Two Concepts of Comprehensive Income

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Abstract

The recent international trends in the reporting of comprehensive income can be summed up as follows: the new reporting format for comprehensive income that the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have set their sights on for future introduction will lead to a fundamentally different way of reporting comprehensive income from the current IASB standards (IAS 1 as revised in 2007), current FASB standards (FAS 130) and current Japanese standards, which more or less advocate the same method of business performance reporting. Whereas both net income and comprehensive income are reported under the current business performance reporting format, the proposed new IASB/FASB format will banish net income from performance reporting. This paper examines the appropriateness of such a move in light of the role expected of “income”.

Keywords: Comprehensive income; Net income; Revenue and Expense View; Assets and Liabilities view, Income Concept, Cash flow allocation
1. Introduction

The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) are currently working on a joint project aimed at developing a new conceptual framework for financial reporting. If and when this new conceptual framework is finalized under the project, it will replace the current IASB/FASB conceptual framework, and will set the foundation for future standards development by the two boards (FASB, 2006a, vi)\(^1\). Preliminary views released by the two boards in July 2006 titled the “Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information” (FASB, 2006a) constitute the first step towards their future conceptual framework development work and subsequent accounting standards revision work.

Given the ongoing international convergence of accounting standards, the new IASB/FASB conceptual framework will doubtless have an enormous impact on Japanese accounting standards. However, the IASB/FASB’s preliminary views have already met with scathing criticism from the Financial Accounting Standards Committee (FASC) of the American Accounting Association (AAA), which describes them as “a flawed approach” (Benson, 2007, p.230). For this very reason, we must pay close attention to the direction of the IASB/FASB conceptual framework project from its early stages and get our theoretical views across\(^2\).

This paper aims to examine the asset and liability approach that underlies the IASB/FASB conceptual framework project and character of comprehensive income that results from it, in light of the role of financial reporting.

\(^1\) The FASB plans to not only use the conceptual framework as a reference framework for future standards development but also incorporate it into the GAAP hierarchy as in the case of IASB (FASB 2006b).

\(^2\) The author was invited to the IASB/FASB world roundtable conference on the conceptual framework held in Norwalk on February 1, 2007 (measurement phase) and thus given an opportunity to put forward her views. For details, see Kaneko, Toyoda and Tsujiyama (2007).
2. What Is Comprehensive Income?

Comprehensive income is the change in net assets on the balance sheet during a period except the portion resulting from direct transactions with shareholders\(^3\). In recent years, the argument that comprehensive income is a more objective and useful concept than net income or earnings (hereinafter both referred to as “net income” without differentiating them), concepts that have been widely accepted as performance indicators for quite some time, has arisen, centering around IASB and FASB. Conventional net income is the difference between revenues and expenses over a period that can be measured by periodically allocating cash flow\(^4\). The main basis of the above argument is as follows: since a periodical allocation of cash flow is susceptible to manipulation by management, the use of net income raises the risk of distortion in the reporting of the performance of an entity; in contrast comprehensive income can provide more objective and useful information as it is a periodical change in net assets, given that assets and liabilities held by an entity are objectively observable.

Before comprehensive income can be objectively determined, however, net assets must be objectively measured, and this necessitates the objective measurement (valuation) of all assets and liabilities held by an entity beforehand. Since such valuation is subject to manipulation, comprehensive income too cannot escape arbitrariness. As far as objectivity is concerned, a periodical allocation of cash flow as the basis of the calculation of net income and the valuation of assets and liabilities as the basis of the calculation of comprehensive income are much the same, because neither can totally eliminate the possibility of manipulation by management. For this reason, the usefulness of net income and comprehensive income needs to be investigated in light of the role “income” is expected to play. Before addressing this issue in Section 4, however, we will take an

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\(^3\) Issue of new shares, stock retirement, etc.

\(^4\) Therefore, this value is determined on the basis of receipts and expenditures. The inclusion of valuation differences of trading securities in net income can be understood under a similar framework. For details see Section 6.
overview of recent international trends in the reporting of comprehensive income in the next section.

### 3. Two Reporting Formats of Comprehensive Income

At present, two competing views exist on what constitutes the central concepts for measuring the performance of an entity (income): the revenue and expense approach and the asset and liability approach. There are also two standpoints on the relationship between these two views: complementary and mutually exclusive. This has led to a clash of two opposing views on the reporting format of comprehensive income. With this in mind, we will now look at the two different reporting formats of comprehensive income.

#### 3.1 The IASB’s initial proposal

One of those reporting formats was put forward by the IASB in 2001. As soon as it was released, this initial proposal, as shown in Figure/Table 1, unleashed a worldwide controversy, which remains unresolved to this day.

Under the IASB’s initial proposal, comprehensive income is divided into a portion attributed to a re-measurement (re-valuation) of holding assets and liabilities (re-measurement difference) and the rest (income before re-measurement), and each portion is

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5 The former is also referred to as the revenue and expense view or the P/L approach, while the latter is sometimes called the asset and liability view or the B/S approach. Although different names are accompanied by slightly different connotations, we will not go into those details here.

6 Immediately after its establishment in 2001, the IASB launched the Performance Reporting Project (currently the Financial Statements Presentation Project) in partnership with UK Accounting Standards Board (ASB), but it did not reach the standard development stage. Since 2004, the work has been carried on in partnership with the FASB. At one stage, the proposal described in Figure/Table 1 was withdrawn, but it was not a total withdrawal. The IASB and the FASB have provisionally agreed to pursue the performance reporting format advocated in the proposal (though not necessarily in matrix form) in the medium to long term. The IASB/FASB joint project is currently being undertaken in two segments: segment A, aimed at bringing about short-term agreement, and segment B, aimed at bringing about medium to long-term agreement. The work of segment A has been finalized as IAS 1 as revised, titled “Presentation of Financial Statements” and was released in September 6, 2007. The content of IAS 1 is very similar to current FASB standards (FAS 130).
further divided to a portion based on operating activities and one based on financing activities. According to this proposal, re-measurement difference (re-valuation difference) as determined through a re-measurement of assets and liabilities is immediately confirmed as part of performance for the period concerned. For this reason, it is prohibited to transfer them to income before re-measurement upon subsequent realization. Suppose fixed assets are re-valuated at the end of a period\(^7\). In that case, the re-valuation difference is entered in the rightmost top cell of Figure/Table 1 as part of performance for the period concerned. If the assets are subsequently sold, the difference between the book value after re-valuation and sale value becomes a gain/loss on sale. On the other hand, if the assets continue to be used, the book value after re-valuation is used for the calculation of depreciation expenses. For this reason, income before re-measurement as shown in Figure/Table 1 is a subset of comprehensive income from which re-measurement difference has been excluded, and takes a different amount from conventional net income\(^8\). Namely, this kind of performance reporting does not offer any information on conventional net income.

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<thead>
<tr>
<th>Figure/Table 1</th>
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<td>Comprehensive income</td>
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The IASB gives the following reasons for their proposal: net income or any other single monetary amount is incomplete as the indicator of the performance of an entity; it is subject to distortion as it is derived from a primary set of information; simply presenting changes in assets and liabilities, except capital transactions, over each period as performance, including an itemized breakdown, is the desirable form of performance reporting. This is referred to as performance reporting based on the asset and liability approach.

\(^7\) The current IAS 16 even permits the re-valuation of fixed assets for business purposes.

\(^8\) Although the IASB says income before re-measurement can be called net income, it is obvious that this “net income” is fundamentally different from what we call “net income” under the current system.
3.2 Current performance reporting system

As mentioned above, the comprehensive income reporting format under the IASB’s initial proposal does not provide any information on net income. In contrast, current accounting standards in Japan and other countries across the world support a performance reporting format that accommodates the reporting of both comprehensive income and net income. Namely, the performance of an entity (net income) is always calculated by matching revenues and expenses, while it is permitted to appraise the market values of assets and liabilities not amenable to inclusion in net income at the end of a period, as long as their market values constitute useful information. In other words, the conventional system allows the market valuation of some assets and liabilities in the balance sheet but not included in net income, while maintaining the revenue and expense approach as standard, as far as the calculation of net income is concerned.

Under the current Japanese standards, changes from valuation and translation listed in the net assets section separately from shareholders’ equity form a part of current comprehensive income, but are not considered as part of performance at this point. For this reason, they are incorporated into the net assets section of the balance sheet, instead of being included in current net income. If and when these potential gains/losses are realized, namely if and when the time comes when they should be included in current net income as part of performance, they are transferred to net income after deducting the same amounts from changes from valuation and translation.

For example, while “other securities (available for sale securities in the US)” are subject to an evaluation of their market values in each period even if they continue to be held, their valuation differences are incorporated into the credit-side net assets section of the balance sheet under the heading “valuation differences on other securities”, instead of being included in performance. When they are sold, the differences between their historical

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9 The pros and cons of reporting format under the IASB’s initial proposal, which prohibits recycling, are set to be discussed under segment B. The current IAS 1, as revised in September 2007, has adopted this second format of performance reporting as a first step.

10 It is permitted to just include valuation losses in performance.
(acquisition) prices and sale prices are included in net income as gains or losses on sale, followed by the deduction of the corresponding cumulative valuation differences for the previous year and all preceding years from the “changes from valuation and translation” account of the net assets section to avoid double reckoning. This transfer from changes from valuation and translation to net income is usually called “recycling” or “reclassification”.

3.3 Significance of recycling

Through recycling, the reporting of the periodical change in net assets as the net difference between assets and liabilities (i.e. comprehensive income) and that of conventional net income, which focuses on the flow side of corporate activities (revenues and costs), becomes possible in each period. Moreover, because of recycling, cumulative comprehensive income and cumulative net income over all periods totally agree with each other as it ensures that differences between acquisition and sale prices of assets are included in net income at least once\(^\text{11}\). In this sense, the difference between net income and comprehensive income is simply a matter of timing in terms of recognition as performance.

In other words, while net income and comprehensive income represent an income concept derived from a periodical allocation of cash flow with a focus on an entity’s flow of goods and services and one that focuses on the valuation of assets and liabilities held by an entity, respectively, the manner of how the assets and liabilities held by an entity is measured does not affect the cash to cash cycle measurement of the entity’s economic activities over all periods. For example, if re-valuation gains on holding assets are included in income for a period, the subsequent costs used in the calculation of income increase by those amounts, so that cumulative income over all periods would be the same amount as cumulative income without the reckoning of valuation gains.

The current American standards (FAS 130) call the items of what are known as “changes from valuation and translation” for a period under the current Japanese standards

\(^\text{11}\) Although the relationship between net income and comprehensive income becomes the relationship between net income plus minority interest and comprehensive income on a consolidated basis, we assume individual financial statements here for the sake of convenience. At any rate, the basic relationship remains the same.
“Other Comprehensive Income: OCI”\textsuperscript{12}. Since OCI items are included in net income through recycling when the time comes to do so due to realization, etc. under American standards, the basic relationship between net income and comprehensive income is the same as Japanese standards.

3.4 Two concepts of comprehensive income

As can be seen from the above, the meaning of comprehensive income fundamentally differs from one reporting format to the other. Simply put, comprehensive income can mean either of the following:

(i) Comprehensive income = Net income + Other comprehensive income
(ii) Comprehensive income = Income before re-valuation + Re-valuation difference

Formula (i) represents the reporting format of comprehensive income under current standards across the world, while formula (ii) expresses the future reporting format of comprehensive income as proposed by the IASB/FASB.

Since the distinction between the first and second terms of formula (i) stems from a difference in the timing of recognition as income, the second term (OCI) will sooner or later be included in the first term, so that, over time, the cumulative total of net incomes as appearing in the first term will agree with that of comprehensive incomes\textsuperscript{13}. In contrast, the distinction between the first and second terms of formula (ii) is based on the type of income, and the cumulative total of incomes before re-valuation over time merely forms a subset of the cumulative total of comprehensive income\textsuperscript{14}.

\textsuperscript{12} Under Japanese standards, the treatment of valuation differences of other securities is subject to the gross amount recycling method in every year, so that the amount of changes from valuation and translation for the current period is not exactly the same as the amount of OCI for the current period.

\textsuperscript{13} In conventional accounting, the balance sheet is positioned as the carrying amount of costs (flow) to maintain articulation between the income statement (flow table) and balance sheet (stock table), so that there is no room for OCI in formula (i) to arise. For this reason comprehensive income and net income always agree with each other.

\textsuperscript{14} This relationship resembles the classification of the population into adults and children on the one hand and male and female on the other. In the former case, children eventually grow into adults (notwithstanding some exceptions maturity-wise) so that the cumulative number of adults and the cumulative population over all generations in principle agree with each
The reporting of comprehensive income, therefore, can mean totally different things depending on which reporting format is used, the current format based on a periodical allocation of flow as far as performance measurement is concerned or the proposed format aiming to express performance on the basis of a valuation of stock. The fact that the current FASB system (FAS 130), IASB system (IAS 1 as revised) and Japanese system all assume performance reporting as expressed by formula (i) makes them essentially the same reporting formats, and the new reporting format being sought by the IASB/FASB is a radical departure from them in that it is based on the concept of comprehensive income as shown in formula (ii)\(^{15}\).

4. Role of Income Information

The case for or against the two comprehensive income reporting systems boils down to which kind of performance is more suited to the objective of financial reporting, flow-focused or stock-focused\(^{16}\).

Although accounting information is used for various purposes, the current conceptual frameworks of major accounting standards boards across the world, including The FASB, the IASB and the Accounting Standards Board of Japan (ASBJ), limit its objective to investment decision-making\(^{17}\). We will now investigate the role of income information in terms of its usefulness for investment decision-making.

\(^{15}\) Some media reports claiming that the Japanese current performance reporting format is something peculiar by world standards on the grounds that the expression “reporting of comprehensive income” is not used under Japanese standards or that the difference between comprehensive income and net income boils down to different views on the acceptability of the inclusion of re-measurement differences of other securities in income are distorting the facts.

\(^{16}\) Moreover, since formula (i) reports both net income and comprehensive income, whereas formula (ii) just reports comprehensive income, a switch from formula (i) to formula (ii) cannot be justified unless it is proven that net income is useless.

\(^{17}\) This point has not changed in IASB/FASB’s preliminary views (FASB 2006a). Although IASB’s current conceptual framework uses the expression “economic decision-making”, which has a wider meaning than investment decision-making, its theoretical emphasis is on investment decision-making as in the case of the FASB.
4.1 Income information as ex-ante information

It goes without saying that the predictive value of accounting information is essential for investment decision-making. Nevertheless, there are still many unknown aspects to the role accounting information plays in future expectations of investors. While the dividend discount model, which is the archetype of the valuation of shareholders' equity, uses dividend forecasts as the basis of the valuation of an entity, forecasting dividends is not without practical difficulties. Similarly, the discount free cash flow model and the residual income (excess income) model, which use future free cash flow forecasts and future income forecasts as input information, respectively, require considerable innovative thinking in coming up with future cash flows and income from the current income.

Nevertheless, one thing that can be said about any of these models is that the information about future follows, i.e. future cash flows or income, of an entity does provide basic information for the valuation of the entity. In other words, it is not possible to determine the value of shareholders’ equity by measuring the market values of assets and liabilities currently held by the entity, no matter how detailed it might be. For example, even if net assets of an entity are valuated on a market value basis by measuring the market values of all the assets and liabilities currently held, it just shows the liquidation value of the entity, which does not include the value of goodwill as intangible value of the entity as a going concern. The true value of shareholders’ equity is determined by cash flows or income that the entity is expected to generate in the future, not its current stock of assets and liabilities.

Accounting income information forms basic information for the prediction of future income or cash flow streams (input information), and provides a basis for the estimation of the value of goodwill. When judging on the usefulness of net income and comprehensive income, it is essential to stick to the perspective of which is more useful as input information between net income as current cash flow allocation information and comprehensive income as a valuation difference in the current stock (assets and liabilities).
4.2 Economic income and accounting income

In this regard, there is one thing that must be mentioned here, and it is the argument occasionally encountered in recent years that comprehensive income is of higher quality as income than net income because of its similarity to Hicksian income or economic income\textsuperscript{18}.

It is true that on the surface, economic income is conceptually closer to comprehensive income than net income as it is measured through a comparison of the wealth of an economic entity at two points in time. However, Beaver, who once carried out a detailed analysis of the relationship between economic income and accounting income, pointed out the following after defining economic income as “the change in the present value of future cash flows, after proper adjustments for deposits (e.g., additional common stock issues) or withdrawals (e.g., dividends)”:

1. the measurement of economic income is impossible under uncertainty,
2. accounting income has no significance because, if economic income is measurable, it presupposes the completion of the valuation of wealth (value of an entity or shareholders’ equity) at two points in time (Beaver 1981, pp.4-5).

Although there is not enough space to discuss this subject further\textsuperscript{19}, the basic relationship between economic income and accounting income is shown in Figure/Table 2. The diagram highlights the interrelationship between stock and flow measurements.

Comprehensive income and economic income are similar in that they are both periodical change in the valuation of stock, but they fundamentally differ in terms of the handling of the value of goodwill. Namely, while the latter includes the change in the value of goodwill, the former does not usually do so. If it is mandated to include internally generated goodwill in assets and liabilities in the future, the measurement of the two incomes will produce similar amounts, but in that event the meaning of accounting income information will have completely changed. As can be seen from Beaver’s argument, the measurement of income as information assisting investment decision-making or input information for the valuation of an entity will have become meaningless.

\textsuperscript{18} Examples include Schipper, K. and Vincent, L. (2003), Bullen and Crook (2005). Among the papers which critically examine this view is Fukui (2007).

\textsuperscript{19} On this point, see Tsujiyama (2004).
The objective of the measurement of economic income, which is to determine the change in the wealth of an economic entity on the basis of the valuation of stock, fundamentally differs from the objective of the measurement of accounting income.

### 4.3 Income information as ex-post information

The IASB contends that “income before re-measurement”, a concept which features in its proposal, constitutes useful information in determining the sustainable (ordinary) portion of the performance of an entity as the best predictor for its future cash flows. It goes on to argue that, for this reason, it is of significance to show “income before re-measurement” as a component of comprehensive income. There is no objection to the argument that doing so will assist the prediction of future cash flows.

The point to note here is that what is to be predicted using accounting information is all future streams of cash flows or income as a result of its periodical allocation, not just the sustainable portion of them. This necessitates the provision of ex-post information on all income streams, including both sustainable and non-sustainable ones, as “facts”, for it will enable ex-ante forecasts to be verified and revised on an ex-post basis. Indeed, providing a
feedback facility whereby ex-ante forecasts are verified and revised on the basis of ex-post facts to pave the way for the formation of new expectations is another role of accounting information.

From the above observations, it follows that it is desirable full ex-post information containing both sustainable and non-sustainable items be compiled and shown with an itemized breakdown, even when reporting conventional net income. From this perspective, various ways of making performance reporting more useful and convenient to users will be explored in the future.

However, this does not mean that it is justifiable to exclude some of the total amount of “cash to cash cycle” over all periods of an entity’s economic activities, from income (net income) as ex-post flows. As discussed above, to ensure that expectations can be revised on the basis of facts, it is necessary to include each of the cash to cash cycle measurements over all periods of an entity’s economic activities in income (net income) as ex-post flows for one of those periods.

5. Functions of Asset and Liability Approach

Meanwhile, there is a view that performance reporting based on the so-called asset and liability approach inevitably leads to the reporting of comprehensive income. Let us now investigate this issue.

5.1 Complementary function with revenue and expense approach

The asset and liability approach assumes that an appropriate measurement of income can be derived from carefully crafted definitions of assets and liabilities. In this regard, assets and liabilities are defined in relation to economic resources and economic obligations, respectively, with all items that do not fit this definition excluded. In contrast, the revenue and expense approach assumes that an appropriate measurement of income provides the basis for the measurement of other elements of the balance sheet. As such, it provides flexibility that permits the inclusion of deferred expenses, allowances and other items that are not necessarily considered as an economic resource or obligation for an entity in assets
and liabilities. This is because appropriate revenues and expenses matching requires that some past costs not considered economic resources be deferred as assets to match them with future revenues and that those not considered economic liabilities be allowed to accrue as liabilities to increase the rationality of cost calculation for the current period.

Several views exist on the relationship between these two approaches. However, when investigating this relationship, it is necessary to remember the comments made repeatedly by D. J. Kirk, who was the Chairman of the FASB when the current FASB conceptual statements were deliberated and approved, that accounting measurement was anchored on cash flows. It should be also noted that the eligibility of deferred assets as assets and eligibility of allowances as liabilities were mentioned as critical issues in the FASB discussion memorandum (FASB 1976, p.3), in which the two approaches are believed to have been explicitly referred to for the first time.

These observations support the view that the asset and liability approach has been made to play a complementary role to the revenue and expense approach in terms of putting curbs on the unlimited deferral of non-economic resources as assets and unlimited accrual of non-economic obligations as liabilities as a means to minimize the arbitrariness of the periodical allocation of revenues and expenses when conducting an income calculation in accordance with that approach. Under this view, a mechanism which screens assets and liabilities in accordance with definitions while basing measurements of assets and liabilities on transaction values (flow) is believed to be envisaged.

In this sense, definitions under the asset and liability approach have primarily taken on the function of providing recognition criteria.

5.2 Mutually exclusive function with revenue and expense approach

In recent years, however, a view that regards the asset and liability approach as opposed to the revenue and expense approach has emerged.

According to this view, measurements of assets and liabilities are basically derived from definitions independent of transaction values. Although it does not ignore the objectives of financial reporting or the impact of its qualitative characteristics, such as reliability, it does not offer a clear picture of their roles.
For example, FASB Concept Statement No. 6 defines assets as follows: “Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.” (FASB 1985, para. 25 - underlines by the author of the present paper)

Although this definition does not mention measurements of assets, any attempt to derive them from the definition independent of transaction values will inevitably lead to full fair value measurement as long as they are measurable.

Besides, the IASB/FASB conceptual framework project is trying to delete the underlined parts from the definition of assets in the current framework as quoted above: “probable” future economic benefits and “as a result of past transactions or events”. Moreover, since this project is also attempting to change the meaning of the reliability of information currently included in the qualitative characteristics of financial information from verifiability to faithful representation, there is a possibility that all measurable items that satisfy the definition may one day be measured as assets and liabilities (FASB 2007).

If this proposal gets through, the recognition and measurement of internally generated goodwill may even be allowed as the possibility of the outer boundary of recognition and measurement for assets and liabilities being expanded to the measurement of “future economic benefits” itself cannot be denied.

In this sense, the interpretation of definitions under the asset and liability approach are being stretched by expanding their functional scope to include measurement issues, as well as recognition in accounting.

6. Flow Allocation Rules

Up to this point, the importance of flow information in the calculation of accounting income has been examined. In this regard, it should be noted that according to the view that attaches importance to net income as flow information, rules for how to periodically allocate cash flows based in the flow of goods and services play a decisive role.
6.1 Concept of investments that are released from risks

A discussion paper released by the Accounting Standards Board of Japan (ASBJ) in December 2006, titled “A Conceptual Framework of Financial Accounting”, looks at these periodical flow allocation rules in terms of the concept of “investments that are released from risks”. In conventional accounting, the recognition of revenues on the basis of the occurrence of a sale of goods or services has commonly been referred to as the “realization criterion” (narrow sense of the term). However, in modern financial accounting, new cases have arisen where the recognition of income is considered reasonable without the occurrence of a traditional “sale” as in the case of trading securities in financial investment.

As far as the recognition of income in accordance with the “realization criterion” in the narrow sense of the term (sales criterion) is concerned, the distinction between events being included in income and other events was relatively clear-cut. However, the notion of inclusion in income to be allowed even before a sale gives rise to the need to systematically explain what kinds of events should be included in income in light of the objectives of financial reporting. Namely, there is a need for a theoretical framework capable of consistently explaining why re-valuation differences for trading securities should be included in income even before a sale, while those for fixed assets for business purposes should not. If this can be done, the question as to what other events, if any, may be allowed inclusion in income can be answered using the same framework.

The ASBJ discussion paper puts forward the concept of “investments that are released from risks” as the basic criterion for distinguishing events that initiate inclusion in income from other events. The reason for adopting this concept is summarized below.

“Investors invest their funds in entities at their own will, with expectation of obtaining uncertain future cash flows. When investors make decisions based on predictions of uncertain results, they need information regarding how the entity invests the funds and the results actually achieved from those investments.” (Chapter 1 para.2)

In short, what investors demand of today’s entities is information on the extent to which they have achieved expected results to enable them to make investments despite risks, and the key element of their assessment of entity activities is whether anticipated results (ex ante) have actually been achieved (ex post). For this reason, it is proposed to recognize
revenues and expenses, as well as net income as the periodical difference between them, at the point in time when invested funds are deemed to have been released from risks.

6.2 Results of business investments and financial investments

Since expectations of investors vary according to the objective of investment, ex-post facts as viewed against ex-ante expectations according to the objective of investment become investment results.

Business investments are considered to have been released from risks when they can be regarded as the acquisition of independent assets that are free from business risks. On the other hand, changes in value occurring to financial investments held in anticipation of a rise in asset value regardless of business assets are automatically considered to constitute results of investments released from risks as ex-post facts that are in line with ex-ante expectations. Nevertheless, it is not easy to set rules for determining whether ex-ante expectations have become ex-post facts in increasingly complex economic activities. The use of the concept of investments that are released from risks does not entirely eliminate the possibility of interpretative arbitrariness creeping in when individual criteria are set.

What is important here is that the concept of investments that are released from risks only points to a rule for periodically allocating flow on the basis of the assessment of ex-post facts in light of ex-ante expectations. There is no compelling case for totally abandoning flow-based performance reporting and switching to performance measurement based on valuation differences in stock for reasons of difficulty in setting a flow allocation rule. This is especially so given the multitude of contradictions exhibited by performance measurement based on valuation differences in stock as discussed above. Which is more useful information between market value information and book value information and which is more useful income information between market value change information and flow information are totally different issues.
7. Summary and Conclusion

The paper has examined the asset and reliability approach that underlies the conceptual framework project being jointly implemented by the IASB and the FASB and the comprehensive income concept that follows from it in light of the role of financial reporting.

As is obvious from the above discussion, whereas net income information under the conventional system is income information based on flow allocation, comprehensive income, defined as a periodical change in the value of net assets excluding those resulting from direct transactions with shareholders, is income information based on valuation of stock. Of these, the latter (comprehensive income) is subject to two fundamentally different reporting formats. The first is based on the current standards of the FASB and the IASB, which are essentially the same as the Japanese current standards in that net income and comprehensive income are both reported through recycling. Namely, as far as performance reporting is concerned, worldwide convergence is considered have been more or less achieved. Despite this, the FASB and the IASB are looking to eliminate net income information from performance reporting by prohibiting recycling in the future (second format).

The central focus of the debate is which is more suited for the objective of financial reporting between flow-based performance and stock-based performance. Accounting income information is information that provides the basis for the estimation of future income and cash flow streams (input information) and as such is useful for the estimation of the value of goodwill. When assessing the usefulness of net income and comprehensive income as input information, the perspective of which is more useful between net income as information on the allocation of current cash flow and comprehensive income as valuation differences in current stock (assets and liabilities) must be maintained. Moreover, accounting information provides a feedback facility whereby ex-ante forecasts are verified and revised on the basis of ex-post facts to pave the way for the formation of new expectations. This paper concludes that from all these perspectives, the value of net income as flow information is still substantial.
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