

## Heads Up

### In This Issue:

- Introduction
- Scope
- Key Provisions
- Effective Date and Transition
- Appendix A — Single Statement of Comprehensive Income
- Appendix B — Separate but Consecutive Statements

The new guidance removes the presentation options in ASC 220 and requires entities to report components of comprehensive income either in (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements.

## All Together Now

# FASB Finalizes Guidance on Presentation of Comprehensive Income

by Stuart Moss and Brad Humpal, Deloitte & Touche LLP

### Introduction

Yesterday, the FASB issued [ASU 2011-05](#),<sup>1</sup> which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 220<sup>2</sup> and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI.

The FASB's issuance of ASU 2011-05 represents another step toward its goal of convergence with IFRSs. The IASB also issued its [corresponding guidance](#) to amend IAS 1.<sup>3</sup> However, while the boards' new guidance essentially converges the requirements for presenting OCI, there are still differences between U.S. GAAP and IFRSs concerning (1) what items are included in comprehensive income and (2) reclassification requirements.

**Editor's Note:** Another of the FASB's objectives in issuing the ASU was to help improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items that are recorded in OCI. The FASB emphasized the importance of such comparability in light of other projects (e.g., financial instruments) that are expected to increase the amount and complexity of items reported in OCI.

This *Heads Up* provides an overview of the scope and key provisions of ASU 2011-05. In addition, [Appendix A](#) contains an example of a continuous statement of income, and [Appendix B](#) contains an example of two separate but consecutive statements.

<sup>1</sup> FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*.

<sup>2</sup> FASB Accounting Standards Codification (ASC) Topic 220, *Comprehensive Income*. ASC 220-10-45-8 currently provides three options for reporting comprehensive income. It states that "the components of [OCI] and total comprehensive income being reported below the total for net income in a statement that reports results of operations, in a separate statement of comprehensive income that begins with net income, and in a statement of changes in equity."

<sup>3</sup> IAS 1, *Presentation of Financial Statements*.

ASU 2011-05 applies to all entities that provide a full set of financial statements that report a statement of financial position, results of operations, and cash flows.

## Scope

ASU 2011-05 applies to all entities that provide a full set of financial statements that report a statement of financial position, results of operations, and cash flows. The ASU also applies to investment companies, defined benefit pension plans, and other employee benefit plans that are exempt from the requirement to provide a statement of cash flows. The new guidance does not apply to entities that have no items of OCI in any period presented or to not-for-profit entities that are required to follow the guidance in ASC 958-205.<sup>4</sup>

## Key Provisions

Under the ASU, entities have the option to present total comprehensive income, the components of net income, and the components of OCI in either of the following ways:

- *A single, continuous statement of comprehensive income* — Entities must include the components of net income, a total for net income, the components of OCI, a total for OCI, and a total for comprehensive income.
- *Two separate but consecutive statements* — Entities must report components of net income and total net income in the statement of net income (i.e., the income statement), which must be immediately followed by a statement of OCI that must include the components of OCI, a total for OCI, and a total for comprehensive income. A reporting entity may begin the second statement with net income.

Under either method, entities must display adjustments for items that are reclassified from OCI to net income in both net income and OCI. Also, the ASU does not change the current option for entities to present components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented, or disclosed in the notes to the financial statements. Note that the ASU does not affect the calculation or reporting of earnings per share.

## Effective Date and Transition

For public entities, the ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities are required to apply the ASU's provisions for annual periods ending after December 15, 2012, and interim and annual periods thereafter. For all entities, guidance must be applied retrospectively for all periods presented in the financial statements. Early adoption is permitted, and the ASU does not require any incremental disclosures in addition to those already required under ASC 250<sup>5</sup> or under any transition disclosures.

<sup>4</sup> FASB Accounting Standards Codification Subtopic 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*.

<sup>5</sup> FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

## Appendix A — Single Statement of Comprehensive Income

The example below, adapted from the ASU, illustrates a single statement of comprehensive income that conforms to the requirements of the new guidance. Note that components of OCI are shown net of tax effects.

**Entity XYZ**  
**Consolidated Statement of Comprehensive Income**  
**Year Ended December 31, 201X**

Revenues		\$ 140,000
Expenses	\$ (24,900)	
Amortization of prior service cost reclassified from other comprehensive income	(133)	(25,033)
Other gains and losses		8,000
Gain on sale of securities	500	
Gains reclassified from other comprehensive income	2,000	2,500
Income from operations before tax		125,467
Income tax expense		(31,367)
Income before extraordinary item, net of tax		94,100
Extraordinary item, net of tax		(30,500)
Net income		63,600
Less: Net income attributable to the noncontrolling interest	(12,720)	
Net income attributable to Entity XYZ	50,880	
Earnings per share		
Basic and diluted	0.46	
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>(a)</sup>		8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	13,000	
Less: Reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: Amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		80,600
Less: Comprehensive income attributable to the noncontrolling interest		(16,120)
Comprehensive income attributable to Entity XYZ		\$ 64,480

<sup>(a)</sup> It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

## Appendix B — Separate but Consecutive Statements

The example below, adapted from the ASU, illustrates two separate but consecutive statements of net income and OCI that conform to the requirements of the new guidance. Note that components of OCI in the statement of OCI are shown net of tax effects.

**Entity XYZ**  
**Consolidated Statement of Income**  
**Year Ended December 31, 201X**

Revenues		\$ 140,000
Expenses	\$ (24,900)	
Amortization of prior service cost reclassified from other comprehensive income	(133)	(25,033)
Other gains and losses		8,000
Gain on sale of securities	500	
Gains reclassified from other comprehensive income	2,000	2,500
Income from operations before tax		125,467
Income tax expense		(31,367)
Income before extraordinary item, net of tax		94,100
Extraordinary item, net of tax		(30,500)
Net income		63,600
Less: Net income attributable to the noncontrolling interest		(12,720)
Net income attributable to Entity XYZ		<u>\$ 50,880</u>
Earnings per share		
Basic and diluted	0.46	

**Entity XYZ**  
**Statement of Consolidated Comprehensive Income**  
**Year Ended December 31, 201X**

Net income		\$ 63,600
Other comprehensive income, net of tax:		
Foreign currency translation adjustments <sup>(a)</sup>		8,000
Unrealized gains on securities:		
Unrealized holding gains arising during period	\$ 13,000	
Less: Reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:		
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: Amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
Comprehensive income		80,600
Less: Comprehensive income attributable to the noncontrolling interest		(16,120)
Comprehensive income attributable to Entity XYZ		<u>\$ 64,480</u>

<sup>(a)</sup> It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

## Subscriptions

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Standards and Communications Group, please [register](http://www.deloitte.com/us/subscriptions) at [www.deloitte.com/us/subscriptions](http://www.deloitte.com/us/subscriptions).

## *Dbriefs* for Financial Executives

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy & tax.
- Corporate governance.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Risk intelligence.
- Sustainability.
- Technology.
- Transactions & business events.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. [Join \*Dbriefs\*](#) to receive notifications about future webcasts at [www.deloitte.com/us/dbriefs](http://www.deloitte.com/us/dbriefs).

Registration is available for this upcoming *Dbriefs* webcast. Use the link below to register:

- [Quarterly Accounting Roundup: An Update of Important Developments](#) (June 22, 2 p.m. (EDT)).

## Technical Library: The Deloitte Accounting Research Tool

Deloitte makes available, on a subscription basis, access to its online library of accounting and financial disclosure literature. Called Technical Library: The Deloitte Accounting Research Tool, the library includes material from the FASB, the EITF, the AICPA, the PCAOB, the IASB, and the SEC, in addition to Deloitte's own accounting and SEC manuals and other interpretive accounting and SEC guidance.

Updated every business day, Technical Library has an intuitive design and navigation system that, together with its powerful search features, enable users to quickly locate information anytime, from any computer. In addition, Technical Library subscribers receive *Technically Speaking*, the weekly publication that highlights recent additions to the library.

For more information, including subscription details and an online demonstration, visit [www.deloitte.com/us/techlibrary](http://www.deloitte.com/us/techlibrary).

*Heads Up* is prepared by the National Office Accounting Standards and Communications Group of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](http://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.