COLLEGE OF ACCOUNTING

FINANCIAL REPORTING | ADVANCED

Video Transcription: Reporting Total Comprehensive Income

This video focuses on the primary financial statement in which an entity reports (or presents) total comprehensive income.

Total comprehensive income is a component of equity. Changes in equity are reported in the statement of changes in equity. These changes can be broadly categorised into those that arise from transactions with the owners in their capacity as owners, and all other changes in equity.

- Transactions with the owners in their capacity as owners arise from contributions from the owners, distributions to the owners (dividends) and adjustments relating to changes in ownership, of subsidiaries that do not result in a loss of control.
- All other changes relate to total comprehensive income. Where:

Total comprehensive income = profit or loss + other comprehensive income.

- Profit or loss includes all items of income and expenses, unless an entity is permitted or required otherwise by IFRS.
- Other comprehensive income refers to those items – income and expenses, which IFRS allows or requires to be recognised outside of profit or loss.

We are focusing on total comprehensive income, which reflects the entity's financial performance, with profit or loss generally the primary measure of performance. IAS 1, which deals with presentation of financial statements, allows an entity to choose from two options when reporting and presenting total comprehensive income – a single statement approach and a two-statement approach.

Let's look at the illustrative example of the A Ltd group:

A 'Single Statement' Approach

This is an example, a format that reflects one option. A Ltd refers to this as a statement of profit or loss and other comprehensive income (some entities may refer to it to as a statement of comprehensive income):

We see a single continuous statement that starts with the profit or loss section continues directly to the other comprehensive income section and ends with total comprehensive income for the period. In this statement both profit or loss and total comprehensive income are also allocated to the equity holders of the parent and the non-controlling interest. See if you are able to link the presentation of these amounts in the statement of profit or loss and other comprehensive income of A Ltd and the statement of changes in equity of A Ltd.

A 'Two-Statement' Approach

This format reflects the alternative, which reports total comprehensive income in two separate statements:

- A Ltd refers to this as a statement of profit or loss (other entities may refer to this as an income statement). This comprises only income and expenses recognised in profit or loss. It ends with the profit or loss for the period. Only the allocation of profit or loss equity holders of the parent and the non-controlling interest, is presented.
- A Ltd's statement of profit or loss and other comprehensive income. This starts with the profit for the period as per the statement of profit or loss, continues to the items of other comprehensive income and finishes with the total comprehensive income for the period. Only the allocation of total comprehensive income, between the equity holders of the parent and the non-controlling interest, is presented here (as the allocation of profit or loss is presented in the statement of profit or loss).

It is important to note that these options are a presentation choice; they do not change the amount of the entity's total comprehensive income for period. This presentation choice may, however, have implications for:

- What the reader's attention is drawn to. Refer to each of the different formats and think about the ease or difficulty you have finding their respective profit figures.
- Other items, which an entity is required to report on in accordance with IFRS. For example, if A Ltd is a listed entity, it is required to present 'earnings per share' (or eps) figures. As the eps relates to profit (or loss) for the period, the eps figures will be presented in the primary statement that reports on the entity's profit for the period.

The objective of financial reporting is to provide users with useful information for when they make decisions about, say, investing or lending to the entity. The financial statements are a structured and formalised way of communicating that information to the users. IFRS prescribes minimum presentation requirements as well as options to allow entities to report in a way that is most relevant to the users of their financial statements. This means the financial statements for most entities will look different (and we can see it in our two examples). We've looked at how total comprehensive income could be presented, broadly speaking. Let's focus on A Ltd's 'statement of profit or loss and other comprehensive income presented in a 'single' statement format, and highlight some other presentation issues relating to total comprehensive income that arise from IAS 1:

1. Firstly, Let's Focus on Profit or Loss

- IAS 1 allows a choice as to how to present expenses – by nature (what they are) or function (what function they perform). Can you identify how the expenses of A Ltd have been presented?
- There are certain items that IAS 1 requires to be presented on the face of the financial statements (for example interest expense, income tax), material items, which could be presented on the face of the financial statements or in the notes (e.g. depreciation) and additional line items, which will aid a user's understanding. For example, totals – e.g. A Ltd has presented a 'gross profit' line item.

2. Now, Let's Focus on Other Comprehensive Income:

- IAS 1 requires an entity to separately present items of other comprehensive income, which will be reclassified into profit or loss from those, which will or may not be reclassified. Reclassification adjustments relate to amounts that are initially recognised in other comprehensive income and then at some point those same amounts are reclassified into profit or loss. What do you notice about the items of other comprehensive income of A Ltd?
- IAS 1 allows entities a choice with respect to whether to present items of other comprehensive income, gross of their related tax effects with the tax aggregated into a separate line item or alternatively to present each item of other comprehensive income, net of tax. What has A Ltd done?
- IAS 1 also allows entities to present details about other comprehensive income e.g. the tax effect of each item of other comprehensive income or reclassification adjustments on the face or in the notes.

We have looked at how changes in equity may be reported and presented. As you go forward:

- Work through the illustrative examples in IAS1 and the related Illustrative Guidance.
- When you read annual financial statements of different entities, see whether you can identify the choices entities have made and whether and how those choices influence your understanding of the entity's financial statements.
- When you tackle tutorial and exam questions, pay careful attention to the information you are given regarding the choices made by the entity in the scenario as that will affect your answer.