June 23, 2011

REPORTING OF COMPREHENSIVE INCOME MODIFIED

By Brian Gibney, CPA, PSA, CIRA, Partner

In June 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, which modifies the presentation and disclosure of Comprehensive Income (CI) in an entity’s financial statements.

WHAT IS COMPREHENSIVE INCOME?

Comprehensive income represents the total change in an entity’s equity (net assets) from one period to the next from transactions and other events and circumstances from non-owner sources. Comprehensive income is comprised of an entity’s net income (change in net assets) and its items of other comprehensive income (OCI). OCI is specifically defined revenues, expenses, gains and losses that are excluded from the determination of net income under GAAP.

Not all entities have items of OCI. ASU 2011-05 affects only those entities that have items of other comprehensive income. It makes no change in the items that comprise OCI. Rather, it affects the manner in which CI is reported in an entity’s financial statements.

WHY IS THE SEC CONSIDERING THIS CHANGE?

- Chief Financial Officers
- Attorneys
- Bankers
- Other Financial Statement Users
- Controllers
- Audit Committee Members
- Financial Statement Preparers
- Members of Board of Directors

Our Accounting and Auditing Team at WS+B is prepared to provide you with information that may be helpful to you and your business.
ASU 2011-05 was issued in order to more closely align the reporting and disclosure of CI under U.S. GAAP with International Financial Reporting Standards. The release of ASU 2011-05 is the result of a joint project conducted with the International Accounting Standards Board (IASB) and was accompanied by the simultaneous release by the IASB of an amendment to International Accounting Standard 1 (Presentation of Financial Statements).

The most significant change effected by ASU 2011-05 is the elimination of the option to present an entity’s changes in OCI within the statement of shareholders’ equity. The components of OCI will now be presented either in a combined statement of income and comprehensive income or in a stand-alone statement of comprehensive income which must immediately follow the statement of income in an entity’s financial statements.

In addition, ASU 2011-05 requires that reclassification adjustments be shown on the face of the financial statements. Changes in the accumulated balances of each component of OCI may be shown on the face of the financial statements or in the notes thereto. ASU 2011-05 does not eliminate the option to show the components of OCI either before or after the effects of income taxes.

The amendments issued by the FASB and IASB do not address differences that exist between U.S. GAAP and IFRS in the components of comprehensive income or in the reclassification of those items into net income.

The requirements of ASU 2011-05 are to be applied retrospectively as follows:

- For public companies the effective date is for fiscal years and interim periods beginning after December 15, 2011.
- For non-public companies the effective date is for fiscal years ending after December 15, 2012 and interim periods within those fiscal years.

Early adoption is permitted.