

The following discussion reflects the most recent accounting standards concerning comprehensive income. It should replace pages 181–184 in Chapter 4 of *Intermediate Accounting*, 14th Edition. Replacement homework material is also included.

**8 LEARNING OBJECTIVE**

Explain how to report other comprehensive income.

## Comprehensive Income

Companies generally include in income all revenues, expenses, and gains and losses recognized during the period. These items are classified within the income statement so that financial statement readers can better understand the significance of various components of net income. Changes in accounting principles and corrections of errors are excluded from the calculation of net income because their effects relate to prior periods.

In recent years, there is an increased use of fair values for measuring assets and liabilities. Furthermore, possible reporting of gains and losses related to changes in fair value have placed a strain on income reporting. Because fair values are continually changing, some argue that recognizing these gains and losses in net income is misleading. The FASB agrees and has identified a limited number of transactions that should be recorded directly to stockholders equity. One example is unrealized gains and losses on available-for-sale securities.<sup>21</sup> These gains and losses are excluded from net income, thereby reducing volatility in net income due to fluctuations in fair value. At the same time, disclosure of the potential gain or loss is provided.

Companies include these items that bypass the income statement in a measure called comprehensive income. **Comprehensive income** includes all changes in equity during a period *except* those resulting from investments by owners and distributions to owners. Comprehensive income, therefore, includes the following: all revenues and gains, expenses and losses reported in net income, and all gains and losses that bypass net income but affect stockholders' equity. These items—non-owner changes in equity that bypass the income statement—are referred to as **other comprehensive income**.

Companies must display the components of other comprehensive income in one of two ways: (1) a single continuous statement (**one statement approach**) or (2) two separate, but consecutive statements of net income and other comprehensive income (**two statement approach**). The one statement approach is often referred to as the comprehensive income statement. The two statement approach uses the traditional term income statement for the first statement and the comprehensive income statement for the second statement. [8]

Under either approach, companies display each component of net income and each component of other comprehensive income. In addition, net income and comprehensive income are reported. Companies are not required to report earnings per share information related to comprehensive income.<sup>22</sup>

We illustrate these two alternatives in the next two sections. In each case, assume that V. Gill Inc. reports the following information for 2012: sales revenue \$800,000; cost

<sup>21</sup>We further discuss available-for-sale securities in Chapter 17. Additional examples of other comprehensive items are translation gains and losses on foreign currency, unrealized gains and losses on certain hedging transactions, and adjustments related to pensions. Corrections of errors and changes in accounting principles are not considered other comprehensive income items.

<sup>22</sup>A company must display the components of other comprehensive income either (1) net of related tax effects, or (2) before related tax effects, with one amount shown for the aggregate amount of tax related to the total amount of other comprehensive income. Both alternatives must show each component of other comprehensive income, net of related taxes either in the face of the statement or in the notes.

## 4U-2 Chapter 4 Update Income Statement and Related Information

of goods sold \$600,000; operating expenses \$90,000; and an unrealized holding gain on available-for-sale securities of \$30,000, net of tax.

### One Statement Approach

In this approach, the traditional net income is a subtotal, with total comprehensive income shown as a final total. The combined statement has the advantage of not requiring the creation of a new financial statement. However, burying net income as a subtotal on the statement is a disadvantage. Illustration 4-19 shows the one statement format for V. Gill.

**ILLUSTRATION 4-19**  
One-Statement Format:  
Comprehensive Income

<b>V. GILL INC.</b>	
<b>STATEMENT OF COMPREHENSIVE INCOME</b>	
<b>FOR THE YEAR ENDED DECEMBER 31, 2012</b>	
Sales revenue	\$800,000
Cost of goods sold	<u>600,000</u>
Gross profit	200,000
Operating expenses	<u>90,000</u>
Net Income	110,000
Other comprehensive income	
Unrealized holding gain, net of tax	<u>30,000</u>
Comprehensive Income	<u><u>\$140,000</u></u>

### Two-Statement Approach

Illustration 4-20 shows the two statement format based on the above information for V. Gill. Reporting comprehensive income in a separate statement indicates that the gains and losses identified as other comprehensive income have the same status as traditional gains and losses.<sup>23</sup>

**ILLUSTRATION 4-20**  
Two Statement Format:  
Comprehensive Income

<b>V. GILL INC.</b>	
<b>INCOME STATEMENT</b>	
<b>FOR THE YEAR ENDED DECEMBER 31, 2012</b>	
Sales revenue	\$800,000
Cost of goods sold	<u>600,000</u>
Gross profit	200,000
Operating expenses	<u>90,000</u>
Net income	<u><u>\$110,000</u></u>
<b>V. GILL INC.</b>	
<b>COMPREHENSIVE INCOME STATEMENT</b>	
<b>FOR THE YEAR ENDED DECEMBER 31, 2012</b>	
Net income	\$110,000
Other comprehensive income	
Unrealized holding gain, net of tax	<u>30,000</u>
Comprehensive income	<u><u>\$140,000</u></u>

### Statement of Stockholders' Equity

In addition to a comprehensive income statement, companies also present a **statement of stockholders' equity** (often referred to as statement of changes in stockholders' equity).

<sup>23</sup>Companies are not required to present net income at the beginning of the second statement because net income is reported in the first statement. In that situation, the second statement is referred to as the other comprehensive income statement.

This statement reports the changes in each stockholder's equity account and in total stockholders' equity during the year. Companies often prepare **in columnar form** the statement of stockholders' equity. In this format, they use columns for each account and for total stockholders' equity. Stockholders' equity is generally comprised of contributed capital (common and preferred stock and additional paid-in capital), retained earnings, and the accumulated balances in other comprehensive income. The statement reports the change in each stockholders' equity account and in total equity for the period. The following items are disclosed in this statement.

1. Contributions (issuances of shares) and distributions (dividends) to owners.
2. Reconciliation of the carrying amount of each component of stockholders' equity from the beginning to the end of the period.

To illustrate, assume the same information for V. Gill (on pages 4U-1 and 4U-2). The company has the following stockholder equity account balances at the beginning of 2012: Common Stock \$300,000; Retained Earnings \$50,000; and Accumulated Other Comprehensive Income \$60,000. No changes in the Common Stock account occurred during the year. Illustration 4-21 shows a statement of stockholders' equity for V. Gill.

<b>V. GILL INC.</b>				
<b>STATEMENT OF STOCKHOLDERS' EQUITY</b>				
<b>FOR THE YEAR ENDED DECEMBER 31, 2012</b>				
	Total	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock
Beginning balance	\$410,000	\$ 50,000	\$60,000	\$300,000
Net income	110,000	110,000		
Other comprehensive income				
Unrealized holding gain, net of tax	30,000		30,000	
Ending balance	<u>\$550,000</u>	<u>\$160,000</u>	<u>\$90,000</u>	<u>\$300,000</u>

**ILLUSTRATION 4-21**

Presentation of Comprehensive Income in Stockholders' Equity Statement

**Balance Sheet Presentation**

Regardless of the display format used, V. Gill reports the **accumulated other comprehensive income** of \$90,000 in the stockholders' equity section of the balance sheet as follows.

<b>V. GILL INC.</b>	
<b>BALANCE SHEET</b>	
<b>AS OF DECEMBER 31, 2012</b>	
<b>(STOCKHOLDERS' EQUITY SECTION)</b>	
Stockholders' equity	
Common stock	\$300,000
Retained earnings	160,000
Accumulated other comprehensive income	90,000
Total stockholders' equity	<u>\$550,000</u>

**ILLUSTRATION 4-22**

Presentation of Accumulated Other Comprehensive Income in the Balance Sheet

By providing information on the components of comprehensive income, as well as accumulated other comprehensive income, the company communicates information about all changes in net assets. With this information, users will better understand the quality of the company's earnings.

## SUMMARY OF LEARNING OBJECTIVE

**8 Explain how to report other comprehensive income.** Companies report the components of other comprehensive income in one of two ways: (1) a single statement of comprehensive income (one statement format) or (2) in a second statement (two statement format).

### QUESTION

34. What are the two ways that other comprehensive income may be displayed (reported)?

### BRIEF EXERCISE

**8 BE4-11** On January 1, 2012, Richards Inc. had cash and common stock of \$60,000. At that date, the company had no other asset, liability, or equity balances. On January 2, 2012, it purchased for cash \$20,000 of equity securities that it classified as available-for-sale. It received cash dividends of \$3,000 during the year on these securities. In addition, it has an unrealized holding gain on these securities of \$4,000 net of tax. Determine the following amounts for 2012: (a) net income; (b) comprehensive income; (c) other comprehensive income; and (d) accumulated other comprehensive income (end of 2012).

### EXERCISES

**8 E4-14 (Comprehensive Income)** Armstrong Corporation reported the following for 2012: net sales \$1,200,000; cost of goods sold \$720,000; selling and administrative expenses \$320,000; and an unrealized holding gain on available-for-sale securities \$15,000.

**Instructions**

Prepare a statement of comprehensive income, using (a) the one statement format, and (b) the two statement format. (Ignore income taxes and earnings per share.)

**8 E4-15 (Comprehensive Income)** Bryant Co. reports the following information for 2012: sales revenue \$750,000; cost of goods sold \$500,000; operating expenses \$80,000; and an unrealized holding loss on available-for-sale securities for 2012 of \$50,000. It declared and paid a cash dividend of \$10,000 in 2012.

Bryant Co. has January 1, 2012, balances in common stock \$350,000; accumulated other comprehensive income \$80,000; and retained earnings \$90,000. It issued no stock during 2012.

**Instructions**

Prepare a statement of stockholders' equity.

**8 E4-16 (Various Reporting Formats)** The following information was taken from the records of Gibson Inc. for the year 2012: income tax applicable to income from continuing operations \$119,000; income tax applicable to loss on discontinued operations \$25,500; income tax applicable to extraordinary gain \$32,300; income tax applicable to extraordinary loss \$20,400; and an unrealized holding gain on available-for-sale securities \$15,000.

Extraordinary gain	\$ 95,000	Cash dividends declared	\$ 150,000
Loss on discontinued operations	75,000	Retained earnings January 1, 2012	600,000
Administrative expenses	240,000	Cost of goods sold	850,000
Rent revenue	40,000	Selling expenses	300,000
Extraordinary loss	60,000	Sales revenue	1,700,000

Shares outstanding during 2012 were 100,000.

**Instructions**

- (a) Prepare a multiple-step income statement.
- (b) Prepare a statement of comprehensive income for 2012, using the one statement format.
- (c) Prepare a retained earnings statement for 2012.

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**CONCEPTS FOR ANALYSIS**

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**CA4-9 (Comprehensive Income)** Willie Nelson, Jr., controller for Jenkins Corporation, is preparing the company's financial statements at year-end. Currently, Nelson is focusing on the income statement and determining the format for reporting comprehensive income. During the year, the company earned net income of \$400,000 and had unrealized gains on available-for-sale securities of \$15,000. In the previous year, net income was \$410,000, and the company had no unrealized gains or losses.

**Instructions**

- (a) Show how income and comprehensive income will be reported on a comparative basis for the current and prior years, using the two statement format.
- (b) Show how income and comprehensive income will be reported on a comparative basis for the current and prior years, using the one statement format.
- (c) Which format should Nelson recommend?