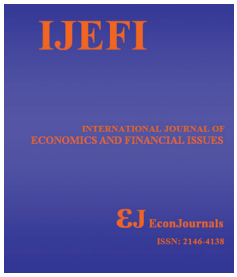

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Performance Reporting Choices after the Adoption of IAS 1 Revised: Comparative Evidence from Europe and the USA

Federica Doni[1]*, Silvia Rossetti[2], Roberto Verona[3]

[1]Department of Business and Law, Milano-Bicocca University, Milan, Italy, [2]Department of Economics and Management, University of Pisa, Pisa, Italy, [3]Department of Economics and Management, University of Pisa, Pisa, Italy. *Email: federica.doni@unimib.it

ABSTRACT

Motivated by the issuance of International Accounting Standard 1 revised, this paper investigates reporting choices on the comprehensive Income of listed companies from Europe and the USA. This research aims at verifying the effects of the requirements issued by the International Accounting Standard 1 revised in improving performance evaluation towards the convergence between European and American Accounting Standards, our research tests the correlation between the choice of income statement format and different variables, such as the size of companies, sign of other comprehensive income, leverage and status of a US listing. This paper also evaluates the effect of comprehensive income on financial performance by calculating the return on equity. The main findings underline that the format of Income Statement and the "location" of the comprehensive income can be interpreted both as factors that can influence the choices of investors and as a tool available to managers to alter the communication of the firm's performance choices.

Keywords: Comprehensive Income, Convergence, Performance
JEL Classifications: M10, M16, M40, M41

1. INTRODUCTION

The[1] recent process of accounting harmonization made possible by the adoption in 2005 of IAS/IFRS methods represents the beginning of a practice tending to overcome accounting differences not only at the European level but also more generally on a worldwide scale for the progressive adoption of a common global accounting language (McGregor, 1999; Pozzoli, 2003; Erikson et al., 2009; PWC, 2012). A super partes need emerges for a project of convergence between the European accounting IAS/IFRS standards and the American GAAP, which justifies the progressive harmonization of these two accounting systems (Tarca, 2005; Callagan and Treacy, 2007; Hail et al., 2010; Tarca, 2013). The exigency of reaching a definition of a unified set of accounting principles will not only result in the effective solution of "Tower of Babel accounting" (Erikson et al., 2009) but also improve comparability of data and financial communication on stock markets (Accountancy, 1966). The coexistence of two sets of accounting standards in the U.S. market and the need highlighted by the two standard setters to promote the convergence process justified the comparison between Europe and the US performed in this paper.

The empirical research analysed the 2008-2009 and 2012 IFRS annual reports of companies listed in four European countries, France, Germany, Italy and the UK, and the 2009 and 2012 US-GAAP annual reports of US companies. The main purpose of our research is to evaluate the differences (Bloomer, 1996; Ampofo and Sellani, 2005; PwC, 2012; Kvaal and Nobes, 2010; 2012) in the reporting performance choices in Europe and between Europe and the USA through the two sets of accounting standards, IFRS and U.S. GAAP.

The adoption of the IAS/IFRS principles has brought about a radical change in certain key aspects of the creation of financial

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statements. For several years now, the (IASB, 2008) has been making significant revisions to basic accounting rules in anticipation of the future convergence between the IFRSs and the US GAAP[2]. One of the themes recently revised is the concept of income formation and therefore the IFRS approach to the definition of business performance. At the European level, income determination based on IFRSs has been characterized by several steps that have caused considerable changes. The common aim is to improve external disclosure of the real performance achieved by companies and to meet the information needs of potential investors (IASCF, Framework for the Preparation and Presentation of Financial Statements, 1989; Conceptual Framework for Financial Reporting 2010 [the IFRS Framework] approved by the IASB, September 2010). Although the historical cost criterion has not been abandoned, the adoption of fair value as a "benchmark" criterion has led, in general terms, to the rejection of the concept of realized or produced income and the introduction of the concept of a "true and fair view" of the income, financial and asset positions, including factors of future realizability. This view is known as a "hybrid" or realizable income structure, i.e. an income structure inclusive of proceeds and revenues that, although accrued, have not yet been realized and are linked to the application of the fair value criterion. This results in an increase in the number of items to be recorded as income components, which must be measured solely on an accrual basis, because accrual is sufficient and actual realization is not required.

The "new" concept of income (Barker, 2010) must therefore be associated with an appropriate income statement structure that will represent the different conceptual approach in a consistent manner. The income statement schedule under IAS 1 does not require a rigidly set form; in fact, only the minimum number of entries is required. Therefore, the financial statements of different companies are not comparable, and actual performances cannot be compared via the calculation of profitability indexes such as return on equity (ROE), ROI, and EVA. This issue, perceived by international standard setters, led to the need to revise the accounting principles and resulted in the development of projects aimed at improving the representation of so-called "comprehensive income." Difficulties in the recognition of the different items (i.e., foreign currency translation adjustments on foreign subsidiaries; actuarial gains and losses arising in defined benefit plans; revaluation of property, plant and equipment; changes in fair value of financial instruments in a cash flow hedge and actuarial gains and losses arising from available for sales [AFS] financial instruments) that may be included in other comprehensive income (OCI) have boosted a joint project between the two standard-setters (presentation of items of OCI; proposed amendments to IAS 1). The project has caused a further revision of IAS 1, i.e. an exposure draft (ED/2010/5) that was included into the Amendments to IAS 1 in June 2011 (Thinggard et al., 2006; Van Cauvenberger and De Beelde, 2007; Goncharov and Hodgson, 2011).

Similarly, although with different contents, the FASB has issued accounting standard update 2011-05, based on ED presentation of items reclassified out of accumulated OCI (issued August 16, 2012, comments due, October 15, 2012), which is effective for all public companies in fiscal years beginning after December 15, FASB, 2011. In particular, this document strongly emphasizes "location" because ASU 2011-05 will no longer permit public companies to report OCI in the statement of changes in equity (Weiss, 2011). This issue has considerable importance because "the current practice of the vast majority of public companies is the above-mentioned form of reporting" (Chambers, 2011).

This change should accomplish a real convergence between IFRS and US GAAP because the potential ways to report comprehensive income become only two; the companies must report total comprehensive income and its components either in a single continuous statement of comprehensive income or in two separate, but consecutive, statements of net income and OCI. The reporting guidance under US GAAP and IFRS has essentially converged, but there remain differences between US GAAP and IFRS with respect to what is included in comprehensive income and in reclassification requirements.

Given these premises, the main objectives of this research are the following:

- OB1: to analyse the approach to the reporting of comprehensive income within the annual report of listed European companies in the 2-year period 2008-2009 and in 2012 and of American listed companies for the years 2009 and 2012;
- OB2: to verify the effect of the requirements issued by IAS 1 revised, referring to the presence of profitability indicators and the improvement of performance disclosure within the Annual Report.

The first goal, OB1, requires checking Income Statement tables. For the sample of European Companies (2009), a choice between two alternatives is provided, namely a single statement or two separate statements. However, based on FAS 130, a choice exists among three alternatives, i.e., in addition to those choices already highlighted, it is possible to expose OCI in the statement of changes in net assets (Statement of changes in equity).

The second objective, OB2, requires the following steps to be performed: (1) Calculation of ROE in two different ways - ROE_{NI} (net income) and ROE_{CI} (comprehensive income), and (2) evaluation of the significance of OCI and the volatility of comprehensive income compared with net income.

The remainder of the paper proceeds as follows: Paragraph 2 highlights a literature overview of previous studies on comprehensive income in Europe and in the USA. Paragraph 3 explains the research design, methodological approach and the

2 (IASB, September, 2002; A Roadmap for Convergence between IFRSs and US GAAP 2006-2008, Memorandum of Understanding between the FASB and the IASB 27 February 2006 (MoU); FASB and IASB Reaffirm Commitment to Memorandum of Understanding A Joint Statement of the FASB and IASB November 5, 2009 Progress Report on Commitment to Convergence of Accounting Standards and a Single Set of High Quality Global Accounting Standards 24 June 2010; Report to the Trustees of the IFRS Foundation IFRS Foundation staff analysis of the SEC Final Staff Report—Work Plan for the consideration of incorporating IFRS into the financial reporting system for US issuers 22 October 2012; Meeting of the G-20 Finance Minister and Central Bank Governors 15-16 February 2013 Update by the IASB and FASB).

company sample selection process. Paragraph 4 emphasizes the discussion of results. Paragraph 5 presents concluding remarks.

2. LITERATURE OVERVIEW AND HYPOTHESES DEVELOPMENT

The international debate on comprehensive income is extensive and varied; in particular, there are many studies performed by American scholars since the concept of comprehensive income was adopted in the annual report resulting from the implementation of FAS 130 in 1998. A similar approach is identifiable in the UK in relation to the adoption of accounting standard financial reporting standards, FRS 3 Reporting Financial Performance, in 1992. From this perspective, the studies performed in Europe are relatively recent, particularly in continental countries such as Italy, France, Germany, and Spain.

Several investigations focussed on the assessment of a deepening of different strands of research (Hodgson and Russell, 2014). In particular, many studies focussed on the value relevance of OCI (Barth et al., 2001; Holtausen and Watts, 2001; Pinto, 2005; Biddle and Choi, 2006; Mitra and Hossain, 2009; Kanagaretnam et al., 2009; Jones and Smith, 2011; Valipour et al., 2012; Mechelli and Cimini, 2014; Fasan et al., 2014), whereas other empirical surveys aimed to measure the perceptions of professional investors, non-professional users and audit firm groups about how to present comprehensive income (Maines and McDaniel, 2000; Tarca et al. 2008; Lee and Park, 2013).

Given the focus on the process of convergence between IFRS and US GAAP, the main studies can be divided into two groups: Empirical research performed in Europe and in the U.S. With respect to the first group, studies post-IAS 1 revised 2007 have been selected. In Italy, empirical studies have significantly increased since the adoption of IAS 1 revised 2007. The concept of comprehensive income, which is a novelty for the Italian accounting system, has been analysed for listed companies in different studies that have outlined mixed results (D'Este and Fellegara, 2009; Devalle, 2010; Ferraro, 2011; Incollingo and Di Carlo, 2012; Cimini, 2012; De Cristofaro and Falzago, 2012; Agostini and Marcon, 2013; Incollingo et al., 2013). The most consistent findings highlighted approaches to disclosing OCI (D'Este and Fellegara, 2009; Ferraro, 2011; Cimini, 2012; De Cristofaro and Falzago, 2012; Agostini and Marcon, 2013). In particular, the results of studies conducted on accounting records for financial year 2009, the first year in which such principles were enforced (D'Este and Fellegara, 2009; Ferraro, 2011; De Cristofaro and Falzago, 2012; Cimini, 2012), were further enhanced by those conducted on the following years' records (Agostini and Marcon, 2013), thus confirming the original choices made by preparers of financial statements and providing further insight into their underlying motivation. For instance, the overwhelming choice made by preparers - to have a separated prospectus - has been accounted for by the scholars partly because of the value of OCI (Ferraro, 2011; Cimini, 2012) but above all because of the effect of Italy's fondness for the historical cost criterion or, even more generally, as a solution that is more in tune with our accounting criteria (Ferraro, 2011; De Cristofaro and Falzago, 2012; Agostini and Marcon, 2013). Concerning the latter point, the authors' conclusion is that Italy has only partly understood the meaning of "restructuring of income" (De Cristofaro and Falzago, 2012) given by IAS 1 (revised) and has considered the information such a restructuring provides as an "addition" to net income. Instead concerning the weight of the OCI items, research conducted on financial statements even before the launch of IAS 1 (revised) found that the weight of the "other" income items was not negligible (Devalle, 2010). Such results were corroborated by several parties, who also emphasised the extremely volatile nature of comprehensive income (D'Este and Fellegara, 2009; Cimini, 2012; Incollingo and Di Carlo, 2012; Di Carlo et al., 2014). Inferential statistical analyses were primarily performed to measure the predictive power of OCI versus corporate cash flows (Di Carlo et al.; 2014), or OCI's effect on corporate performance versus net income (Ferraro, 2011; Cimini, 2012; Firescu, 2015). In this respect, the results confirmed the high predictive power of OCI on future cash flows (Di Carlo et al.; 2014), the independent configuration of income in OCI (Cimini, 2012), and its relationship to performance (Ferraro, 2012). Studies made in other countries such as Spain and New Zealand provided similar results (Fernandez and Carro-Arana, 2010; Wong and Wong, 2010).

In contrast, with respect to the second group (U.S. studies) and in light of the launch of SFAS 130 in 1998, researchers focused on two areas of OCI: Assessing the effect of OCI on managers' disclosure choices (Ketz, 1999; McCoy et al., 2009; Bamber et al., 2010; Jordan and Clark, 2002) and the effects of the new approaches provided by OCI to disclosing a company's performance on equity markets and on professional or non-professional investors (Maines and McDaniel, 2000; Dehning and Ratliff, 2004; Chamber et al., 2007; Tarca et al., 2008).

The key results of the studies conducted in the first line of studies found that US companies have a propensity to represent OCI in the "statement of changes in equity" prospectus rather than in the double prospectus, a choice associated by some with managers' salaries and bonuses (Bamber et al., 2010). Such studies also measured the weight of each OCI item and found them, overall, to be extremely volatile, a finding consistent with those of studies conducted in Italy and Europe, whereas the relationship between OCI and the company's size was found to be weak (Ketz, 1999).

This research aims to provide a further contribution to the studies already performed for two different reasons: (1) The situation of reporting performance preferences is analysed both in the European and in the U.S. context to assess the actual degree of convergence between the two sets of IFRSs and U.S. GAAP. Most research conducted in the period immediately following the adoption of IAS 1 revised considered only one (Jones and Smith 2011; Ferraro, 2011; Cimini, 2012) or two countries (Incollingo and Di Carlo, 2012) or simply considered separately either European countries (Mechelli and Cimini, 2014; Fasan et al., 2014) or the U.S (Pandit and Phillips, 2004; Pandit et al., 2006), (2) a particular focus existed on how to present not only comprehensive income but also the statement of income for a precise appreciation of the disclosure of performance within the

Annual Report, particularly with respect to sensitivity shown by the two standard-setters in the two recent documents issued by the FASB and IASB: Amendment ASU No. 2011-5, and Presentation of Items of OCI, Amendments to IAS 1, June 2011.

3. RESEARCH DESIGN

The sample group surveyed was the result of a selection of countries and firms. Because the aim of the research was to assess performance reporting practices in Europe, the selection focussed on the countries with higher GDP (World Bank Group, 2007) namely Germany, France, the United Kingdom and Italy. For the analysis on the application of U.S. GAAP, the country of reference is obviously the United States. The study analyses the companies quoted on stock markets, selected according to capitalization (data were obtained from data stream). For each country, the sample includes the 10 largest companies in terms of market capitalization. The sample group does not include companies in the financial sector such as banks, insurance or real estate firms. The financial sector remains "under-researched" in the literature; however, according to Nobes (Kvaal and Nobes, 2010), this omission is justifiable because of different legislation on certain accounting items specific to these sectors. The choice of the largest companies, in terms of size, was based on their greater influence on equity markets (Cairns et al., 2011) and greater attention to compliance with IFRS, aspects primarily focused on the needs of the global investor community (Chaplinski and Ramachand, 2000; Wu and Kwok, 2002).

Financial statements of groups of listed companies in France, Germany and Italy are drawn up in euros, unlike financial statements of listed groups in London, where the currency is primarily the pound, although in some cases, dollars or euros are used instead. In these cases, values were not converted to the exchange rate of the closing date of the fiscal period because differences in currency did not affect our calculations.

The first step of the research focuses on the consolidated financial statements of the 2008-2009 financial years. The second step concentrates on the consolidated financial statements of the 2008-2008-2012 financial years. Annual reports were collected directly from company websites.

In summary, the research hypotheses related to the first objective are the following:

H_1: There is a correlation between the choice of format and size of companies.

H_2: There is a correlation between the choice of format and the sign of the OCI.

H_3: There is a correlation between the choice of format and leverage.

H_4: There is a correlation between the choice of format and the status of a U.S. listing.

The research hypothesis connected to the second objective is the following:

H_5: The calculation of ROE_{CI} expresses the measure of performance better than does the calculation of ROE_{NI}.

4. DISCUSSION OF RESULTS

The results of our survey are reviewed below and appropriately compared, whenever feasible, with the results of previous surveys, sorted by the geographical origin of the surveyed sample, either Europe or the USA. Based on a trend generally accepted in the literature, empirical surveys are of two types: (1) Descriptive surveys, and (2) surveys based on value relevance-based statistical methods. Our survey definitely belongs to the first line of research, despite using the following statistical methods: Cramer's V index for the combination of qualitative variables, R square for the linear correlation and the point-biserial correlation coefficient with a t-test for the difference between averages to test for the absence of correlation between a quantitative variable and a dichotomic variable.

The data we derived from the consolidated statements of the sampled companies are:

1. Net income and shareholders' equity;
2. OCI, in which any change that occurred during the year[3], added to net income, yields the value of the comprehensive income, and
3. Total value of assets and liabilities in the balance sheet.

Concerning the first goal, data were collected with a view to understanding the preparers' choices about how to present comprehensive income and general financial performance through the annual report. Such choices go either way; they may help potential investors' make their choices when they make the description and disclosure clearer, or they may provide useful information to find opportunities to implement specific budget policies (D'Este and Fellegara, 2009).

The topics we selected, based on choices about comprehensive Income, were:

1. Number and significance of OCI items and
2. Number of prospectuses used.

4.1. Significance of OCI Items

The first survey we conducted sought companies in which the overall number of OCI items was zero. Such a situation would actually have affected any further survey for two reasons: (1) The lack of OCI items would not make any change in the assessment of corporate performance, (2) companies with zero OCI items in which, therefore, net income and comprehensive income would be the same could opt for a "single" profit and loss account to allow a simpler presentation (Cimini, 2012) because the companies would have no interest in using a separated profit and loss account. In the surveyed sample, no companies in either the sample of European companies or the sample of US companies were found to have zero OCI items; therefore, this aspect had no effect on later surveys and so did not reduce the significance of the results (Table 1).

3 In the 2008 financial statements, the prospectus used to record the OCI items was that of Changes in Net Worth, which made it difficult to find the relevant values. For our survey, the prospectuses we used to find such information were either the Changes in Net Worth or the Profit and Loss account.

Table 1: Total amount of OCI

Country	Absolute values			Relative values (2008=100)		
	2008	2009	2012	2008	2009	2012
France	−19.03	3.89	−7.00	−100.00	20.44	−36.76
Italy	−3.97	0.86	−3.31	−100.00	2170	−83.52
UK	−37.98	26.52	−9.86	−100.00	69.82	−25.95
German	−22.39	−0.83	−12.54	−100.00	−3.72	−55.98
USA	−99.93	10.81	−20.05	−100.00	10.82	−20.06

OCI: Other Comprehensive Income

The second survey was focused on the significance of OCI items in the following terms:

1. Total number of OCI items and trend in the surveyed 3-year period;
2. Frequency of number of cases per type of OCI item;
3. Algebraic sign of the OCI item and trend in the surveyed period; and
4. Effect of OCI items on Net Income.

France: The following was found in the first and third aspects: The sample of French companies recorded a negative value in the year 2008, a positive value in 2009, and then negative again in 2012, although the last number was less than one-half that of 2008. Examining each component, we found that the highest frequency (29 of 115) was found in (1) foreign currency translation adjustments on foreign subsidiaries, and (2) actuarial gains/losses arising from AFS financial instruments. This frequency appeared throughout the surveyed period, although in different ways. Finally, concerning the incidence of OCI items on net income in 2008, only two companies had positive OCI items that could have any incidence, at a low rate of 5-9.9%. In the remainder, the incidence on net income was negative; for one company (total), the rate was quite low, at 5-9.9%, whereas for five companies, it ranged from 10% to 99%. For two companies (Electricitè de France and L'Oreal), the rate exceeded 100%. The situation dramatically changed in 2009; most of the companies (8 companies) had a positive incidence, with one company (Carrefour) reaching as much as approximately 130%; in addition, negative values were only recorded by two companies. In 2012, the situation changed again because only two companies had a positive incidence, one with a very low rate, whereas most of the sample had OCI items that negatively affected Net Income at rates above 10%. In conclusion, a review of the algebraic signs showed that in 2008, there were only two cases of positive OCI, whereas a completely different situation, with eight cases of positive OCI, occurred in 2009. A situation similar to that of 2008 occurred again in 2012, with only two cases of positive OCI. Concerning the number of companies having opposing signs of NI and CI, there were two companies that in 2008 had a positive NI and a negative CI, whereas in 2009, there were no companies with opposing signs in their two performance indicators. Finally, in 2012, there was only one company with a positive NI and a negative CI.

Italy: In the sample of Italian companies, the situation is the following: The trend of the overall amounts was slightly negative in 2008. Then, the trend increased and turned into a positive amount, although near to zero, then became negative again in 2012, with a higher rate, in absolute terms, than that of 2008. The negative value of the overall OCI items in 2012 seems to be due to a rise in the prevalence of negative values, although not too high, and in the actuarial gains/losses on benefit-based plans and actuarial gains/losses from asset revaluations. In terms of frequency, most cases fall in the first two categories, although in the last year, the frequency of the item that expresses differences from conversions of financial statements is lower. Concerning the effect on net income, only one company in the sample recorded a positive OCI in 2008, the incidence of which was 24%. However, for the remainder, the effect on net income was negative. For one company (Mediaset), the effect was low, <1.9%, whereas for eight companies, it ranged from 10% to 99%. The situation dramatically changed in 2009; in fact, the number of companies with a negative incidence of OCI items decreased, whereas four companies were found to have a positive incidence at rates of approximately 10-20%. Concerning the rest of the sample, some companies had a negative effect at low rates, whereas two companies of the sample reached higher rates, particularly one (Fiat group) for which the rate was approximately 96%. In 2012, when the overall number of OCI items was again negative, there was a special case with one company (Telecom Italia) having a positive incidence of approximately 107% on the NI. However, such a position was countered by finding as many as 6 companies, with 4 of them having OCI items that negatively affect the NI, at rates of 10-50%. Overall, Italy had an overwhelming number of negative OCI items in 2008, i.e., approximately 90%, a situation which dramatically changed in 2009 with a perfectly balanced number of positive and negative OCI items, both at 50%. In 2012, the situation reverted to one similar to that of 2008, with a very low rate (20%) of positive OCI items and 80% of negative OCI items. An unprecedented situation was that of no Italian companies having NIs and CIs with opposing signs.

United Kingdom: Moving now to the United Kingdom, where a review of the overall number of OCI items showed a singular scenario; the total number recorded in 2008 (with a positive sign) was very high compared with 2009 and 2012, both with a negative sign, although much less negative in 2012 than in 2009. The high value of OCI items in 2008 seems to be due to the position of the BG Group, so further investigations into the values of each OCI item recorded in the annual report will be required. Concerning the frequency of cases of changes in costs and revenues that may be equated to OCI items, we noticed that most of such cases were found not only in the first three types of OCI items (Table 2. Items no. 10, 10b, 10c) but also in item no. 10d. Such situations occurred in virtually the same manner throughout the surveyed period. Commenting on the rate of incidence of each OCI item on NI in 2008, we found a high positive incidence in two companies at 80-100%, whereas in the rest of the sample, such incidence was negative, with consistent values, one of which was in excess of 100%. In 2009, six companies were found with a positive incidence of 300%, whereas in the rest of the sample, such rates were low. The situation in 2012 is again close to a negative incidence; few companies were found to have a positive incidence, with rates of just above 5-1%, whereas negative cases definitely outnumbered the rest. A brief review of the algebraic signs of the OCI items showed that in the first year, the negative signs definitely outnumbered the

Table 2: Frequency of number of cases per type of OCI item in 2008, 2009 and 2012

Type of OCI item	Years			
	2008	2009	2012	Total
France				
10a) Foreign currency translation adjustments on foreign subsidiaries	20	20	19	59
10b) Changes in fair value of financial instruments in a cash flow hedge	15	18	17	50
10c) Actuarial gain/losses arising on AFS financial instr	17	17	17	51
10d) Actuarial gains/losses arising on defined benefit plans	11	6	4	21
10e) Revaluation of property, plant and equipment	12	4	2	18
10f) Others	17	18	17	52
Total	92	83	76	251
Italy				
10a) Foreign currency translation adjustments on foreign subsidiaries	17	15	15	47
10b) Changes in fair value of financial instruments in a cash flow hedge	15	18	19	52
10c) Actuarial gain/losses arising on AFS financial instr	10	10	7	27
10d) Actuarial gains/losses arising on defined benefit plans	3	4	7	14
10e) Revaluation of property, plant and equipment	1	6	5	12
10f) Others	7	13	13	33
Total	53	66	66	185
UK				
10a) Foreign currency translation adjustments on foreign subsidiaries	18	20	19	57
10b) Changes in fair value of financial instruments in a cash flow hedge	16	18	17	51
10c) Actuarial gain/losses arising on AFS financial instr	16	16	15	47
10d) Actuarial gains/losses arising on defined benefit plans	17	14	14	45
10e) Revaluation of property, plant and equipment	3	4	1	8
10f) Others	15	17	17	49
Total	85	89	83	257
Germany				
10a) Foreign currency translation adjustments on foreign subsidiaries	19	20	20	59
10b) Changes in fair value of financial instruments in a cash flow hedge	14	19	19	52
10c) Actuarial gain/losses arising on AFS financial instr.	18	18	18	54
10d) Actuarial gains/losses arising on defined benefit plans	15	14	14	43
10e) Revaluation of property, plant and equipment	4	5	7	16
10f) Others	14	14	12	40
Total	84	90	90	264
USA				
10a) Foreign currency translation adjustments on foreign subsidiaries	18	18	20	56
10b) Changes in fair value of financial instruments in a cash flow hedge	16	18	17	51
10c) Actuarial gain/losses arising on AFS financial instr.	15	14	16	45
10d) Actuarial gains/losses arising on defined benefit plans	13	13	14	40
10e) Revaluation of property, plant and equipment	0	0	0	0
10f) Others	10	6	9	25
Total	72	69	76	217

OCI: Other Comprehensive Income

Totals of frequency of number of cases per type of OCI item	FR	IT	UK	GR	USA	Total
10a) Foreign currency translation adjustments on foreign subsidiaries	59	47	57	59	56	278
10b) Changes in fair value of financial instruments in a cash flow hedge	50	52	51	52	51	256
10c) Actuarial gain/losses arising on AFS financial instr.	51	27	47	54	45	224
10d) Actuarial gains/losses arising on defined benefit plans	21	14	45	43	40	163
10e) Revaluation of property, plant and equipment	18	12	8	16	0	54
10f) Others	52	33	49	40	25	199
Total	251	185	257	264	217	1174

positive signs by 70%, whereas the trend was reversed in 2009, reaching a state of near equivalence, i.e. 60% positive signs and 40% negative signs. The year 2012 reflects the situation of the year 2008, with virtually the same rates. Finally, in 2008, a company was found to have a positive NI and a negative CI, whereas in 2009 and 2012, there were no differences in the algebraic signs at all.

Germany: Moving on to the last European sample, Germany, a review of the trend in the overall number of OCI items suggested that it was negative in 2008 and remarkably improved in 2009, when it was near to zero, but which however became negative again in 2012, although still better than in 2008. Concerning the frequency of cases, we found 100% of the first three types of OCI items in the surveyed 3-year period, whereas the frequency of the other items, with 10e and 10f still high, found few cases of revaluations of assets, which, incidentally, did not change at all during the period. In the first year, the rate of incidence of OCI items on NI reached extremely negative values; in seven companies of the sample, such incidence ranged between 10% and 90%, and for two companies (EOAN and BMW), such values were actually extremely high, in excess of

100%. In 2009, the situation appeared far more balanced, although three companies had between approximately 10% and 70%, with BMW always having a negative incidence of over 100%. Examining the situation in 2012, only two companies had positive values, whereas in the rest of the sample, the incidence was negative, even as much as between 40% and 120%. Therefore, a brief review of the algebraic signs suggested an emblematic situation in 2008, the only one in the European sample, in which the values of the OCI items were all negative, whereas 1 year later, the situation appeared more balanced, with approximately 60% positives and 40% negatives. The last year instead again appeared similar to 2008, in which the negative signs outnumbered the positive ones; in 2008, there were two companies with a positive NI and a negative CI, whereas in 2009 and 2012, only one company had such values.

United States: At the end of our survey of the significance of OCI items, we apply the same considerations to the US sample, in which the OCI items featured in 1998 financial statements. Therefore, the year 2009 does not have the same significance in terms of new regulations that it has for European companies. In terms of the overall number of OCI items, the time-related trend was initially deeply negative in 2008 but remarkably improved in 2009. It then again became negative but at a rate that, in absolute terms, was much better than that of 2008. Concerning the frequency of each OCI item, the first two items appeared in the highest number of cases; the other OCI items occurred in fewer cases, and the frequency was zero for OCI concerned with profits/losses from the valuations of tangible and intangible assets[4] at fair value.

A review of the rate of incidence of OCI items on NI shows that 2008's values tended to be negative; in fact, three companies had negative rates at over 100%. The situation appeared better in 2009, with half of the sample recording a positive incidence on NI, and only two companies had a negative incidence of approximately 50%. In the last year, there were fewer positive positions, and three companies were found to have OCI items with a high negative incidence on NI. An overall review of the algebraic signs suggested that in 2008, the negative signs outnumbered the positive signs (at 70%), whereas the 2009 situation was well balanced again, very similar to that of Germany, the UK and Italy, with positive signs slightly outnumbering the negative signs, a situation which becomes diametrically opposite in 2012. In 2008, three companies were found to have a positive NI and a negative CI, whereas in 2009 and 2012, no companies had differing signs at all.

One last issue related to the significance of "OCI" ("OCI" in the following), i.e., the influence of OCI on the computation of the ROE indicator, will be discussed after the assessment of the "H_5 Hypothesis," a topic that is analysed in the following.

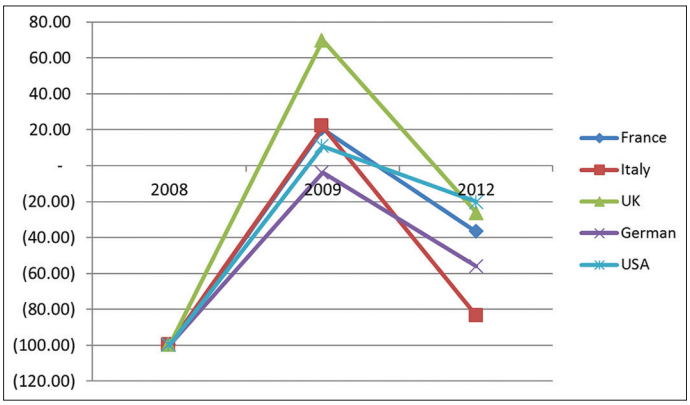
In summary, consistent with the achieved results, conclusions about the significance of OCI can be drawn as follows:

1. The trend in the overall number of OCI items throughout the examined 3-year period (Table 1 and Graph 1) is comparable (i.e., evenly distributed) with the whole set of analysed Companies. An abrupt rise is registered from the end of 2008-2009 in both Europe and the United States. However, to the extent that only the UK is considered, values are higher than in the rest of the sample (this abnormal value has been deleted). From then onwards (2009-2012), OCI values decrease to a level which is higher than in 2008 except for Italy, which displays a significant decrease in 2012.
2. The frequency of "OCI cases" (Table 2) displays an even trend and evolution throughout the sample of analysed companies; in other words, its pattern is constant. The most frequently registered items are "10a" and "10b" and, in the case of the US, we note the absolute lack of item "10e." In the European sample, Germany stands out because, except for item "10e," it has the most frequent OCI items compared with other Countries.
3. By considering Table 3, it is possible to have an overview of the incidence of OCI items over NI, expressed in terms of percentage points. In 2008, over half of the sample (27 Companies) exerted a negative incidence of 54%, whereas in 2009, one can see a greater dispersion of the number of companies, although some of the 18 Companies exert a positive influence equal to 36% over net incomes. This percentage is partially counterbalanced by a group of 10 Companies whose negative incidence is 20%. In addition, 2012 is characterized by a significant gathering of companies (n = 20) that exerts a negative incidence of 40%.
4. The algebraic sign of OCI items (Graph 2) appears to be uneven throughout the comprehensive analysed sample. In 2008, we have a clear prevalence of the negative sign, with Germany scoring 100% of negative OCI items; conversely, in 2009, we have an equivalent distribution of the two signs, except for France, in which a clear prevalence of the positive sign is evident. The negative sign in 2012 is most prevalent again, except for the USA, where it accounts for 60% of the cases, the lowest recorded percentage in the sample.

4.2. Reporting Alternatives

The choice of the "profit and loss account" format, which is not subject to particularly rigid regulations, is somewhat adaptable and can be adjusted according to preparers' subjective initiative. This choice requires a thorough analysis of different options possible with the implementation of IFRS and US-GAAP regulations. These sets of rules were affected by rapid development in the

Graph 1: Total amount of Other Comprehensive Income, relative values (2008=100)



4 Statements that contain these unrealized items include SFAS No. 52 Foreign Currency Translation, SFAS No. 87 Employers' Accounting for Pensions, and SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities, McCoy et al., 2009, p. 84.

Graph 2: (a-c) Algebraic sign of Other Comprehensive Income over the years 2008-2009-2012

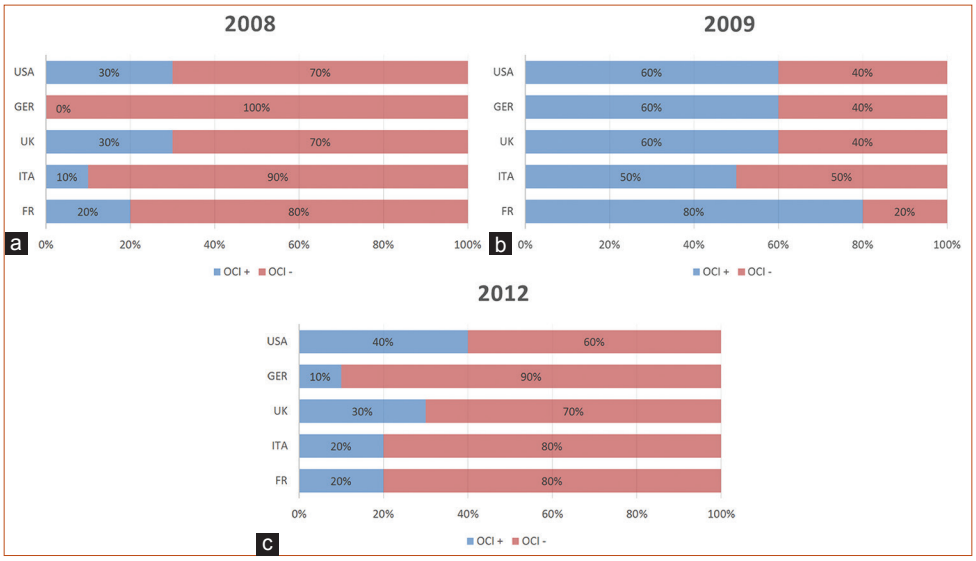


Table 3: Relationship of OCI to net income

OCI as % of NI	n (%)		
	2008	2009	2012
>100	1 (2)	2 (4)	1 (2)
10-99.9	4 (8)	18 (36)	6 (12)
5-9.9	2 (4)	2 (4)	2 (4)
3-4.9	0 (0)	4 (8)	1 (2)
2-2.9	2 (4)	1 (2)	3 (6)
Up to 1.9	0 (0)	2 (4)	3 (6)
0 or not reported	0 (0)	0 (0)	0 (0)
Up to−1.9	2 (4)	5 (10)	2 (4)
−2-−2.9	2 (4)	1 (2)	2 (4)
−3-−4.9	0 (0)	1 (2)	1 (2)
−5-−9.9	2 (4)	3 (6)	7 (14)
−10-−99.9	27 (54)	10 (20)	20 (40)
>−100	8 (16)	1 (2)	2 (4)
Total	50 (100)	50 (100)	50 (100)

OCI: Other Comprehensive Income

course of the 3-year period of reference concerning disclosure of financial performance. In view of these ongoing modifications, Companies were compelled to modify and adjust their framework of reference for the editing of financial statements. Inevitably, this attitude led to different decisions concerning the chosen format and modalities for comprehensive income disclosure. In addition, while performing this task, supplemental information providing useful explanations about the nature and arrangement of OCI items was required. Note that the introduction of the OCI items system deeply affected traditional accounting systems, which were based on realized financial items and on financial profits to be shared. Consequently, disclosure of detailed information, with particular reference to recycling procedures, is crucial for users, particularly in the light of well-known criticalities related to the duplication of OCI item accounting entries (D'Este and Fellegara, 2009).

The task of choosing the format in the analysed 3-year period is characterized and affected by the coexistence of different situations: (1) In 2008, both European and US Companies were free to choose from three possible options, combined statement of net income and comprehensive income, separate financial statement and statements of stockholders' equity, (2) In 2009, European Companies could choose from two options, whereas US Companies could choose from three, (3) In 2012, both European and American Companies could choose only from the first two options. Reporting comprehensive income in the Statement of Change in Equity is no longer allowed; nor may American Companies chose the latter option, according to a prescription of ASU 2011 (FASB, 2011).

With reference to the conducted empirical studies, some of whose aspects are debated in Par. 3, the scenario of American Companies is neatly outlined; it is characterized by a rather even attitude. Until 2011, the most common choice made by preparers was the third above-mentioned option, although FASB strongly recommended the choice of one option among the other two. From the point of view of the US Accounting System, the most commonly employed method accepts an "all-inclusive" concept of Income (APB, 1996). According to this concept, all revenues, expenses, gains and losses recognized during the period are included in income, regardless of whether they are considered results of normal, recurring operations of the period. Despite this common approach, a widespread and accepted attitude among preparers would also include specific elements of Income, such as particular changes in assets and liabilities and in shareholders' equity, rather than reporting them in the Income Statement.

Thus, the issue of SFAS 130 was meant to improve disclosure of those unrealized items that were commonly registered only in the Statements of Changes in Stockholders' Equity. The information provided by comprehensive income was expected to assist investors, creditors and other financial statement users in evaluating an enterprise's economic activities and its timing and magnitude of future cash flows (McCoy, 2009). However, the disclosure of comprehensive income created an additional performance measure that many feared would confuse readers and would prove more volatile than net income. Another criticality related to SFAS No. 130 is that the resulting comprehensive income figure is incomplete. Given the FASB's

partial approach to fair value accounting, these OCI items capture fair value changes for assets but disregard liability fair value changes (Hirst, 2006).

Furthermore, obligations in reporting OCI items, as stated in SFAS 130, would have required a single procedure for accounting and specification instead of the above-mentioned three options.

The first option for format choice provides instructions for a combined statement of net income and comprehensive income in which items are registered in a dedicated section of the profit and loss statement, immediately after the net income section. One advantage of this option is the presentation of two indicators in a single statement; this feature is likely to be much appreciated by any user who is gathering proper information for decision making. The primary disadvantage is that net income can be considered a subtotal in the income statement, and comprehensive income can be thought of as the new bottom line, which will reduce the prominence of net income as the principle measure of a company's performance and may cause confusion among financial statement users about true earnings (Campbell et al., 1999).

Conversely, the second option implies the addition of a separate Financial Statement whose initial section consists of revenues of net income, whereas its final paragraph reports comprehensive income. The advantage of choosing this option is that the income statement is not affected by information drawn from comprehensive income and definitely will help users to access a net income disclosure that is more accurate than in the other option. Therefore, preparers who opt for this Statement likely believe that NI is a more significant performance indicator than is CI (McCoy, 2009). Additionally, a "Sophisticated professional investor" can make more gains from this type of format because she/he can find further detailed information in it. A disadvantage nonetheless is also associated with the separate financial statement; the statement involves a significant thickening in the number of charts and tables presented for the annual report, which is indeed an additional bulk data format with respect to the usual four reports (Campbell et al., 1999). This might negatively affect disclosure effectiveness in addition to bringing in additional costs for Companies. One last consideration is that the third option, i.e., reporting CI in the statement of stockholders' equity, is the "least innovative" approach with respect to prior practice; therefore, this tool would have been less difficult to apply for Companies, particularly during their first stage of SFAS 130 implementation. To comply with SFAS No. 130 using the third approach, companies must only show how these components are added together to produce comprehensive income and add disclosures about tax effects (McCoy, 2009).

The main advantage of this format is that Companies are able to report CI data in it, although the efficacy of this indicator for performance disclosure is down rated. Therefore, in this case, CI would provide "secondary" information if compared with the net income indicator. The FASB did not introduce specific obligations to be followed in the choice of the third option, although the Board encourages reporting entities to show the components of OCI and total CI in either a combined statement of net income and comprehensive income or a separate statement. Despite the employed format, EPS continues to be calculated based on NI, and comprehensive income per share is not presented in the Financial Statement. Several distinct empirical studies have been performed in the USA. The studies investigated perceptions declared by different subjects and/or Institutions: Chief Financial Officers and professional users (King et al., 1999), professional security analysts and portfolio managers (Hirst and Hopkins, 1998), non-professional investors (Maines and McDaniel, 2000), financial executives and chief executive officers (Hunton et al., 2006), and property-liability insurers (Lee et al., 2006). The main results of this survey note negative opinions concerning the adoption of the third format; reporting comprehensive income in a statement of changes in stockholders' equity, from the users' perspective, means that this information is unrelated to corporate performance and, therefore, is scarcely used by investors. Moreover, disclosure in the statement of stockholders' equity can be an aid to firms who wish to manage earnings without detection (McCoy, 2009). Harsh criticism expressed about this format caused analysts to call for its immediate removal (Fitzpatrick et al., 2010).

At the time of the issue of SFAS 130, this option was meant to be a compromise between FASB and several requests made by Corporate Managers, although the American Board was already leaning towards the other two options. Thus, on June 16, 2011, with the issue of ASU 2011-05 presentation of comprehensive income, the current scenario came into being and, with it, only two alternatives were adopted: (1) A single continuous statement of comprehensive income, and (2) two separate but consecutive statements of net income and OCI. The single continuous statement should be displayed in two parts, net income and OCI, with total amounts for each part. Alternatively, if two consecutive statements are used, the first statement would be the traditional income statement, and the second statement would be a statement of comprehensive income that begins with net income. Under both alternatives, Companies must now report total comprehensive income in an income statement-type (Chambers, 2011).

The ED issued by the Boards in May 2010 (IASB, 2010) proposed the single-statement presentation of comprehensive income. Those proposals would have eliminated all other presentation options for comprehensive income. Various objections to the mandatory single-statement presentation were raised in the 2010 comment letters responding to the ED[5]. When the Boards re-deliberated in late 2010, they decided to allow two options, both of which are performance-statement options, that is, presenting the components of comprehensive income either in a single-statement or in a two-statement format. However, if a two-statement format is used, the statements must be presented consecutively. The Boards decided to

5 Examples of comments include (1) a single-statement presentation would emphasize net income, making it only a subtotal rather than the bottom line and would create confusion in the capital markets, (2) a single-statement presentation would create confusion about which income number was used for earnings per share calculations, (3) a single-statement presentation would inappropriately emphasize items of other comprehensive income, which are typically noncore activities that are outside the control of management.

Table 4: Method used to report comprehensive income and its components

Reporting method	n (%)		
	2008	2009	2012
France			
Not reported	-	-	-
Combined statement of net income and comprehensive income	0 (0)	0 (0)	0 (0)
Separate statement of comprehensive income	2 (20)	10 (100)	10 (100)
Included in statement of stockholder's equity	8 (80)	0 (0)	0 (0)
Total	10 (100)	10 (100)	10 (100)
Italy			
Not reported	0 (0)	0 (0)	0 (0)
Combined statement of net income and comprehensive income	0 (0)	0 (0)	0 (0)
Separate statement of comprehensive income	3 (30)	10 (100)	10 (100)
Included in statement of stockholder's equity	7 (70)	0 (0)	0 (0)
Total	10 (100)	10 (100)	10 (100)
UK			
Not reported	0 (0)	0 (0)	0 (0)
Combined statement of net income and comprehensive income	0 (0)	1 (10)	1 (10)
Separate statement of comprehensive income	9 (90)	9 (90)	9 (90)
Included in statement of stockholder's equity	1 (10)	0 (0)	0 (0)
Total	10 (100)	10 (100)	10 (100)
German			
Not reported	0 (0)	0 (0)	0 (0)
Combined statement of net income and comprehensive income	0 (0)	0 (0)	0 (0)
Separate statement of comprehensive income	7 (70)	9 (90)	10 (100)
Included in statement of stockholder's equity	3 (30)	1 (10)	0 (0)
Total	10 (100)	10 (100)	10 (100)
Europe			
Not reported	-	-	-
Combined statement of net income and comprehensive income	-	1 (3)	1 (3)
Separate statement of comprehensive income	21 (53)	38 (95)	39 (98)
Included in statement of stockholder's equity	19 (48)	1 (3)	-
Total	40 (100)	40 (100)	40 (100)
USA			
Not reported	-	-	-
Combined statement of net income and comprehensive income	1 (10)	-	-
Separate statement of comprehensive income	1 (10)	2 (20)	7 (70)
Included in statement of stockholder's equity	8 (80)	8 (80)	3 (30)
Total	10 (100)	10 (100)	10 (100)

allow both performance-statement options because they concluded that the differences were minimal between a continuous, single statement and two consecutive statements.

With respect to the analysed US Financial Statements (Table 4), 80% of Companies in 2008 chose to present OCI items within the Statement of Changes in Equity; in the rest of the sample, one-half of the Companies employed the Separate Financial Statement, whereas the other half employed the Combined Statement. This scenario was mostly unaltered in 2009. However, in 2012, a significant change appeared; 70% of the sample switched to a presentation of CI within the Combined Statement, and the rest of the sample kept using the Statement of Changes in Equity[6]. Thus, we are addressing a true milestone in the development of CI placement and registration, with particular reference to the pioneering USA introduction of a new concept of "income" and "revenue." This evolution of the "Income" concept was initially made evident at the end of the 1990s. However, at the time, it was still based on the "Historical cost" model.

With respect to the European sample, the following scenario came into being: The IAS 1-revised was evenly adopted throughout France, given that 100% of Companies, both in 2009 and 2012, opted for the combined statement. In 2008, the French scenario was similar to that in the US because 80% of Companies opted for the presentation of the Statement of Changes in Equity.

Focusing on the Italian scenario, the most common and widespread attitude is quite similar to the French one: 100% of Companies in 2008 and 2012, in contrast to only 30% of Companies choosing the Combined Statement in 2008. Our progress in the analysis of these data shows that, in Europe, the UK has a completely different trend. Unlike Italy and France, UK Companies in 2008 opted in most cases for the employment of the "two-in one" standard of account (90%). The Statement of Changes of Equity was used only in one case. This tendency remained virtually unchanged in 2009 and 2012, with the exception of only one case in which the Statement of Changes of Equity was chosen ("Astrazeneca").

6 This exception consists of "Apple," "Microsoft" and "Procter and Gamble" because their financial cycles' deadlines are subsequent to December 31; therefore, on those occasions, the new regulations stated in ASU 2011 were applied in financial cycles starting from December 15. For Businesses whose financial cycle started before this date, it was impossible to choose the third-mentioned option. Note that "Walmart Stores" also might have behaved similarly, although Walmart opted for the second choice, as did other Businesses. For non-public entities, the effective date is for fiscal years ending after December 15, 2012. Early adoption is permitted.

The scenario in Germany is quite similar to that in the UK; in 2008, German Companies hardly opted for the Statement of Changes in Equity (30% of cases) compared with Italy and France; conversely, a high prevalence of Combined Statements is recorded. In 2009, we see a high prevalence of the statement of changes in equity (90%), and, in 2012, this option is selected by all companies in the sample.

While performing a data analysis, questions arise about what motivations might induce a shared adoption of the last-mentioned Statement within the sample. Several research hypotheses have been suggested to answer these questions. The hypotheses aim at identifying a set of variables that can explain the prevalence of that option. These hypotheses, already discussed in the literature, must be verified by means of a statistical association analysis between two characters by a V Cramer index.

4.3. Format and Size

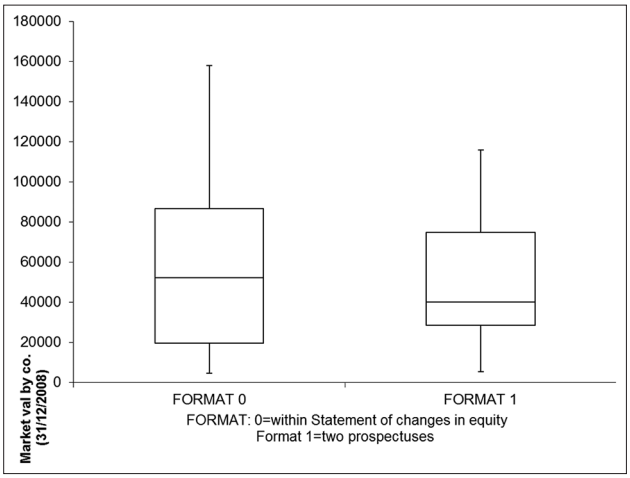
H_1: There is a correlation between the choice of format and the size of companies.

In addition to the above, for our evaluation of companies' size, market capitalization was the selected measurement unit because it was used in selecting the sample. When committing to choosing the most adequate proxy for assessing the companies' size, a vigorous doctrinal debate arose; this choice is indeed affected by several issues. The literature thus far has indicated four proxies: (1) Total amount invested, (2) total amount of sales, (3) total number of employees, and (4) market value. No proxy appears to be more adequate than the others are (Smith et al., 1975), although in several studies, the natural logarithm of investments is the preferred Indicator (Cimini, 2012).

A detailed explication of this hypothesis inevitably requires elucidations because in 2008-2009 and in 2012, particular modifications occurred with the issue of IAS 1 revised and of ASU 2011-05 (FASB, 2011). A unification of regulations stated in IASB e FASB was in fact registered and provided a sort of "new protocol" for choosing the format in 2008 (three options allowed) and in 2012 (two options allowed). This standardization, however, did not occur in 2009, when Europe and the USA issued two different sets of regulations. On the one hand, IAS 1 Revised only permitted two options; on the other hand, the USA still allowed choice from three options. Therefore, the "H_1 Hypothesis" cannot be verified for 2009 because of the presence of non-homogeneous sets of regulations. Thus, the approach of analysing two groups of Companies (European and American) as a unit in a comprehensive sample is feasible only for the years 2008 and 2012.

The situation of 2008, as shown in the box plot (Graph 3), proves that there is no link between format and size because companies that have the 0 format and those having the 1 format have a similar distribution compared with the size variable, save for two outlier values. The point-biserial coefficient has been calculated, and a test t has subsequently been performed, but no significant differences emerged. Therefore, there is no correlation between the considered variables.

Graph 3: Box plot, distribution of SIZE (Market val by co. 2008) by FORMAT



Company size is often considered in correlation analysis because information about the magnitude of a firm may affect specific choices made by preparers and/or managers when committed to editing financial statements. Nonetheless, the size factor analysis never led to significant results in the literature. For instance, in a study conducted on American Companies, Campbell et al. proved that the largest Firms opted for the Statement of Changes in Equity, but no adequate explanation is provided about the choice of the size factor (Campbell et al., 1999). Similarly, Ketz (1999) analyses trends in some American Companies allocated to two distinct groups based on their size factor. All of these businesses displayed similar scores with respect to net income, comprehensive Income and how OCI affected NI. Nonetheless, the format choices in the two groups do not appear to be correlated to the size factor (Ketz, 1999). A quite similar outcome is achieved in a study which analysed Italian Firms listed on the Italian Stock Exchange in 2009 (Cimini, 2012); in this research, the selected size-indicator and its relationship to OCI scores is correlated to the format choice. Hypothesis H_1 is not tested for the year 2012 because the available data on the sample indicates that almost all companies have chosen the same type of format; no significant correlation between the two variables emerges.

Therefore, "H_1 Hypothesis" is not verified for the analysed sample.

4.4. Format and Sign of OCI

H_2: There is a correlation between the choice of format and the sign of the OCI.

When committing to the verification of "H_2 Hypothesis," the above-mentioned considerations remain valid. Therefore, 2008 and 2012 are the only years to be examined. In this case, a possible correlation between two variables is investigated. These two variables are (1) the Format variable, and (2) a dichotomous variable (whose only two possible scores are "positive" and "negative"). The interest in studying a possible correlation between these variables is because preparers and managers of companies whose OCI is either negative or equal to 0 might not want to disclose this information to potential investors.

Previous research (Ferraro, 2011) suggests that companies that have positive OCI values with a less relevant effect compared with net income may have an interest in retaining net income as a traditional measure of performance and maintaining the format of income statement as unvaried as possible, searching for the simplest solution. Companies having negative net income but positive OCI values might be interested in a different approach, that is, opting for the format of a single comprehensive income statement to "relegate" traditional income with a negative (hence unattractive) sign to the simple role of intermediate result (Ferraro, 2011).

Such observations, based on the consideration of cases, have been subjected to statistical tests to strengthen the results further. The results of our survey on a sample of European and American companies for 2008 confirm that there is no strong relationship between the two nominal variables: Algebraic sign of the OCI and choice of format. Contingency table "2×2" was created (Graph 4), allowing us to calculate the quadratic average contingency coefficient of the Cràmer V index, which can vary between zero (indicating complete independency between the two variables) and one (indicating maximum dependency between the variables). In our case, the table shows values of Chi-square and value V that are quite low, in the latter case, very close to zero. A similar survey on a sample of service companies listed on the Italian stock exchange (consolidated financial statements and draft budgets for 2009) shows the same result, demonstrating that, generally speaking, theories suggesting that businesses adopt an integrated single prospectus when they have negative OCI values are completely unrealistic (De Cristofaro and Falzago, 2012).

Hypothesis H_2 is not fully confirmed for the analysed sample because it appears there is a low dependency between the two identified variables.

4.5. Format and Leverage

H_3: There is a correlation between the choice of format and leverage.

The leverage ratio has been calculated as the ratio between total assets and total liabilities. The elaboration of the contingency table does not show any dependency between the two variables (Graph 5).

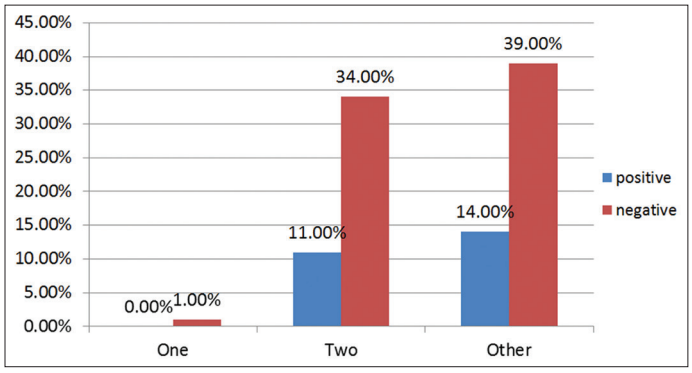
Hypothesis H_3 is not confirmed for the analysed sample.

4.6. Format and Status of Dual Listing Companies

H_4: There is a correlation between the choice of format and the status of a U.S. listing.

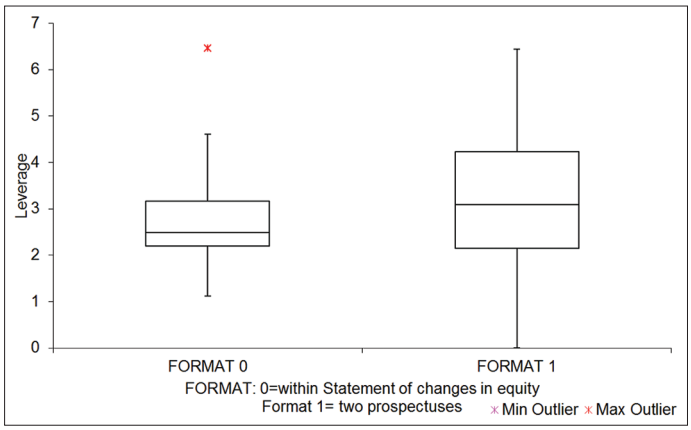
The status of dual listing companies (Graph 6) can lead us to believe that there is a higher tendency towards disclosure to attract capital from overseas investment, or that it would be fair to believe that such companies are subjected to stronger pressure by stakeholders due to a continued strengthening of disclosure. The analysis, as shown in the contingency table, proves there is a low dependency between the two nominal variables.

Graph 4: Algebraic sign of Other Comprehensive Income in 2008



2008	Sign OCI		Total	
	+	-		
Number of prospectuses				
One	0	1	1	χ^2=0.391 V=0.062
Two	11	34	45	
Other	14	39	53	
Total	25	74	99	

Graph 5: Box plot, leverage-format (2008)



Hypothesis H_4 is not fully confirmed for the analysed sample because there is a low connection between the two identified variables.

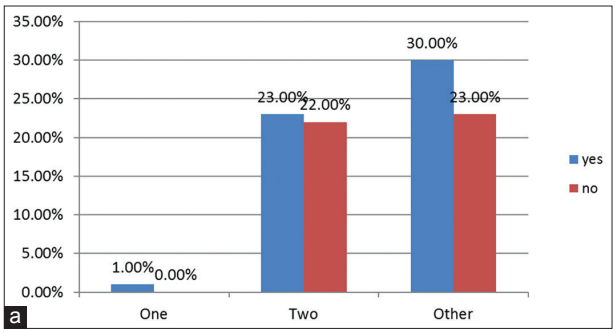
4.7. Comparison Between the Two Performance Indicators: ROE_{CI} and ROE_{NI}

H_5: The calculation of ROE_{CI} expresses the measure of performance better than does the calculation of ROE_{NI}.

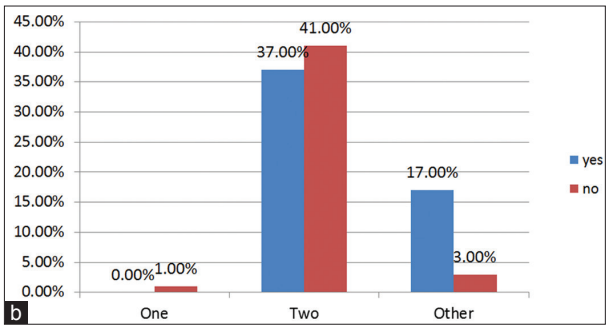
Hypothesis H_5 is confirmed for the analysed sample.

Furthermore, this aspect can provide us useful information in relation to a comparison between indicator CI as opposed to NI with respect to the informative advantage/disadvantage to potential investors, stemming from the inclusion of the new concept of CI. This statistical analysis completes the previous section on the significance of OCI. As seen in Graph 7, a regression analysis was performed over the course of 3 years, and the situation appears to have significantly improved from 2008 (ante IAS 1 revised)

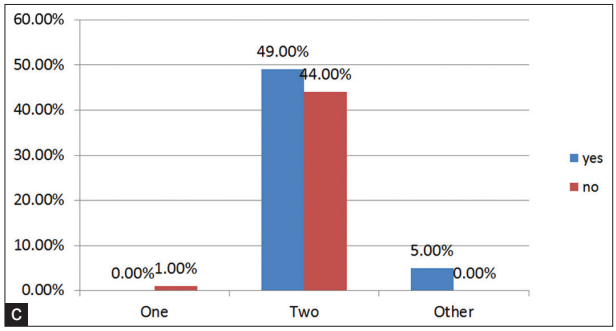
Graph 6: (a-c) Correlation between the choice of the format and the status of a U.S. listing



2008	Dual listing		Total	
	Yes	No		
Number of prospectuses				
One	1	0	1	χ^2=1.137 V=0.107
Two	23	22	45	
Other	30	23	53	
Total	54	45	99	



2009	Dual listing		Total	
	Yes	No		
Number of prospectuses				
One	0	1	1	χ^2=10.271 V=0.22
Two	37	41	78	
Other	17	3	20	
Total	54	45	99	



2012	Dual listing		Total	
	Yes	No		
Number of prospectuses				
One	0	1	1	χ^2=5.496 V=0.236
Two	49	44	93	
Othe	5	0	5	
Total	54	45	99	

*Within statement of changes in equity

to 2009 and 2012 (post IAS 1 revised). Indeed, the points appear to be better aligned on a straight line, and the values of R square definitely seem higher, closer to 1, the maximum value, thus highlighting a perfect and positive correlation between the two variables.

As underlined in the introduction, the concept of comprehensive income has attracted strong criticism with respect to the risk of higher volatility of the indicator, as opposed to the more traditional NI. Components of comprehensive income tend to be more volatile than is net income. A key concern for some managers about standards increasing the prominence of comprehensive income by requiring it to be presented in a performance statement is that doing so could lead investors to increase their assessment of the volatility of the firm's performance (Lipe, 2009; Henry, 2011; Khan and Bradbury, 2014). This aspect, indeed, if empirically verified, may be viewed by investors and stakeholders as having a negative effect both on the outside, in terms of stock exchange quotes and cost of equity, and on the inside because of a worsened evaluation by managers (Incollingo and Di Carlo, 2012).

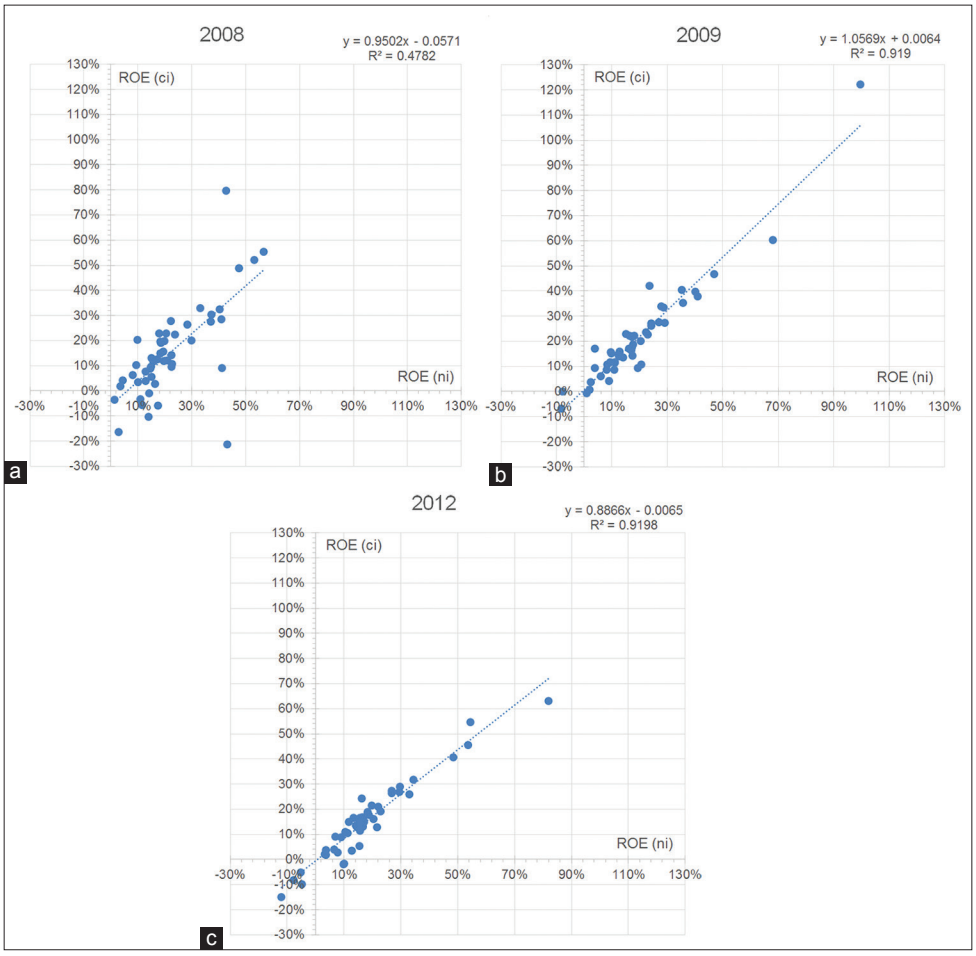
5. CONCLUSIONS

It is occasionally claimed that standard setters and regulators appear to have different objectives; standard setters are primarily interested in transparency, regulators in financial stability. Conversely, standard setters and regulators do have interests in common; they both want to use financial reporting information to help understand economic context (Barth et al., 2013). One approach to understanding the reality of an economic system is the correct interpretation of companies' business context and, in particular, of their financial performance. Standard setters have worked to improve approaches to the communication of performance within the annual report through the review of the IAS 1 (IAS 1 revised, 2007) within a joint project between IASB and FASB (IASB, 2010).

The result is the adoption of an accounting principle that is common to both set of standards, IFRS and US GAAP, which causes drastic innovation in terms of performance reporting choices. We can thus see the introduction of a new concept of income, that is, comprehensive income, which is given by the sum of net income and other comprehensive items. The definition of other comprehensive is somewhat "circular" because it comprises everything that is included in comprehensive income but excluded from net income. Included are unrealized gains and losses on available-for-sale securities, net gain or loss on certain derivatives, currency-translation adjustments, revaluation of property, plant and equipment and certain gains or losses associated with pension or other postretirement benefits (IASB ED/2010/5).

The aim of this paper is to assess the situation post-IAS 1 revised 2007 in the most directly affected areas, Europe and the USA. The adoption of this standard, substantially convergent between IFRS and US GAAP, shall thus be considered positively in times of financial crisis. Note that, however, "there is a large gap between what standard setters can achieve and what they are expected to achieve. Social systems are so complex that it is unrealistic

Graph 7: (a-c) Correlation between ROE(ci)N_I and ROE(ni)



to expect anyone to have the knowledge and ability to design a better system. We need a better balance between the top-down imposition of standards and bottom-up evolution of accounting practice" (Singleton-Green, 2012).

Given this gap between accounting principles and preparer practices, this research was intended to conduct an empirical survey to verify the degree of "effective" convergence with respect to the income statement and the disclosure of performance choice within the traditional annual report. The research has been developed by checking different hypotheses that statistical tests have only partially confirmed. The results obtained, partially corroborated by previous research, underline that the format of the income statement and the "location" of comprehensive income can be interpreted both as factors which can influence the choices of investors (Maines and McDaniel, 2000; Tarca et al. 2008) and as a tool available to managers to alter the communication of the firm's performance choices (Riedi and Srinivasan, 2010).

The change in presentation options made by ASU 2011-05 is a relatively small step towards convergence (Weiss, 2012; Holzmann, 2013; Eaton et al., 2013) because differences remain in how comprehensive income is calculated and reported under the two sets of standards. In fact, remaining differences exist between U.S. GAAP and IFRS with respect to the types of items that should be included in OCI and their related reclassification adjustments (Harrington, 2012; Whitehouse, 2013). Nonetheless, the options for presentation will be conformed, a change that should facilitate comparisons of financial statements prepared under the different sets of standards (Henry, 2011). The main lesson learned from this research is the continuing lack of a conceptual framework to evaluate comprehensive income within corporate reporting (Rees and Shane, 2012). Indeed, some consider comprehensive income to be "an artefact of compromise-based standard setting (that) has often been used as a repository for items that conceptually belong in the income statement[7]."

Study of the method of presentation of the income statement is useful to identify the choices of performance reporting adopted by various companies; a basic step would be to consider not only the preparers' but also the users' point of view. For this purpose, the analysis should be integrated with experiments similar to those performed in studies (Maines and McDaniel, 2000; Tarca et al., 2008) through the evaluation of professional and non-professional investors' or users' judgements. Another limitation is the selected sample; from this perspective, it could be useful to increase the number of companies and countries involved in the research to support generalizations at the European level.

7 Comment letter from the CFA Institute dated September 30, 2010. Retrieved from http://www.fasb.org/jsp/FASB/ CommentLetter_C/CommentLetterPage&cid=1218220137090&project id=1790-100.

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