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COMMENTARY

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Toward Reporting Comprehensive Income

THE CALL FOR REPORTING COMPREHENSIVE INCOME

A few years ago, this journal included an article entitled "The Time Has Come to Report Comprehensive Income" (Robinson 1991). It stated that "the increasing complexity of business, the diversity of businesses reported on, the controversial nature of the items on the FASB's agenda, and the sophistication of the user community all argue for a full, comprehensive income presentation" (Robinson 1991, 109).

More recently, Michael H. Sutton, now Chief Accountant of the Securities and Exchange Commission, co-authored an article (Sutton and Johnson 1993) that urged the creation of a new statement to accommodate fair value measures in a balance sheet without having to report changes in those fair values in an income statement:

> Our framework would retain the essential structure of the current accounting model, but would provide for greater recognition of market values in the financial statements. Financial assets that have ready markets would be carried at market value on the balance sheet. Unrealized changes in the values of these assets would be excluded from the traditional measurement of earnings. Rather, these changes in values, which are provisional until the asset is sold, would be captured and reported in a new, fourth financial statement. ... (Sutton and Johnson 1993, 39)

The approach proposed would interpose a new statement between an income statement and a balance sheet:

> Under current accounting standards, most gains and losses are reported in the income statement. We propose that standard-setters give serious consideration to introducing a fourth financial statement ... (in addition to the balance sheet, income statement, and statement of cash flows) to deal with conflicts in the objectives of reporting financial position as of a point in time and reporting earnings for a period of time. (Sutton and Johnson 1993, 42)

About the same time, the Association for Investment Management and Research (AIMR), one of the largest and most influential groups of users of financial statement information, specifically urged that the concept of comprehensive income be put into practice. In *Financial Reporting in the 1990s and Beyond* (1993), AIMR argued that comprehensive income "is needed for better and more useful financial reporting in several areas," including in reporting the impact of changing fair values of marketable securities and all other nonowner changes in equity that presently are reported as equity adjustments (AIMR 1993, 63). The report went on to note that:

> The FAPC [Financial Accounting Policy Committee] has consistently supported the "all-inclusive income" statement format, known colloquially as the "clean surplus" approach. We consider income to include all of an enterprise's wealth changes except those engendered from transactions with its owners.

The views expressed in this article are those of the authors. Official positions of the Financial Accounting Standards Board are determined only after extensive due process and deliberation.

> We have profound misgivings about the increasing number of wealth changes that elude disclosure on the income statement. Yet individual items may be interpreted differently. That calls for the display of comprehensive income that allows components of different character to be seen and evaluated separately. (AIMR 1993, 63)

AIMR concluded that "Much of this report is devoted to marshalling evidence and arguments to support our position that the FASB needs to move comprehensive income from concept to application. We believe that the arguments are strong and hope to see progress on this matter in the not-too-distant future" (AIMR 1993, 88).

Based on those considerations, as well as others, the FASB decided on September 13, 1995 to add a project to its technical agenda to address the reporting of comprehensive income. The objective of the project is to issue a Statement of Financial Accounting Standards that requires business enterprises to report all components of comprehensive income in one or more statements of income or financial performance for the period in which those items are recognized.

In this article, we explain some background about comprehensive income and some reasons for undertaking that project now. We also discuss the scope of the project, including the questions that the FASB plans to address.

HOW DID COMPREHENSIVE INCOME ORIGINATE?

The concept of "comprehensive income" was formally introduced in FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises* (1980), which was replaced by FASB Concepts Statement No. 6, *Elements of Financial Statements* (1985a). Concepts Statement 6 extended the definitions in Concepts Statement 3 to not-for-profit organizations and expanded upon that Statement both to explain how those definitions apply to not-for-profit organizations and to introduce elements unique to those organizations. Comprehensive income is defined in both of those documents as follows:

> Comprehensive income is 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. (Concepts Statement 3, paragraph 56; Concepts Statement 6, paragraph 70)

"Comprehensive income" was the name that the Board adopted for the concept that it called "earnings" in FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*[1] (1978). The Board noted in Concepts Statement 3 that "the reason for using *comprehensive income* rather than *earnings* ... is that the Board has decided to reserve *earnings* for possible use to designate a different concept that is a component part of—that is, narrower than or less than—comprehensive income ..." (FASB 1980, paragraph 58; footnote reference omitted; emphasis in original). However, the Board did not formally define earnings in any of the subsequent concepts Statements.

Although the Board did not define earnings, it did describe the term in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* (1984b): "Earnings is 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). The Board noted that "Earnings is a measure of performance during a period that is concerned primarily with the extent to which asset inflows associated with cash-to-cash cycles substantially completed (or completed) during the period exceed (or are less than) asset outflows associated, directly or indirectly, with the same cycles" (paragraph 36; footnote reference omitted).

[1] "Earnings" was also the term used in several other FASB documents that preceded Concepts Statement No. 3: *Tentative Conclusions on Objectives of Financial Statements of Business Enterprises* (1976a); the FASB Discussion Memorandum, *Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement* (1976b); the FASB Exposure Draft, *Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises* (1977b); and the FASB Discussion Memorandum, *Reporting Earnings* (1979).

The Board also explained the distinction between earnings and comprehensive income. It first explained the distinction in a footnote to Concepts Statement 3, which stated that "Examples of the kinds of items that *might* be included in *comprehensive income* but not in *earnings*, when it is defined, include prior period adjustments and cumulative effects of changes in accounting principles. (The latter and many of the former are included in *net income* in present practice.)" (FASB 1980, footnote 25; emphasis in original). Later, in Concepts Statement 5, the Board expanded on that distinction as follows:

> Earnings and comprehensive income have the same broad components—revenues, expenses, gains, and losses—but are not the same because certain classes of gains and losses are included in comprehensive income but are excluded from earnings. Those items fall into two classes that are illustrated by certain present practices:
>
> a. Effects of certain accounting adjustments of earlier periods that are recognized in the period, such as the principal example in present practice—cumulative effects of changes in accounting principles—which are included in present net income but are excluded from earnings as set forth in this Statement ...
>
> b. Certain other changes in net assets (principally certain holding gains and losses) that are recognized in the period, such as some changes in market values of investments in marketable equity securities classified as noncurrent assets, some changes in market values of investments in industries having specialized accounting practices for marketable securities, and foreign currency translation adjustments. (FASB 1984b, paragraph 42; footnote references omitted.)

Those distinctions between earnings and comprehensive income have their roots in the ancient debate between the so-called "current operating performance" and the "all-inclusive income" (or "clean surplus") concepts of reporting income. Under the "current operating performance" concept, extraordinary and nonrecurring gains and losses are excluded from being reported in income. In contrast, under the "all-inclusive income" concept, all revenues, expenses, gains, and losses recognized during the period are to be included in income, regardless of whether they are the results of operations of the period. Accordingly, no revenues, expenses, gains or losses should be recognized directly in retained earnings (or "earned surplus"), thereby giving rise to the alternative name of the "clean surplus" concept.

The Executive Committee of the American Accounting Association (AAA) supported the all-inclusive income concept and made it one of the central features of "A Tentative Statement of Accounting Principles Underlying Corporate Financial Statements" (1936). The Committee described the concept as follows:

> The income statement for any given period should reflect all revenue properly given accounting recognition and all costs written off during the period regardless of whether or not they are the results of operations in that period: to the end that for any period of years in the history of the enterprise the assembled income statements will express completely all gains and losses. (paragraph 8)

Paton and Littleton (1940) took a similar position in their classic AAA monograph, *An Introduction to Corporate Accounting Standards,* in which they stated:

> A definite position is taken here to the effect that all determinants of income in the broadest sense—including unusual and irregular factors—should be reported in the income statement before the net results are passed on to the stock-equity section of the balance sheet. (pg. 102)

The Committee on Accounting Procedure of the American Institute of Accountants (now the AICPA) generally favored the "current operating performance" approach, but the SEC strongly supported the "all-inclusive approach." The two bodies worked out a number of compromises, but each ultimately proved unsatisfactory to one or the other—or both—which led them to try to seek yet another compromise (Storey 1990, 17).

Eventually, the successor to the Committee on Accounting Procedure, the AICPA's Accounting Principles Board, largely adopted the "all-inclusive income" concept when it issued APB Opinion No. 9, *Reporting the Results of Operations* (1966). The APB generally reaffirmed the concept when it issued Opinion No. 20, *Accounting Changes* (1971), and Opinion No. 30, *Reporting the Results of Operations—*

Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (1973).

The FASB picked up where the APB left off. The Board defined comprehensive income broadly in its Concepts Statements, in a manner consistent with the "all-inclusive income" concept. However, by reserving the use of "earnings" for an income measure somewhat narrower than comprehensive income, the Board left the door open for also reporting an income measure more in keeping with the "current operating performance" concept.

Although the Board has defined comprehensive income, it has not yet required that comprehensive income be reported in financial statements, even though it indicated in Concepts Statement 5 that comprehensive income should be reported:

> The amount and variety of information that financial reporting should provide about an entity require several financial statements. 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
> Investments by and distributions to owners during the period.
>
> (FASB 1984b, paragraph 13; footnote reference omitted.)

Even though the Board has not yet adopted a standard requiring comprehensive income to be reported, it has generally followed the "all-inclusive income" concept in the standards that it has issued to date.

From time to time, however, the Board has made certain exceptions to the all-inclusive income concept. Those exceptions have been in standards in which the Board has required that certain items bypass the income statement and be taken directly to the equity section of the balance sheet. That treatment commenced with FASB Statement No. 12, *Accounting for Certain Marketable Securities* (1975), and has continued into FASB Statement 115, *Accounting for Certain Investments in Debt and Equity Securities* (1993). It is not clear that the requisite majority of Board members would have voted for the adoption of those Statements without the compromises afforded by bypassing the income statement and taking certain items directly to equity. Thus, in a sense, the same tensions inherent in the "current operating performance" versus "all-inclusive income" debates of many years ago have continued to exist.

The issue is whether the FASB should return to an "all-inclusive income" concept as the foundation for reporting all of the changes in a period from sources other than transactions with owners and apply that concept consistently in its standards. The practice of taking certain components of comprehensive income directly to equity before passing through an income statement has gradually eroded that foundation. That practice has been expanded on a piecemeal basis over a number of years, usually in response to particular urgent issues and without explicit consideration of possible long-term consequences of continuing and extending that practice.

WHY PURSUE A PROJECT ON COMPREHENSIVE INCOME NOW?

One of the benefits of bringing an end to the practice of taking certain items directly to equity would be to restore a sound conceptual underpinning for the standards that the Board issues. At present, there is no sound conceptual basis for the Board's decisions to bypass the income statement and take certain items directly to equity. That is, even though those items are recognized components of comprehensive income, they are not presently included in a statement that reports income or financial performance. Ending that practice would therefore restore a conceptual basis to the reporting of components of comprehensive income by reporting recognized components of comprehensive income on a basis that is representationally faithful—in a statement of income or financial performance. Adherence to that conceptual basis would also have a salutary effect by imposing discipline upon the Board in making future decisions about the treatment of components of comprehensive income.

Another benefit of returning to the "all-inclusive income" concept for reporting comprehensive income is that items that are not presently reported in the traditional income statement would be made more transparent, thereby facilitating their understanding by users of financial statements. Those items can be significant to users of financial statements and are often viewed differently than items presently reported in the traditional income statement in assessing the past performance of a business enterprise as well as its future prospects. As the AIMR report stated, "Financial statement users need in one place all the data reporting an enterprise's economic activity, which they then may sort out to suit their own purposes" (AIMR 1993, 64), and "Much effort is required of analysts to locate and evaluate all of the income statement items that can have a bearing on their forecasts of the future and the valuation of the firm" (AIMR 1993, 88).

In addition, there are internal motivations for the FASB to undertake a project on comprehensive income. Perhaps most of the motivation stems from the Board's Financial Instruments project, particularly the part that focuses on Derivatives and Hedging. Many financial instruments are presently "off-balance-sheet," and as part of the Financial Instruments project, the Board is considering recognizing more of those financial instruments in the financial statements. Moreover, Board members have publicly stated that they believe that most, if not all, financial instruments ultimately should be recognized and measured at fair value, and the Board has tentatively decided in the Derivatives and Hedging project that all derivative instruments should be recognized and measured at fair value.

To recognize more financial instruments and measure them at fair value would likely have dramatic effects on financial statements, which would in turn lead to tensions. Some of the Board's constituents believe that recognizing those instruments and measuring them at fair value is essential if financial reporting for financial instruments is to be relevant. However, other constituents resist taking those steps, largely because of the volatility that the resulting price changes could cause if reported in income statements. The resulting tensions between those constituent groups have slowed, or stymied, progress on Board projects involving fair value measures in the past and continue to do so today. Reporting comprehensive income offers a way to resolve, or at least ameliorate, those tensions and to move forward.

Moreover, there is an international precedent for developing a vehicle for reporting components of comprehensive income outside of the traditional income statement. In Financial Reporting Standard 3, *Reporting Financial Performance* (1992), the United Kingdom Accounting Standards Board (ASB) introduced a "statement of total recognised gains and losses" as a supplement to the "profit and loss account" (the UK equivalent to the US income statement):

> A primary statement should be presented, with the same prominence as the other primary statements, showing the total of recognised gains and losses and its components. The components should be the gains and losses that are recognised in the period insofar as they are attributable to shareholders. (ASB 1992, paragraph 27; footnote reference omitted.)

The bottom line of that statement is comparable to what the FASB has defined as comprehensive income. The ASB explained its reasons for introducing the statement, as follows:

> The many parts of a reporting entity's activities exhibit features which differ in stability, risk and predictability, indicating a need for the separate disclosure of components of financial performance in the profit and loss account and in the statement of total recognized gains and losses. The disclosure of these components is designed to facilitate understanding of the performance achieved in a period and to assist users in deciding on the extent to which past results are useful in helping to assess potential future results. A component, of whatever nature, should be shown separately if it has special significance for the assessment of some aspect of performance. (ASB 1992, paragraph 35)

FRS 3 also requires that a "note of historical cost profits and losses" be presented, which it describes as "... a memorandum item, the primary purpose of which is to present the profits or losses of reporting entities that have revalued assets on a more comparable basis with those of entities that have not. It is an abbreviated restatement of the profit and loss account which adjusts the reported profit or loss, if necessary, so as to show it as if no asset revaluations had been made" (ASB 1992, paragraph e).

WHAT QUESTIONS WILL BE ADDRESSED IN THE PROJECT?

At its broadest, a project on comprehensive income could encompass the requirements for *recognition* and *measurement* of income items. Such a project would include a comprehensive re-examination of the present standards and practices for accounting for income items. However, that would be a massive undertaking that would raise a multitude of formidable and complex issues that are sure to be highly controversial. They are issues to which the Board and its predecessors have devoted a large amount of time and effort with only moderate success. As a result, resolution of those issues would likely prove exceptionally difficult and problematic. In addition, no strong clamor of support for undertaking so sweeping a project has been heard from any of the Board's constituents. Accordingly, the Board concluded that a project that considers all aspects of comprehensive income, including recognition and measurement of its components, is not practical at this time.

Although a broad project on comprehensive income is not practical, the Board concluded that a project on reporting comprehensive income is practical. Instead of focusing on recognition and measurement, the project takes as givens the existing requirements for the recognition and measurement of items of comprehensive income and focuses on issues of presentation. The Board decided that the project on reporting comprehensive income should answer three general questions: (1) what constitutes comprehensive income, (2) where should comprehensive income be displayed, and (3) how should the components of comprehensive income be displayed?

What Constitutes Comprehensive Income?

A threshold issue for the Board to decide in this project is whether a total for comprehensive income should be reported in the financial statements. Arguably, any effort that is described as a project on "reporting comprehensive income" should encompass reporting a total for comprehensive income for the project to be complete. Moreover, the discipline that would result from having to report that total would help to assure that what is reported as income would indeed be "comprehensive." Thus, reporting a total may be, in a sense, a *sine qua non* of the project.

However, to be able to report a total for comprehensive income, there must be agreement on what goes into it, that is, what constitutes comprehensive income. The issue is not how comprehensive income should be defined, but rather how it should be interpreted. In particular, the issue is which of those items that are recognized under present accounting standards should be included in comprehensive income? Revenues, expenses, gains, and losses—including those that presently bypass the income statement and go directly to equity[2]—are all clearly part of comprehensive income and are not at issue. However, it is not

[2] Currently, the following items are required to be reported directly in equity instead of in net income:

- Foreign currency translation adjustments, FASB Statement No. 52, *Foreign Currency Translation* (1981b), paragraph 13;
- Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date, Statement 52, paragraph 20a;
- Gains and losses on intercompany foreign currency transactions that are of a long-term investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined or accounted for by the equity method in the reporting enterprise's financial statements, Statement 52, paragraph 20b;
- A change in the market value of a futures contract that qualifies as a hedge of an asset reported at fair value unless paragraph 11 requires earlier recognition of a gain or loss in income because high correlation has not occurred, FASB Statement No. 80, *Accounting for Futures Contracts* (1984a), paragraph 5;
- Unrealized holding gains and losses on available-for-sale securities, FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (1993), paragraph 13;

(Continued on next page)

clear, for example, whether prior period adjustments are part of comprehensive income.

Concepts Statement 3 acknowledged that issue, as follows:

> Examples of the kinds of items that *might* be included in *comprehensive income* but not in *earnings* ... include prior period adjustments and cumulative effects of changes in accounting principles. (The latter and many of the former are included in *net income* in present practice.) (FASB 1980, footnote 25; emphasis in original.)

In addition, Concepts Statement 5 noted that:

> Prior period adjustments as defined in FASB Statement No. 16, *Prior Period Adjustments,* are not included in net income in present practice and are not, therefore, differences between earnings in this Statement and present net income. Statement 16 narrowed considerably the definition of prior period adjustments in APB Opinions No. 9, *Reporting the Results of Operations,* 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.* Some items that were prior period adjustments under those Opinions are included in net income in present practice, and some argue that the existing definition is too narrow because as a result net income includes items that belong to other periods. (1984b, footnote 21)

Thus, if the Board decides that a total for comprehensive income should be reported in the financial statements, it also will need to decide what constitutes comprehensive income. That might result in items like prior period adjustments being included in current period comprehensive income instead of being reported as retroactive adjustments to net income of prior periods presented for comparison purposes. Alternatively, it could result in the effects of certain other accounting adjustments of prior periods that are recognized in the current period (such as cumulative effects of changes in accounting principles) being excluded from both current period net income and current period comprehensive income.

Where in the Financial Statements Should Comprehensive Income Be Displayed?

The second question concerns the particular financial statements in which components of comprehensive income should be displayed, in particular, whether comprehensive income should be displayed in one or more statements of income or financial performance.

If enterprises were to be required or permitted to display comprehensive income in more than one statement of income, that would raise issues about the nature and content of those statements. A key issue is whether one of those statements should be essentially a traditional income statement and another statement should be essentially for reporting the items of "other comprehensive income," that is, those items that are not presently reported in a traditional income statement. If one is to be a traditional income statement, gains and losses initially displayed as part of "other comprehensive income" in one period would be subsequently recycled or reclassified and displayed in a traditional income statement of a later period unless the bottom line of that statement were redefined to be an amount other than present-day net income or "earnings" as described in Concepts Statement 5.

In addition, if enterprises were to be required or permitted to display comprehensive income in more than one statement of income, another issue is whether they should be permitted the alternative of displaying it in a single statement. That could be accomplished, for example, by expanding a traditional income statement to accommodate the components of comprehensive income that are not presently reported in an income statement.

Footnote 2 *(Continued from previous page)*

- Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category, Statement 115, paragraph 15c;
- Subsequent increases in the fair value of available-for-sale securities previously written down as impaired, Statement 115, paragraph 16;
- Subsequent decreases in the fair value of available-for-sale securities, if not an other-than-temporary impairment, previously written down as impaired, Statement 115, paragraph 16;
- The excess of the additional pension liability over unrecognized prior service cost (that is, net loss not yet recognized as net periodic pension cost), FASB Statement No. 87, *Employers' Accounting for Pensions* (1985b), paragraph 37.

How Should Components of Comprehensive Income Be Displayed?

The third question concerns how the components of comprehensive income should be displayed within the financial statements. Specifically, it concerns how comprehensive income should be displayed or categorized within particular statements of income or financial performance.

Display of income by disaggregation into categories consisting of similar or like items is essential to users. Academic research has consistently demonstrated that capital markets tend to place different weights on different components of reported income. As the AIMR report noted, "... individual items may be interpreted differently. That calls for a display of comprehensive income that allows components of different character to be seen and evaluated separately" (AIMR 1993, 63).

That question could be addressed broadly, that is, in the context of all components of comprehensive income—including those presently reported in the traditional income statement. Alternatively, it could be addressed narrowly, that is, in the context of "other comprehensive income"—the items that are not presently included in a traditional income statement.

Addressing the question broadly would bring into question the current categorization of income. Present-day net income is now divided into four categories: (1) income from continuing operations, (2) discontinued operations, (3) extraordinary items, and (4) cumulative effects of changes in accounting principles. For the most part, those categories appear to be well accepted and seem to be generally viewed as adequate. Although, like many things, that categorization may be capable of improvement, there does not appear to be a pressing need at this time to address how the components of present-day net income should be displayed.

In addition, addressing the question broadly would inevitably raise the question of whether a measure that reflects "current operating performance" should be displayed, a matter that accountants have struggled with for many years. Moreover, a broad consideration would not be complete without also considering the issue of reporting "core earnings," that was identified by the AICPA's Special Committee on Financial Reporting (AICPA 1994). Those are difficult and controversial issues, and ones that are likely to require years of study and debate. And even then, based on past experience, resolution of those issues would be, at best, uncertain.[3]

However, much of the motivation for undertaking the project stems from dissatisfaction not with what is reported in present-day statements of income, but rather with what is not reported in them. That is, the dissatisfaction lies primarily with the present practice of bypassing the income statement and taking certain items of comprehensive income directly to equity. As that practice has been extended and expanded over the years by various standards, it has become increasingly troubling, especially in light of the growth in the magnitude and importance of financial instruments and the need to use fair values to measure those instruments. That suggests focusing on the components of comprehensive income that are not presently included in an income statement.

Nonetheless, as part of this project, the Board could decide to implement part of Concepts Statement 5 by replacing what is pres-

[3] Indeed, the Board has struggled with those issues before. In 1979, it issued the Discussion Memorandum, *Reporting Earnings,* which focused on issues relating to how income and its components should be reported and displayed; although it was noted in the DM that "the project on reporting earnings ... may lead to revisions in several FASB Statements and APB Opinions" (FASB 1979, 2), no revisions resulted directly from that effort. In 1981, the Board issued an Exposure Draft, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises* (FASB 1981a), that incorporated many of the issues considered in the DM. Although that ED was expected to lead directly to a concepts Statement on those issues, that did not occur, largely because of the controversial nature of some of the notions put forth in the ED, especially with regard to reporting certain items of income. Instead, the Board elected to incorporate a few of the less controversial notions from the ED in Concepts Statement 5. Given that experience, it is at least open to question whether the Board would be able to address those same issues successfully today.

ently reported as net income with "earnings."[4] As noted previously, Concepts Statement 5 states that "Earnings is 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." That would require excluding cumulative effects of changes in accounting principles from net income and including them in "other comprehensive income" (which would require amending APB Opinion 20).

However, if cumulative effects of changes in accounting principles were to be included in "other comprehensive income," and if the Board decides that prior period adjustments should be included in comprehensive income, consideration might be given to reporting both of those in the same category. Such a category might consist of the effects of accounting adjustments of earlier periods that are recognized in the current period.

Displaying prior period adjustments together with cumulative effects of changes in accounting principles might prove popular with some. For example, some members of the user community might find that by doing so would simplify their task of studying financial reports to identify which items relate to the current period and which to prior periods. Furthermore, it could result in a measure (whether labeled "earnings" or "net income") that more closely reflects "core earnings" than net income presently does, which some users might view as being at least a step in the right direction. In addition, excluding cumulative effects of changes in accounting principles from net income might prove popular with some members of the preparer community as it would bring net income closer to a current operating performance basis.

Other Questions

In addition to the questions outlined above, the following questions also would likely need to be addressed in the project:

- If comprehensive income is reported in more than one statement of income, should all of those statements be accorded the same prominence?
- If comprehensive income is reported in more than one statement of income, should the bottom line totals of all of those statements be accorded the same prominence?
- If a total for comprehensive income is displayed, should an amount for comprehensive income per share also be displayed?
- Should the Board prescribe a specific format for enterprises to use in displaying the components of comprehensive income?
- Should retained earnings continue to be reported in essentially its present form?

CONCLUSION

By adding to its technical agenda a project to consider the reporting of comprehensive income, the Board has set in motion a process that ultimately may change the set of financial statements. Building upon the foundation for comprehensive income that was established in the FASB's concepts Statements, the project could result in establishing a vehicle for reporting comprehensive income. Such a vehicle might, for example, be in the form of a second statement of income or financial performance or an expansion of a traditional income statement. In so doing, the project could amend Statements 52 (1981b), 80 (1984a), 87 (1985b) and 115 (1993) for items of comprehensive income that are initially reported in the statement of financial position as part of equity. In addition, the project also could amend APB Opinion 20 (1971) and FASB Statement 16 (1977a).

Although this project is not intended to be a broad consideration of other issues about comprehensive income (such as the recognition and measurement of items that constitute comprehensive income or the display of intermediate measures that reflect "current operating performance" or "core earnings"), undertaking it will not preclude the Board

[4] However, preliminary research by the FASB staff indicates that "net income" is a widely-used term, with nearly 80 percent of major companies that report profits using that term to describe them, and only about 20 percent using "net earnings." Thus, the Board might decide to retain the more familiar "net income" term to describe "earnings."

from addressing those issues later. That is because the issues to be addressed in this project would have to be considered in pursuing those issues as well. Thus, this project can provide a foundation for addressing those issues later.

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