to maturity were as follows:

December 31	Price ($000)	Yield (%)
1996	$102.6	7.5
1997	107.3	6.5
1998	96.1	9.0
1999	92.2	10.5

138. On December 31, 1997, Enterprise purchased $1,000,000 of Micki Inc.'s bonds on the open market at 107.3 and classified them as available for sale. Enterprise continued to hold the bonds until December 31, 1999, at which time they were sold at 92.2. Enterprise prepared the following schedules in relation to the bonds:

Cost-Based Carrying Amount, Interest Income, and Premium Amortization

Year	(a) Beginning Carrying Value	(b) Cash Interest Received [8% × par]	(c) Interest Income [(a) × 6.5%]	(d) Premium Amortization [(b) – (c)]	(e) Ending Carrying Value [(a) – (d)]
1997					$1,073,000
1998	$1,073,000	$80,000	$69,745	$10,255	1,062,745
1999	1,062,745	80,000	69,078	10,922	1,051,823

Calculation of Before-Tax Holding Loss

Year Ended 12/31	(a) Ending Carrying Value	(b) Ending Fair Value	(c) Change in Fair Value	(d) Premium Amortization	(e) Holding Loss [(c) + (d)]
1997	$1,073,000	$1,073,000	$ 0		
1998	1,062,745	961,000	(112,000)	$10,255	$(101,745)
1999	1,051,823	922,000	(39,000)	10,922	(28,078)

Net-of-Tax Holding Losses
(Assume a Tax Rate of 30 Percent)

	Before Tax	Income Tax	Net of Tax
Holding losses recognized in other comprehensive income:			
Year ended December 31, 1998	$(101,745)	$30,523	$(71,222)
Year ended December 31, 1999	(28,078)	8,423	(19,655)
Total loss	$(129,823)	$38,946	$(90,877)

Amounts Reported in Net Income and Other Comprehensive Income
for the Years Ended December 31, 1998 and December 31, 1999

	1998	1999
Net income:		
Interest income	$ 69,745	$ 69,078
Loss on sale of bonds		(129,823)
Income tax (expense) benefit	(20,923)	18,223
Amounts realized in net income	48,822	(42,522)
Other comprehensive income (OCI):		
Holding loss arising during period, net of tax	(71,222)	(19,655)
Reclassification adjustment, net of tax		90,877
Net (loss) gain recognized in other comprehensive income	(71,222)	71,222
Total impact on comprehensive income	$(22,400)	$ 28,700

139. The following before-tax entries would be made to record the purchase, accrue interest (using the effective interest method based on cost), recognize the change in fair value, and record the sale:

December 31, 1997:

Investment in bonds	$1,073,000	
Cash		$1,073,000
To record purchase of bond		

December 31, 1998:

Cash	80,000	
Investment in bonds		10,255
Interest income (to earnings)		69,745
To record interest income on the bond, amortize the premium, and record cash received		
Unrealized holding loss (to OCI)	101,745	
Investment in bonds		101,745
To adjust carrying amount of bond to fair value		
Accumulated OCI	101,745	
Unrealized holding loss		101,745
Interest income	69,745	
Retained earnings		69,745
To close nominal accounts to real accounts at year-end		

December 31, 1999:

Cash	80,000	
Investment in bonds		10,922
Interest income (to earnings)		69,078
To record interest income on the bond, amortize the premium, and record cash received		
Unrealized holding loss (to OCI)	28,078	
Investment in bonds		28,078
To adjust carrying amount of bond to fair value		
Accumulated OCI	28,078	
Unrealized holding loss		28,078
To close nominal account to real account at year-end		
Cash	922,000	
Loss on sale of securities (to earnings)	129,823	
Investment in bonds		922,000
Reclassification adjustment (to OCI)		129,823
To record sale of bond		
Reclassification adjustment	129,823	
Accumulated OCI		129,823
Retained earnings	60,745	
Interest income	69,078	
Loss on sale of securities		129,823
To close nominal accounts to real accounts at year-end		