

A Study on a Statement of Comprehensive Income

——Relating the problem of Recycling ——

Kouki KISHIKAWA*, Tsutomu KIDOTA* ,Akira EGASHIRA**

Saga UNIVERSITY*

Kurume Commercial HIGHT SCHOOL**

ABSTRACT: In the field of Accounting, financial statements prepared using the acquisition cost so that expresses the state of a company, have been made into a serious problem. Then, the concern of many people has been increased in the accounting information using fair value or market price.

If such measurement is performed, profits containing an unrealized holding gain will pose a serious problem. And the definition of a different income account from a conventional income statement poses a problem.

I want to position a statement of comprehensive income in this consideration, which is constructed from a viewpoint of semiology, leaving for the former view point standing a different accounting theory. Furthermore, I want to also mention the problem of recycling, relating a realization basis.

As a result of these considerations, it became clear that a statement of comprehensive income is the financial statement which reports that income, which is the expanded conventional concept, including the unrealized holding gain and loss concepts in addition to the traditional revenue and expense concepts. And, it becomes clear that a statement of comprehensive income organically related with the other accounts or financial statements, by preparing the comprehensive income and loss account, which expanded the expense and revenue summary account. Furthermore, we want to point out that many problems arise, when the recycling of the comprehensive income is carried out.

KEYWORDS: a statement of comprehensive income. realization. recycling of the comprehensive income

1. INTRODUCTION

The economic environment involving a company has been changing in recent years. And the companies themselves and the demand of related party of companies have also been changing a lot.

In the field of Accounting, financial

statements prepared by using the acquisition cost express the state of a company, but it has been made differences whether it is true or not. Then, the concern of many people has been increased in the accounting information using fair value or market price.

In a financial reporting, if properties and

liabilities are measured by fair value or market price, a serious problem will arise. It is that unrealized holding gain or loss is recognized. Then, the new concept of profits containing unrealized holding gain or loss is needed.

That is, the theme which reporting the business performance in comprehensive income has been progressed internationally. And in various statements of accounting standards, the theme of a statement of comprehensive income has been shown ¹⁾.

In England the concept of a comprehensive income was shown by FRS No. 3 in October, 1992 (ASB [1992]). In the U.S., this concept was shown by SFAC No. 6 (FASB [1985]). And in FAS No. 130 (FASB [1997]), the model and preparing method of this financial statement were shown in June, 1997.

Internationally, the model of the statement was shown by IAS revised in 1997. And the report of a statement of comprehensive income was released by G4+1 in 1998 ²⁾.

The concepts and models of a statement of comprehensive income are shown by these statements. However, these theme were not relating to the measurement process of actual business accounting, especially a calculation system or accounts structure.

In modern accounting, on condition of a going concern, fundamental financial statements are prepared from the double-entry book keeping system. If standing this viewpoint, I think that the new regulation of positioning in accounting measurement and structure of the statement must be made, from a different viewpoint, apart from the conventional view.

Thus, it is the first purpose of this paper to

specify new positioning and structure of a statement of comprehensive income, relating in an actual accounting structure or an actual measurement process.

Descriptions of the statement as stated above for a statement of comprehensive income make it connect with the problem of *Recycling*. If eyes turn to our country, these situation shall be same. In the Discussion Memorandum: *Conceptual Framework of Financial Accounting* published in 2004, the working group of Accounting Standards Board Japan presented the concept of comprehensive income, relating the problem of recycling. Furthermore, the accounting procedures about comprehensive income are entrusted to Financial Accounting Standards which ASBJ sets up ³⁾.

However, in it, a statement of comprehensive income as a financial statement is not shown. Furthermore, the presentation about comprehensive income has a problem of being presented on an income statement and a balance sheet, dispersedly.

It seems that such a presentation has much to do with the problem of recycling. Then, I want to check in a present-day accounting structure and to consider this problem in this paper. This is the second purpose of this paper.

In order to solve this subject, I want to consider by analyzing about Financial Accounting Standards No. 10 of ASBJ. And I want to analyze the accounting procedures of securities paying attention to the actual accounting measurement process in that case.

2. Positioning of a statements of comprehensive income in the structure of accounting measurement

I want to clarify the positioning of fundamental financial statements in the structure of accounting measurement and the process of actual business accounting, in this chapter. Especially, I want to clarify the positioning and structure of a statement of comprehensive income.

2.1 A system of accounts and financial statements

In the situation where a capitalist purchased properties with his funds, accountants have only to grasp the state of the properties of the company. But, if the amount of liabilities mounted up, by development of credit transactions, the situation and range of all such properties and equities also should be grasped.

For this reason, a balance sheet which presents property for the debtor side and presents equities [liability and capital] for the credit side is prepared.

And about this reason, W.A.Paton by the work in 1917,said follower. Double- entry system constitutes two classifications, called property and equities. Property consists of objective items. Liability and capital express the state of equities for the property.

It is said that for this reason, the amount of these classifications is always in agreement. Thus, the structure of business accounting can be explained by the equation [Property = Equities]. And if it comes to correcting funds from many people by the means of issue of stocks, the explanation about what kind of

causes the company was able to bring about profits, is needed to a stockholder (or owner of a company).

Then, it comes to separate so-called expense and revenue accounts from capital account (equity of stockholders or owners) . Expense accounts show the total amount of minus from capital, and Revenue accounts show the total amount of plus to capital ⁴⁾. The business performance of a company is displayed in these accounts (Fig. 1).

An income statement is prepared from this expense and revenue summary account. By statements above, the system of various accounts and the relationship with financial statements can be shown like Fig. 2.

2.2 The expansion of the concepts of profits and a statement of comprehensive income

By change of the accounting environment, people's concern has been extended to present value worth, from the conventional profit figure brought about from the operating activities of a company.

In these situations, the concept of expense and revenue summary account in this accounting period have been expanded, as shown in Fig. 3 ⁵⁾. This concept contains gain or loss brought from evaluating properties and liabilities.

And a statement of comprehensive income is prepared from this comprehensive income and loss account. That is, it can be said that a statement of comprehensive income is a financial statement which expresses not only the cause of net profit or loss in operating activities, but also the cause of unrealized

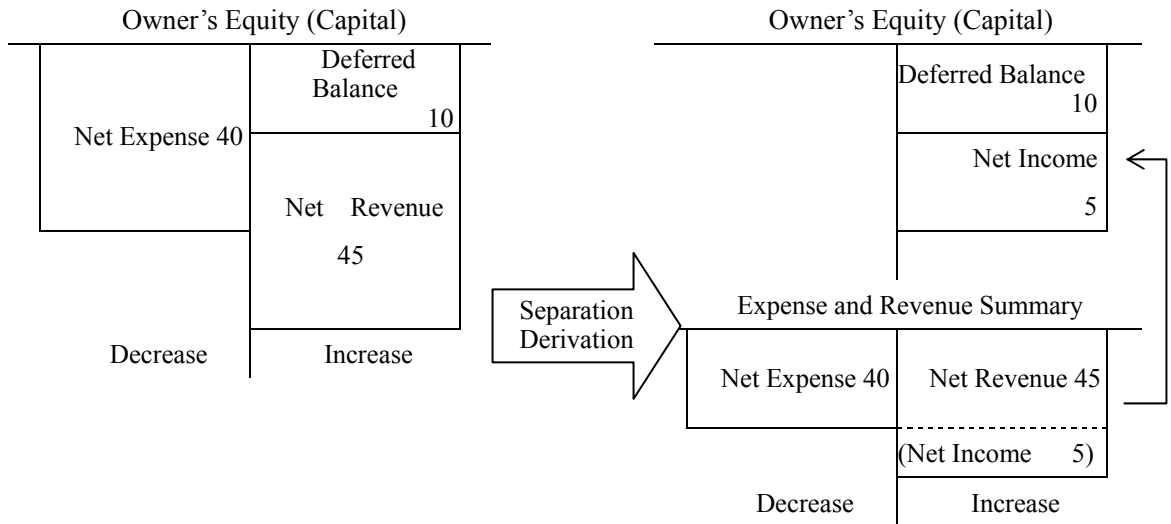


Figure 1 : Relation between Owner's Equity account and Net Profit account

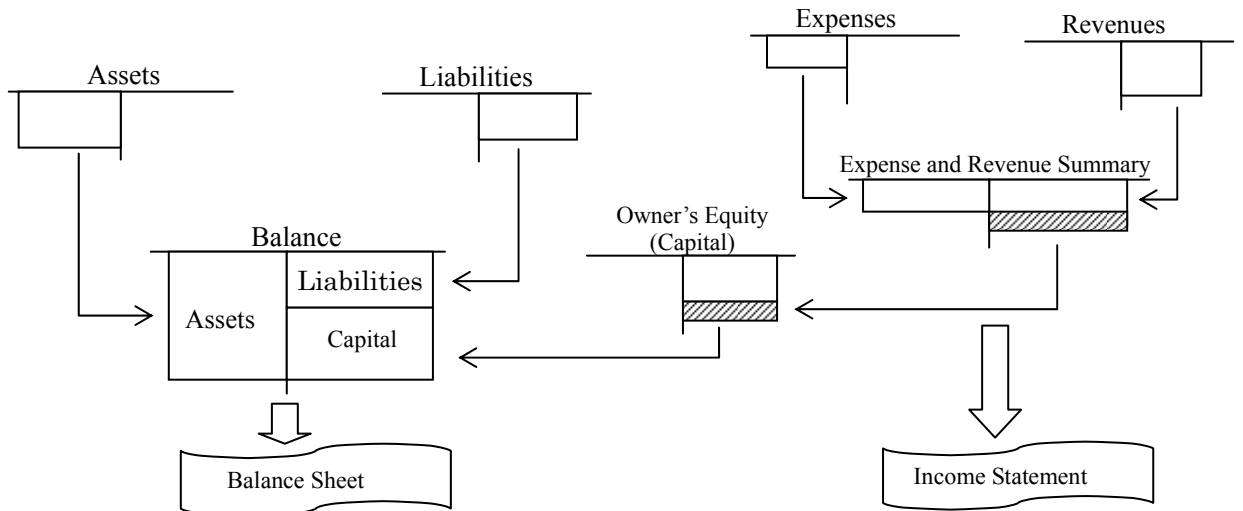


Figure 2 : Relation in double-entry system between Accounts and Financial Statements

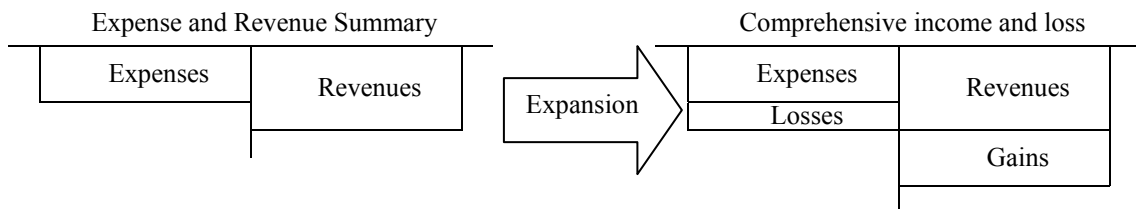


Figure 3 : Expansion of Account by expansion of profit concept

holding value measured by fair value of a company. And if the relation of the system of accounting measurement and a statement of comprehensive income is shown, it will become that as it is shown in Fig. 4.

I want to show the model of the relationship of a comprehensive income and loss account and a statement of comprehensive income. It will become as it is shown in Table 1.

And if users of accounting information want to get the information of net income, the model of a statement of comprehensive income divided in two classifications, can be shown (Table 2). Or other comprehensive income and loss account can be separated from an expense and revenue summary account, and the model of an income statement and a statement of other comprehensive income can also be drawn up (Table 3).

I want to consider a statement of comprehensive income of FASB here. Two kinds of display methods, Format A and Format B, are shown by FAS No. 130. In the statement, *1 Account system* of Format A hits Table 2. *2 Accounts system* of Format B hits Table 3.

However, in the Format A and Format B of FAS No. 130, the expression "Less: reclassification adjustment for gains included in net income" was shown. This reclassification adjustment meaning Adjustments shall be made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods (FAS No.130, par. 18).

Profit of this accounting period contains unrealized holding gain or loss of earlier periods. For this reason, it is going to calculate a current income by deducting the unrealized holding gain or loss of earlier periods. This is called *the recycling of other comprehensive income*.

Then, how are the accounting procedures of recycling treated? Or what influence does this recycling have with the preparations of a statement of comprehensive income? I want to consider a these theme in relation to a present-day accounting measurement structure, in the next chapter.

3. the recycling of other comprehensive income and a statement of comprehensive income

As for statements of FAS No.130, necessity of the recycling of other comprehensive income (reclassification adjustment for gains included in net income) is stated. But, it is described as follows by the statement of *A Report of Financial Information* of G4+1 (IASB [1999], pars.4.1-4.16.). As a reason for carrying out recycling, it is pointed out that there are old customs in which only realized profits should be presented in a income statement. And it is pointed out that this custom is regarded as changing and the nature of the elements of income, especially other comprehensive income is regarded as changing with latest some methods.

These recycling procedures are a methods taken in the U.S., and these are not adopted in England. And in this statement, we insist that recycling does not carry out.

In Japanese Accounting Standards No. 10:

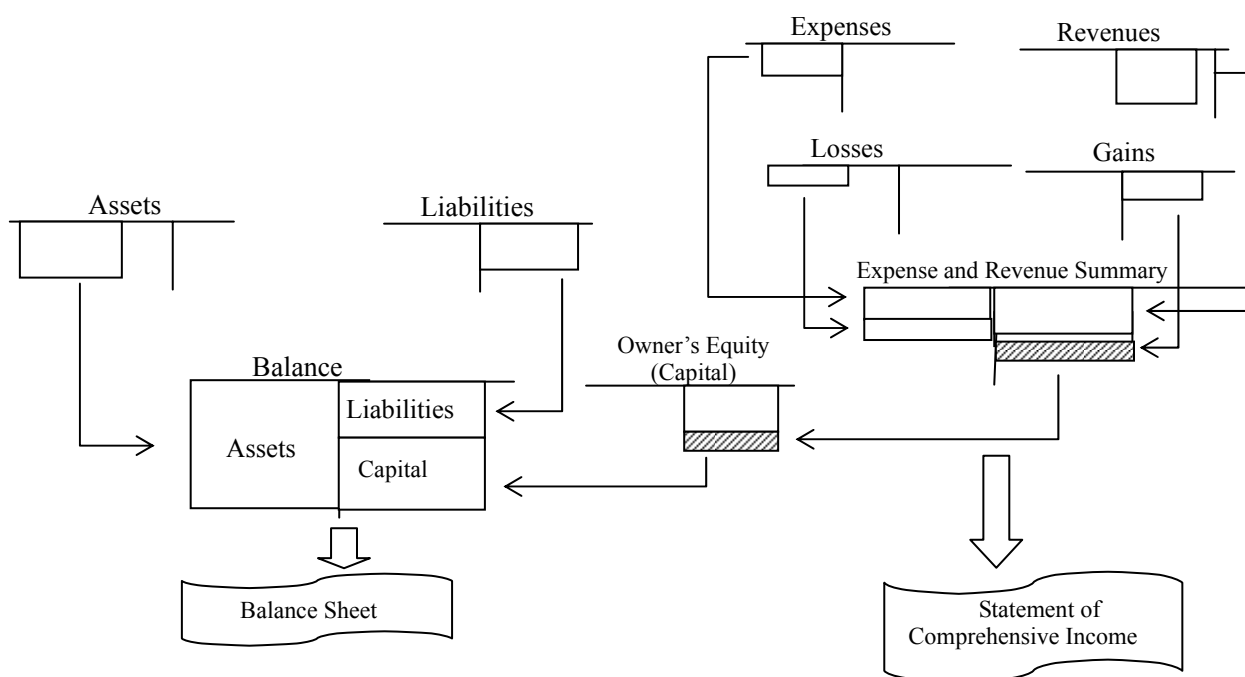


Figure 4 : Relation in double-entry system between Accounts and Financial Statements

Comprehensive income and loss				Statement of Comprehensive Income			
Purchases	24	Sales	50	Cost of sales	24	Sales	50
Operating expenses	7	Unrealized holding gains arising during period	15	Operating expenses	7	Unrealized holding gains arising during period	15
Other expenses	4			Other expenses	4		
Foreign currency translation adjustments	5			Foreign currency translation adjustments	5		
Minimum pension liability adjustment	3			Minimum pension liability adjustment	3		
Owner's equity	22			Comprehensive income	22		
	<u>65</u>		<u>65</u>		<u>65</u>		<u>65</u>

Table 1 : Model of comprehensive income and loss account and Statement of Comprehensive Income (following Format A of SFAS No. 130)

Statement of Comprehensive Income			
Cost of sales	24	Sales	50
Operating expenses	7		
Other expenses	4		
Net income	15		
	<u>50</u>		<u>50</u>
Foreign currency Translation adjustments	5	Net income	15
Minimum pension liability adjustment	3	Unrealized holding gains arising during period	15
Comprehensive income	22		
	<u>65</u>		<u>65</u>

Table 2 : Model of Statement of Comprehensive Income (Two-division type)

Expense and Revenue Summary				Income Statement			
Purchases	24	Sales	50	Cost of sales	24	Sales	50
Operating expenses	7			Operating expenses	7		
Other expenses	4			Other expenses	4		
Owner's equity	22			Net income	22		
	<u>65</u>		<u>65</u>		<u>65</u>		<u>65</u>

Other comprehensive income and loss				Statement of Other Comprehensive Income			
Foreign currency translation adjustments	5	Unrealized holding gains arising during period	15	Foreign currency translation adjustments	5	Unrealized holding Gains arising during period	15
Minimum pension liability adjustment	3			Minimum pension liability adjustment	3		
Owner's equity	22			Comprehensive income	22		
	<u>65</u>		<u>65</u>		<u>65</u>		<u>65</u>

Table 3 : Model of comprehensive profit and loss account and Statement of Comprehensive Income (Separation type)

Accounting Standards for Financial Instruments, securities should be measured by fair value or market price in principle in the regulation about evaluation of securities. But the evaluating procedures for trading securities differs from those for other securities.

In such cases, what does the relationship between a system of accounts and the financial statement become sure enough?

Then, I want to consider the problem of the recycling of securities, using a concrete numerical value from now on.

3.1 Model which does not carry out recycling

Firstly I want to consider a model which does not carry out recycling about other comprehensive income. As for Statements of Japanese Accounting Standard No. 10: *the accounting standards for financial instruments* [the 4, 2, (1), and paragraph 70], unrealized holding gain or loss of trading securities is processed as realized.

Firstly I want to show these transactions (data 1) and journalizing (data 2).

The price of trading securities is evaluated on December 31, x1. The appraisal value(or unrealized holding gain) of 10 yen which is the balance of the acquisition cost of 100 yen and 110 yen in today's market price is added up. Here, when not carrying out recycling, this appraisal value is changed to an expense and revenue summary account. And an account of unrealized holding gain on trading securities finishes that role.

Of course, price of trading securities is corrected to 110 yen which measured by fair value or market price, and is transferred to the

next accounting period. And the following comprehensive income accounts and a statement of comprehensive income are drawn up (Table 4).

Furthermore, trading securities are sold off on May 31, x2. The balance of 30 yen which is the difference of the book value of 110 yen from the market (or selling) price of 140 yen is added up as a profit on securities sold. This profit on securities sold is changed to a comprehensive income account, on May 31, x2 or December 31, x2. And the following comprehensive income account and a statement of comprehensive income are drawn up (Table 5).

Thus, in the model which does not carry out recycling, comprehensive income account which uses other comprehensive income as a constituent factor can be set up. This account has a character as *a controlling account*. I think that the relationship of journal, accounts and a financial statement can be lucidly shown in this model.

3.2 Model which carries out recycling

I want to consider about the relationship of journal, accounts and a financial statement in the case of carrying out the recycling, using the example of transactions used for the preceding case. As for Statement of Japanese Accounting Standard No. 10: *accounting standards for financial instruments* [(1) of the 4, 2, and (4) pars.77-79], it is prescribed that the unrealized holding gain or loss of other securities *are not realized*.

The journalizing is as follows (data 3). Namely, the appraisal value (unrealized holding gain) of 10 yen of other securities

【Data 1】 Transactions

- 6 / 1 / X1 Bought ¥100 trading securities in cash.
- 12 / 31 At closing date, the closing adjustments and closing entry are follows.
 Evaluation ¥110 for trading securities.
 Opening balance, owner's equity(paid in capital) ¥500
 Year-end assets (took off Trading Securities) ¥740,
 Year-end liabilities ¥300,
 Sales ¥200, cost of sales ¥110, operating expenses ¥40,
 Other expenses ¥10.
- 5 / 31 / X2 Sold ¥140 trading securities and received in cash.
- 12 / 31 At closing date, the closing adjustments and closing entry are follows.
 Year-end assets (taken off trading securities) ¥930,
 Year-end liabilities ¥300,
 Sales ¥250 ,cost of sales ¥120, operating Expenses ¥60,
 Other expenses¥20.

【Data 2】 Journalizing (non-recycling accounting of Other comprehensive income)

(6 / 1 / X1)		
Dr. Trading securities	100	
Cr. Cash		100
(12 / 31 / X1)		
Dr. Trading securities	10	
Cr. Unrealized holding gain on Trading securities		10
Dr. Sales	200	
Unrealized holding gain on Trading securities	10	
Cr. Comprehensive income and loss		210
Dr. Comprehensive income and loss	160	
Cr. Purchases		110
Operating expenses		40
Other expenses		10
Dr. Comprehensive income and loss	50	
Cr. Owner's equity		50
Dr. Closing balance	850	
Cr. Trading securities		110
Assets		740
Dr. Liabilities	300	
Owner's equity	550	
Cr. Closing balance		850
(1 / 1 / X2)		
Dr. Trading securities	110	
Assets	740	
Cr. Opening balance		850
Dr. Opening balance	850	
Cr. Liabilities		300
Owner's equity		550
(5 / 31 / X2)		
Dr. Cash	140	

Cr. Trading securities		110
Gain on the sale of securities		30
(12 / 31 / X2)		
Dr. Gain on the sale of securities	30	
Sales	250	
Cr. Comprehensive income and loss		280
Dr. Comprehensive income and loss	200	
Cr. Purchases		120
Operating expenses		60
Other expenses		20
Dr. Comprehensive income and loss	80	
Cr. Owner's equity		80
Dr. Closing balance	930	
Cr. Assets		930
Dr. Liabilities	300	
Owner's equity	630	
Cr. Closing balance		930

Comprehensive income and loss				Statement of Comprehensive Income Year Ended December 31, X1			
Purchases	110	Sales	50	Cost of sales	110	Sales	200
Operating expenses	40	Unrealized holding gains on Trading securities	10	Operating expenses	40	Unrealized holding gains on Trading securities	10
Other expenses	10			Other expenses	10		
Owner's equity	50			Comprehensive income	50		
	<u>210</u>		<u>210</u>		<u>210</u>		<u>210</u>

Table 4 : Comprehensive income and loss account and Statement of Comprehensive Income in fiscal X1

Comprehensive income and loss				Statement of Comprehensive Income Year Ended December 31, X2			
Purchases	120	Sales	250	Cost of sales	120	Sales	250
Operating expenses	60	Gain on the sale of securities	30	Operating expenses	60	Gain on the sale of securities	30
Other expenses	20			Other expenses	20		
Owner's equity	80			Comprehensive income	80		
	<u>280</u>		<u>280</u>		<u>280</u>		<u>280</u>

Table 5 : Comprehensive income and loss account and Statement of Comprehensive Income in fiscal X2

[Data 3] Journalizing (recycling accounting of Other comprehensive income)

(6 / 1 / X1)		
Dr. Other securities	100	
Cr. Cash		100
(12 / 31 / X1)		
Dr. Sales	200	
Cr. Expense and Revenue Summary		200
Dr. Expense and Revenue Summary	160	
Cr. Purchases		110
Operating expenses		40
Other expense		10
Dr. Expense and Revenue Summary	40	
Cr. Owner's equity		40
Dr. Other securities	10	
Cr. Valuation difference of Other securities		10
Dr. Closing balance	850	
Cr. Other securities		110
Assets		740
Dr. Liabilities	300	
Owner's equity	540	
Valuation difference of Other securities	10	
Cr. Closing balance		850
(1 / 1 / X2)		
Dr. Other securities	110	
Assets	740	
Cr. Opening balance		850
Dr. Opening balance	850	
Cr. Liabilities		300
Owner's equity		540
Valuation difference of Other securities		10
Dr. Valuation difference of Other securities	10	
Cr. Other securities		10
(5 / 31 / X2)		
Dr. Cash	140	
Cr. Other securities		100
Gain on the sale of securities		40
(12 / 31 / X2)		
Dr. Gain on the sale of securities	40	
Sales	250	
Cr. Expense and Revenue Summary		290
Dr. Expense and Revenue Summary	200	
Cr. Purchases		120
Operating expenses		60
Other expenses		20
Dr. Expense and Revenue Summary	90	
Cr. Owner's equity		90
Dr. Closing balance	930	
Cr. Assets		930
Dr. Liabilities	300	
Owner's equity	630	
Cr. Closing balance		930

does not consider it as realized, but is postponed at the next accounting period on December 31, x1. For this reason, this appraisal value is entries in an account of valuation difference on other securities(net assets), and totaled by the account of closing balance. And this figure is displayed as follows in a balance sheet (Table 6).

In January 1, x2, the unrealized holding gain of other securities is shown as the balance of the account of valuation difference on other securities. This balance is returned to an other securities account. That is, the balance of an other securities account is corrected to the acquisition cost.

Then, other securities are sold off and the realized profit on other securities sold of 40 yen is added up on May 31, x2. This profit on other securities sold is totaled as to an expense and revenue summary account, in December 31, x2. Therefore, the amount of this profit is displayed on an income statement (Table 7).

As mentioned above, when carrying out recycling, it will be displayed on the closing balance account and balance sheet on December 31, x1. These procedures are contradictory from the theme that other comprehensive income should be shown from the reason of expansion of a profits concept.

Furthermore, shown in Table 7, on December 31, x1 and December 31, x2, other comprehensive income is shown in a closing balance account and an expense and revenue summary account. So that it needs not to create an account of comprehensive income. Therefore, it needs not to prepare a statement of comprehensive income, either.

This means that comprehensive income

cannot be shown collectively.

And also will turn its eyes to the contents of other comprehensive income. The profit on other securities sold of the financial statements on December 31, x2 is 40 yen. However, in order to know the unrealized holding gain of this accounting period in this amount, it is necessary to investigate the account of valuation differences of other securities. Not to mention it, since the account of valuation differences of other securities itself has been returned in the beginning of every early accounting periods, it is hard to say that the valuation differences of other securities in the last period is shown appropriately.

When the recycling of the other comprehensive income was carried out, it became clear from the above thing that there are various problems.

4. Conclusion

In this paper, I considered about a positioning and structure of a statement of comprehensive income, relating in an actual accounting structure or an actual measurement process. As a result of these considerations, it became clear that a statement of comprehensive income is the financial statement which reports that income, which is the expanded conventional concepts, and including the unrealized holding gain and loss concepts in addition to the traditional revenue and expense concepts.

Furthermore, I considered about the problem of recycling. Profits of this accounting period contain unrealized holding gain or loss of earlier periods. For this reason, it is going to calculate a current income by

deducting the unrealized holding gain or loss of earlier periods. This is called *the recycling of other comprehensive income*.

As a result of these considerations, it became clear that in the model which does not carry out recycling, comprehensive income account which uses other comprehensive income as a constituent factor could be set up.

This account had characters as a *controlling account*. So, I thought that the relationship of journal, accounts and a financial statement can be lucidly shown in this model.

On the other hand, when the recycling of the other comprehensive income was carried out, it became clear that there are various problems

Closing balance				Balance Sheet At December 31, X1			
Assets	740	Liabilities	300	Assets	740	Liabilities	300
Other securities	110	Owner's equity	540	Other securities	110	Owner's equity	500
		Valuation difference of Other securities	10			Net income	40
						Valuation difference of Other securities	10
	<u>850</u>		<u>850</u>		<u>850</u>		<u>850</u>

Table 6 : Closing balance account and Balance Sheet in fiscal X1

Expense and Revenue Summary				Income Statement Year Ended December 31, X2			
Purchases	120	Sales	250	Cost of sales	120	Sales	250
Operating expenses	60	Gain on the sale of securities	40	Operating expenses	60	Gain on the sale of securities	40
Other expenses	20			Other expenses	20		
Owner's equity	90			Net income	90		
	<u>290</u>		<u>290</u>		<u>290</u>		<u>290</u>

Table 7 : Comprehensive income and loss account and Income Statement in fiscal X2

Note

1) As for the statement by FASB in U.S., the name "a Statement of Comprehensive Income" is used. But in the statement by ASB in England, the name "Statement of total recognized gains and losses" is used. Now internationally the name "a Statement of Comprehensive Income" is chiefly used.

2) International Accounting Standards Board (IASB) started the collaborative project with England since 2001. However, the project became dormant, for the reason that there were a lot of dissenting opinions to the abolition of a concept Net income. And, in 2004 the collaborative project with FASB is newly started up, and an examine in full scale has been begun since 2005.

3) For example, about the method of displaying the comprehensive Income, ASBJ issues Statement of Accounting Standards No.5 :*Accounting Standard for Presentation of Net Assets in the Balance Sheet and its Implementation Guidance* (2005.12.9) and Statement of Accounting Standards No.6, "Accounting Standard for Statement of Changes in Net Assets and its Implementation Guidance" (2005.12.27).

4) W. A. Paton explains the structure of the accounts system through the equation [Properties = Equities].

In addition, he insisted that there are many supplementary accounts in properties and equities. And, he has enumerated the revenue accounts and the expense accounts as typical accounts. (Paton[1917], p.17).

5) Components of the Comprehensive income is revenues, expenses, unrealized holding gains, and losses (FASC No.6, par.64) . It explained that those features are "Revenues and expenses result from an

entity's ongoing major or central operations and activities. --- In contrast, gains and losses nature of the organization and the purposes specified in its articles of incorporation (or comparable document for an unincorporated association) or bylaws and perhaps limits resulting from contractual agreements." (FASC No.6, par.87). And, the definition is shown on FASC No.6, pars. 77-83.

References

- Accounting Standards Boards (ASB), *Financial Reporting Standards No.3 : Reporting financial performance*, ASB[1992].
- Financial Accounting Standards Board (FASB), *Statement of Financial Accounting Concepts No.6, Elements of Financial Statements, a replacement of FASB Concepts Statement No.3* , (incorporating an amendment of FASB Concepts Statement No.2): FASB[1985].
- , *Statement of Financial Accounting Standards No.130 , Reporting Comprehensive Income*: FASB[1997].
- International Accounting Standards Committee (IASC) , *Framework for the Preparation and Presentation of Financial Statements*: IASC[1989].
- , *G4+1 Position Paper: Reporting Financial Performance, A Discussion Paper issued for comment by the Staff of the International Accounting Standards Committee, Comments to be submitted by 31 December 1999*, IASC[1999].
- Paton, W.A., *Theory of the Double-Entry System, The Journal of Accountancy*, [1917] in *Paton on Accounting*, Edited by H.F.

Taggart, Graduate School of Business Administration, The University of Michigan: Paton[1964], pp.3-18.

Kouki Kishikawa, Accounting Methods and Processes for Making Accounting Financial Statements, Bulletin of The Kyoushu Section of The Japan Academic Society for Business Education, No.4・5, [2000], pp.37-42.

Tsutomu Kidota, *a Study of the Reconstruction of accounting measurement theories*, Dohbunkan,[1995].

—————, *a Study of the Method and structure of an accounting measurement theory*, Sohseisha,[1999].