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Given the borderless economy in which businesses operate today, volatility in the national and international stock markets and fluctuations in exchange rates affect most multinational firms. While most of the information relating to these economic activities is presented in the Income Statement and Balance Sheet (Smith & Reither, 1996), the Net Income number, also known as the "bottom line," is the common yardstick used to assess the financial performance of public firms. Over the past two decades, the Financial Accounting Standards Board[1] *(FASB)* has excluded some non-owner equity transactions (which are components of Comprehensive Income) from the Income Statement. Two years ago, in June 1997, the *FASB* issued Statement No. 130, *"Reporting Comprehensive Income,"* to reverse this trend. This new standard requires all for-profit entities that report a Balance Sheet, Income Statement, and Statement of Cash Flows to report Comprehensive Income effective for fiscal years beginning after December 15, 1997. The major objective of this new statement is to give the Other Comprehensive Income items equal prominence as the Net Income number within the financial statements. In this paper, the authors study the impact of applying the new statement to a sample of 103 multinational firms from 11 industries for the 1997 fiscal year end. The results indicate that the potential effect is that the new financial measure, Total Comprehensive Income, is lower than the traditional Net Income number for a majority of firms studied. A majority of the firms are affected negatively by foreign currency translation adjustments. However, it is possible that in the future, the effect may be opposite if the US dollar becomes weaker. In the next section, the evolution of the term Comprehensive Income is described.

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What Is Comprehensive Income?

The income determination process involves two issues that are inter-linked: measurement, i.e., how to calculate the net income number and formatting, i.e., how to present the calculation of the net income number. The term "Comprehensive Income" is comprised of two elements, Net Income and Other Comprehensive Income. The evolution of the term Comprehensive Income over the past several years has largely centered around the presentation (formatting issue) of the comprehensive income items based on the approach used: the all-inclusive approach, "clean surplus," or the current operating performance approach, "dirty surplus." Under the all-inclusive approach, all revenues, expenses, gains, and losses recognized during the period are included in the calculation of Net Income, regardless of whether they result from operations during the period. Under the current operating performance approach, only items relating to recurring operations during the current period are included in the calculation of Net Income.

In the 1960s and early 1970s, prior to the formation of *FASB*, the Accounting Principles Board adopted the all-inclusive income concept and a comprehensive format. Since its formation in 1974, the *FASB* further enforced this "all-inclusive" income approach in theory. However, the *FASB* has made some exceptions over the past 25 years to the all-inclusive approach. In practice, the *FASB* has succumbed to the pressure from the users of financial statements (creditors, analysts, bankers, etc.) to endorse the current operating performance approach by allowing certain changes in assets and liabilities to by-pass the Income Statement, thus separating the components of Comprehensive Income.[2] Thus, over the years, the *FASB* has gradually moved from the all-inclusive approach to the current operating performance approach.

Making Accounting Information More User-Friendly

While the naïve or unsophisticated users of financial statements have been accused of being functionally fixated on the net income, earnings per share, and stock prices, the more sophisticated users have criticized and frequently complained about the practice of some important items by-passing the Income Statement (Association for Investment Management and Research, 1993). Most of the complaints and concerns centered around two issues: first, the difficulty that users have uncovering relevant information that is buried in the income statement and the balance sheet and, second, the importance and impact of these items on equity valuation. Several academicians, as well as practitioners, have argued that this problem could be fixed if a second (supplementary) income statement is prepared (Beresford et al., 1996; Smith & Reither, 1996). They contend that this statement would not only enhance the visibility of these Other Comprehensive Income items, but also enhance the understandability of these items as well as comparability between firms. This change would result in the financial statements becoming user-friendly.

Since some other countries had already implemented, with great success, a standard that requires reporting Comprehensive Income (Bealy & Davey, 1997), and the *International Accounting Standards Committee* was working on a similar standard (Foster & Hall, 1996), the *FASB* recognized the urgency of the issue. Largely in response to the criticisms of various interest groups (investors, creditors, financial analysts, etc.), and to keep up with the trends in international accounting standards, the *FASB* put this item on its agenda in September 1996. Initially, *FASB* sought to address various measurement and formatting issues relating to comprehensive income; however, it scaled down the project to address only the formatting concerns (Cope et al., 1996), and issued Statement of Financial Accounting Standard (*SFAS*) No. 130, *Reporting Comprehensive Income*, in June 1997. The major objective of this statement is to give the Other Comprehensive Income items equal prominence as the Net Income number within the financial statements.

How has the New Standard Affected Financial Reporting?

Comprehensive Income, as defined in *SFAS No. 130,* includes two elements: Net Income and Other Comprehensive Income. In undertaking this project, the *FASB*'s primary motivation was to significantly enhance the visibility of the Other Comprehensive Income items that previously by-passed the income statement: Foreign Currency Translation Adjustments, Unrealized Gains and Losses on Investment in Debt and Equity Securities Classified as Available-for-Sale, and Additional Minimum Pension Liability Adjustments.

Thus, *SFAS No. 130* will affect large multinational firms in three ways. First, if the firm's functional currency is a foreign currency and the firm uses the current rate method,[3] the translation adjustment will be reported in Other Comprehensive Income. *SFAS No. 130* will not affect firms that use the temporal method,[4] since the adjustment is incorporated in the Income Statement. Second, if the firm has unrealized gains or losses on investments in debt and equity, classified as "available-for-sale" under *SFAS No. 115*, these unrealized gains or losses will be reported as Other Comprehensive Income. Third, if the firm has additional minimum pension liabilities under *SFAS No. 87* that were formerly recognized in the Stockholders' Equity Section of the Balance Sheet, those increases (decreases) in the minimum pension liabilities will now be reported in Other Comprehensive Income. *SFAS No. 130* will not affect firms that sponsor Defined Contribution Pension plans or firms that sponsor Defined Benefit Pension plans that are fully funded or over funded. Firms are now required to report the Other Comprehensive Income items in interim reports; however, the firms will not have to present each item separately. The *SFAS No. 130* gives a choice of three formats/approaches: One Statement Approach - [a combined] Statement of Income and Comprehensive Income; Two Statement Approach - [separate] Income Statement and Statement of Comprehensive Income; or Statement of Changes in Equity Approach - Statement of Changes in Stockholders' Equity. *SFAS No. 130* does not apply to immaterial items.

A comparison of the Exposure Draft and *SFAS No. 130* reveals three compromises. First, the Exposure Draft gave only one option for reporting comprehensive income within the Income Statement while *SFAS No. 130* gives a choice of three formats. Second, the Exposure Draft required the calculation and presentation of Comprehensive Income per share while *SFAS No. 130* does not require this presentation. Third, for Interim Reports, the Exposure Draft prescribed a specific format and required the separation of components, but *SFAS No. 130* dropped both of these specifications.

Impact of the New Standard

The authors assume that the first or second format will be used to present the Other Comprehensive Income items because these two formats will truly achieve the primary objective of giving the Other Comprehensive Income items equal prominence as the Net Income number. The potential impact of the change is based on a comparison of the traditional Net Income and Total Comprehensive Income for firms representing 11 industries that were most likely to be affected by *SFAS No. 130*. Multinational firms selected for the current study were ranked as the top ten within an industry by *Fortune* magazine in April 1998 (annual *Fortune 500* ranking is based on Total Revenues).

The data used for this study were obtained from the Form 10-Ks filed by the firms with the SEC; this information was available on the *Disclosure* database. The Net Income number was obtained from the 1997 (fiscal year) Income Statements and the Other Comprehensive Income items were obtained from the 1996 and 1997 Balance Sheets, Statement of Changes in Shareholders' Equity, or the Notes to the Financial Statements. Seven firms from the Diversified Financials and Insurance industries were dropped from the study because their 10-Ks were not available for the 1997 fiscal year end on the *Disclosure* database. The descriptive statistics presented in Table 1 indicate that, of the 103 firms studied, a majority of the firms are audited by Big Six accounting firms (100 firms), are listed on the New York Stock Exchange (97 firms), and have a December 31 fiscal year-end (92 firms).

In comparing the Net Income number and the Total Comprehensive Income number, two statistics were calculated: Total Other Comprehensive Income as a percentage of Net Income and Total Comprehensive Income as a percentage of Net Income. Table 2 presents all the components of Comprehensive Income for all 103 firms by industry.

Table 3a indicates that only 22 firms are affected positively (i.e., Total Comprehensive Income will be greater than Net Income), while 64 firms are affected negatively. Seventeen firms do not have any Other Comprehensive Income items and, therefore, are not affected by *SFAS No. 130*. If a material impact is defined as at least a five percent increase or decrease, 14 firms are affected positively, 53 firms are affected negatively, and 36 firms are not affected by the implementation of *SFAS No. 130*. The range of the impact of the Total Other Comprehensive Income items on the Net Income number by industry is presented in Table 3b.

Table 4 presents the impact of the three Other Comprehensive Income items on Net Income. Given the recent decline of the currencies of many countries relative to the U.S., it is not surprising that a majority of the

TABLE 1
DESCRIPTIVE STATISTICS

AUDITORS		
Arthur Andersen & Co	18	17.48%
Coopers & Lybrand	10	9.71%
Deloitte & Touche	12	11.65%
Ernst & Young	25	24.27%
KPMG Peat Marwick	11	10.68%
Price Waterhouse	24	23.30%
Other	3	2.91%
	103	100.00%
FISCAL YEAR ENDING		
28-Feb	1	0.97%
30-Jun	4	3.88%
30-Sep	3	2.91%
31-Oct	2	1.94%
30-Nov	1	0.97%
31-Dec	92	89.32%
	103	100.00%
STOCK EXCHANGE LISTING		
American Stock Exchange	2	1.94%
New York Stock Exchange	97	94.18%
Other Exchanges	4	3.88%
	103	100.00%

firms (70 out of 103) were negatively affected by the Foreign Currency Translation Adjustment. If a firm uses the current rate method to translate its foreign operation performance, it is automatically exposed to the fluctuations in the exchange rates. In this study, the only industry in which a majority of the firms (9 out of 10) are not affected is the airline industry. However, if the U.S. dollar weakens in relation to the foreign currencies, the impact of this item is positive. It is important to note that a firm's management has no control over currency exchange rates. At best, a firm can only hedge itself against some exchange rate losses.

The second Other Comprehensive Income item, Unrealized Gains/Losses on Available-for-Sale Securities Adjustment, affects only 34 of the 103 firms in this study. These results indicate that all the Diversified Financial and Insurance firms are affected positively by the Unrealized Gains/Losses in Available-for-Sale Securities. Although this item is also a function of the market (domestic and foreign depending on the investments), a firm can exercise some control over this item by using good investment strategies. Financial institutions may have to rethink their investment strategies and classify available-for-sale securities as held-to-maturity to eliminate the adjustments for unrealized gains/losses (Harrison & Lynch, 1996). All financial institutions such as banks, savings and loans institutions, insurance firms, etc., can expect to be affected by this item.

The third Other Comprehensive Income item, Minimum Pension Liability Adjustment, affects only 32 of the 103 firms in this study. This item is a function of the type of pension plan offered by the firm and the level of funding. Again, as expected, the Insurance and Diversified Financial firms are not affected by this item since they do not offer defined benefit pension plans. Since a majority of firms sponsor Defined Benefit plans that are fully funded or over funded, this item will not be an issue (e.g., pharmaceuticals industry). Currently, this item does not pose a problem mainly because the stock markets are doing very well; if the market takes a downturn, several pension plans will suffer substantial losses.

TABLE 2
CALCULATION OF TOTAL COMPREHENSIVE INCOME
(IN THOUSANDS OF DOLLARS)

Company Name	Net Income	Other Comprehensive Income Items A	B	C	Total Other Comp Income	Total Comp Income	TOCI / NI %	TCI / NI %
Aerospace								
United Technologies Corp	1,072,000	(231,000)	(8,000)	-	(239,000)	833,000	-22%	78%
AlliedSignal Inc	1,170,000	(183,000)	(10,000)	-	(193,000)	977,000	-16%	84%
Textron Inc	558,000	(74,000)	5,000		(69,000)	489,000	-12%	88%
B F Goodrich Co	178,200	(7,600)	-	-	(7,600)	170,600	-4%	96%
Sundstrand Corp	183,000	(1,000)	-	-	(1,000)	182,000	-1%	99%
General Dynamics Corp	316,000	-	(1,000)	-	(1,000)	315,000	-0%	100%
Boeing Co	(178,000)	-	-	-	-	(178,000)	0%	100%
Lockheed Martin Corp	1,300,000	-	-	-	-	1,300,000	0%	100%
Northrop Grumman Corp	407,000	-	-	18,000	18,000	425,000	4%	104%
Gulfstream Aeroscape Corp	243,011	-	-	702,000	702,000	945,011	289%	389%
Airline								
Delta Air Lines Inc	854,000	-	(25,000)	-	(25,000)	829,000	-3%	97%
Continental Airlines Inc	385,000	-	-	(4,000)	(4,000)	381,000	-1%	99%
Alaska Air Group Inc	72,400	-	-	-	-	72,400	0%	100%
America West Holdings Corp	74,970	-	-	-	-	74,970	0%	100%
Southwest Airlines Co	317,772	-	-	-	-	317,772	0%	100%
Trans World Airlines Inc	(110,835)	-	-	-	-	(110,835)	0%	100%
UAL Corp	949,000	-	-	-	-	949,000	0%	100%
Northwest Airlines Corp	596,500	5,800	-	5,300	11,100	607,600	2%	102%
AMR Corp	985,000	-	-	19,000	19,000	1,004,000	2%	102%
US Airways Group Inc	1,024,699		103,795	21,920	125,715	1,150,414	12%	112%
Chemicals								
FMC Corp	162,400	-	-	(70,000)	(70,000)	92,400	-43%	57%
Monsanto Corp	470,000	(138,000)	(8,000)	(16,000)	(162,000)	308,000	-34%	66%
Praxair Inc	405,000	(130,000)	-	-	(130,000)	275,000	-32%	68%
Eastman Chemical	286,000	(52,000)	-	(16,000)	(68,000)	218,000	-24%	76%
PPG Industries	714,000	(126,000)	-	(15,000)	(141,000)	573,000	-20%	80%
Union Carbide	659,000	(71,000)	-	-	(71,000)	588,000	-11%	89%
E.I. du Pont de Nemours	2,405,000	(130,000)	-	(28,000)	(158,000)	2,247,000	-7%	93%
Sherwin Williams	260,614	(14,000)	-	-	(14,000)	246,614	-5%	95%
Occidental Petroleum	(390,000)	(20,000)	-	-	(20,000)	(410,000)	-5%	-105%
Dow Chemicals	1,802,000	(66,000)	120,000	(11,000)	43,000	1,845,000	2%	102%
Diversified Financials								
Aon Corp	298,800	(86,600)	35,900	-	(50,700)	248,100	-17%	83%
Franklin Resources Inc	434,063	(5,912)	3,219	-	(2,693)	431,370	-1%	99%
Beneficial Corp	253,700	(3,200)	2,600	-	(600)	253,100	-0%	100%
Household International Inc	686,600	(1,600)	16,500	-	14,900	701,500	2%	102%
Marsh & McLennan Cos Inc	399,400	(66,100)	87,600	-	21,500	420,900	5%	105%
SLM Holding Corp	507,895	-	29,501	-	29,501	537,396	6%	106%
Travelers Group Inc	3,104,000	(12,000)	688,000	-	676,000	3,780,000	22%	122%
Industrial & Farm Equipment								
American Standard Co	96,223	(50,000)	-	-	(50,000)	46,223	-52%	48%
Ingersoll Rand	380,500	(81,000)	-	-	(81,000)	299,500	-21%	79%
Case Corp	403,000	(80,000)	-	(4,000)	(84,000)	319,000	-21%	79%
Black & Decker	227,200	(39,000)	-	-	(39,000)	188,200	-17%	83%
Parker Hamilton	274,039	(47,000)	-	-	(47,000)	227,039	-17%	83%
Dresser Industries	318,000	(30,000)	-	(3,000)	(33,000)	285,000	-10%	90%
Cummins Engine	212,000	(21,000)	-	-	(21,000)	191,000	-10%	90%
Dover Corp	405,431	(36,000)	-	-	(36,000)	369,431	-9%	91%
Caterpillar Inc	1,665,000	(67,000)	-	-	(67,000)	1,598,000	-4%	96%
Deere & Co	960,100	(43,000)	-	221,000	178,000	1,138,100	19%	119%
Insurance								
Aetna Inc	901,100	(82,800)	49,900	-	(32,900)	868,200	-4%	96%
CIGNA Corp	1,086,000	(81,000)	257,000	-	176,000	1,262,000	16%	116%
Lincoln National Corp	933,988	(20,250)	197,004	-	176,754	1,110,742	19%	119%
TransAmerica Corp	793,800	(18,000)	749,200	-	731,200	1,525,000	92%	192%
American General Corp	542,000		542,000	-	542,000	1,084,000	100%	200%
AFLAC Inc	585,023	44,291	1,004,564	-	1,048,855	1,633,878	179%	279%

Other Comprehensive Income Items
A = Foreign Currency Translation Adjustments
B = Unrealized Gains (Losses) from Available-For-Sale Securities
C = Minimum Pension Liability Adjustment

TABLE 2 (continued)
CALCULATION OF TOTAL COMPREHENSIVE INCOME
(IN THOUSANDS OF DOLLARS)

Company Name	Net Income	Other Comprehensive Income Items A	B	C	Total Other Comp Income	Total Comp Income	TOCI / NI %	TCI / NI %
Metals								
Aluminum Co of America	805,100	(249,600)	1,300	(28,900)	(277,200)	527,900	-34%	66%
Alumax Inc	33,700	(9,400)	-	-	(9,400)	24,300	-28%	72%
Phelps Dodge Corp	408,500	(45,100)	-	1,000	(44,100)	364,400	-11%	89%
Allegheny Teledyne Inc	297,600	(4,600)	(7,300)	-	(11,900)	285,700	-4%	96%
Bethlehem Steel Corp	280,700	-	-	-	-	280,700	0%	100%
Inland Steel Industries Inc	119,300	-	-	-	-	119,300	0%	100%
Nucor Corp	294,482	-	-	-	-	294,482	0%	100%
Reynolds Metals Co	136,000	2,000	-	-	2,000	138,000	1%	101%
Maxxam Inc	65,200	-	-	1,800	1,800	67,000	3%	103%
LTV Corp	30,000	-	-	6,000	6,000	36,000	20%	120%
Motor Vehicles								
TRW Inc	(49,000)	(177,000)	-	-	(177,000)	(226,000)	-361%	-461%
Tenneco Inc New	315,000	(160,000)	-	-	(160,000)	155,000	-51%	49%
Johnson Controls Inc	288,500	(58,200)	-	-	(58,200)	230,300	-20%	80%
General Motors Corp	6,698,000	(775,000)	81,000	(572,000)	(1,266,000)	5,432,000	-19%	81%
Lear Corp	207,200	(37,300)	-	500	(36,800)	170,400	-18%	82%
Paccar Inc	344,600	(45,900)	300	-	(45,600)	299,000	-13%	87%
Dana Corp	369,100	(46,400)	-	(2,300)	(48,700)	320,400	-13%	87%
Ford Motor Co	6,920,000	(630,000)	60,000	89,000	(481,000)	6,439,000	-7%	93%
Chrysler	2,805,000	-	-	-	-	2,805,000	0%	100%
ITT Industries Inc	108,100	16,900	1,600	-	18,500	126,600	17%	117%
Petroleum								
Exxon Corp	8,460,000	(2,245,000)	-	-	(2,245,000)	6,215,000	-27%	73%
Mobil Corp	3,272,000	(748,000)	-	-	(748,000)	2,524,000	-23%	77%
Phillips Petroleum	959,000	(62,000)	-	-	(62,000)	897,000	-6%	94%
Chevron	3,256,000	(173,000)	(4,000)	4,000	(173,000)	3,083,000	-5%	95%
Amoco Corp	2,720,000	(6,000)	-	(99,000)	(105,000)	2,615,000	-4%	96%
Texaco	2,664,000	(40,000)	(7,000)	(16,000)	(63,000)	2,601,000	-2%	98%
USX Corp	988,000	-	3,000	(10,000)	(7,000)	981,000	-1%	99%
Ashland Inc	279,000	-	-	-	-	279,000	0%	100%
Tosco	212,675	-	-	-	-	212,675	0%	100%
Atlantic Richfield	1,771,000	(185,000)	381,000	(26,000)	170,000	1,941,000	10%	110%
Pharmaceuticals								
Pharmacia & Upjohn Inc	323,000	(443,000)	48,000	-	(395,000)	(72,000)	-122%	-22%
Eli Lilly & Co	(385,100)	(209,600)	-	-	(209,600)	(594,700)	-54%	-154%
Warner Lambert Co	869,500	(193,800)	-	-	(193,800)	675,700	-22%	78%
American Home Products Corp	2,043,123	(241,278)	(2,555)	-	(243,833)	1,799,290	-12%	88%
Pfizer Inc	2,213,000	(253,000)	20,000	-	(233,000)	1,980,000	-11%	89%
Abbott Laboratories	2,094,462	(183,886)	-	-	(183,886)	1,910,576	-9%	91%
Johnson & Johnson	3,303,000	(289,000)	-	-	(289,000)	3,014,000	-9%	91%
Schering Plough Corp	1,444,000	(104,000)	-	-	(104,000)	1,340,000	-7%	93%
Bristol Myers Squibb Co	3,205,000	(172,000)	-	-	(172,000)	3,033,000	-5%	95%
Merck & Co Inc	4,614,100	-	-	-	-	4,614,100	0%	100%
Rubber and Plastic Products								
Tupperware Corp	82,000	(62,400)	-	-	(62,400)	19,600	-76%	24%
Goodyear Tire & Rubber Co	558,700	(269,600)	-	2,900	(266,700)	292,000	-48%	52%
Standard Products Co	27,530	(6,552)	-	(992)	(7,544)	19,986	-27%	73%
Mark IV Industries	98,600	(15,400)	-	-	(15,400)	83,200	-16%	84%
M A Hanna Co	64,601	(13,611)	-	5,018	(8,593)	56,008	-13%	87%
Gencorp Inc	137,000	(15,000)	-	-	(15,000)	122,000	-11%	89%
Rubbermaid Inc	142,536	(11,323)	-	-	(11,323)	131,213	-8%	92%
First Brands Corp	50,232	(3,134)	-	-	(3,134)	47,098	-6%	94%
Carlisle Companies Inc	70,666	-	-	-	-	70,666	0%	100%
Cooper Tire & Rubber Co	122,411	2,448	-	2,681	5,129	127,540	4%	104%

Other Comprehensive Income Items
A = Foreign Currency Translation Adjustments
B = Unrealized Gains (Losses) from Available-For-Sale Securities
C = Minimum Pension Liability Adjustment

TABLE 3a

IMPACT ON NET INCOME

Positive Effect	22	21.36%
No Effect	17	16.50%
Negative Effect	64	62.14%
	103	100.00%

TABLE 3b

MATERIAL IMPACT ON NET INCOME

Greater than Positive 5%	14	13.59%
Negative 5% to Positive 5%	36	34.95%
Greater than Negative 5%	53	51.46%
	103	100.00%

TABLE 4

IMPACT OF OTHER COMPREHENSIVE INCOME ITEMS ON NET INCOME

	Positive Effect	No Effect	Negative Effect
Foreign Currency Translation Adjustments	5	28	70
Unrealized Gains/Losses on Available-for-Sale Securities	25	69	9
Minimum Pension Liability Adjustments	15	71	17

Thus, with the implementation of *SFAS No. 130,* a majority of the firms will experience a material decrease (i.e., greater than -5%) in the new bottom-line number or financial performance measure, i.e., the Total Comprehensive Income number. The decrease will be material both in percentage and absolute amounts. Firms must take into account the inherent risk of doing business in a foreign country and investing in debt and equity securities. With the rapid growth in globalization and investment activities, increased volatility in foreign currencies and market failures across the globe are becoming inherent business risks. Given that an individual firm has no control over the volatility in the domestic or foreign markets, it will not have much control over this new financial performance measure. Firms can also anticipate an increase in hedging activities to manage the impact of the foreign exposure risk. It is possible that the U.S. dollar could weaken in the future and the impact will be the opposite.

This information should be used carefully. For instance, it would be unfair to hold management responsible for a negative impact from the Other Comprehensive Income items, mainly because the management of a firm has little control over these items. But by giving the Other Comprehensive Income items equal prominence as the Net Income number, *SFAS No. 130* has at least attempted to address some of these business risks. Hopefully, firms will adopt a format that will enhance Income Statement and Balance Sheet understandability and comparability between firms.

Conclusions

SFAS No. 130, "Reporting Comprehensive Income," issued in June 1997, merely addresses a financial statement presentation issue. Three Other Comprehensive Income items, i.e., Foreign Currency Translation Adjustment, Minimum Pension Liability Adjustment, and Unrealized Gains/Losses on Available-for-Sale Securities, that previously by-passed the Income Statement will now be given the same prominence as the Net Income number. Most firms have presented these Other Comprehensive Income items in the Stockholders' Equity section of the Balance Sheet or in a Statement in Changes in Stockholders' Equity. It will be interesting to see within the next few years which of the three presentation formats firms will use, if there will be a preference for a particular format, and if there is a preference by industry. It may be that most firms will present the Other Comprehensive Income items in a Statement of Changes in Stockholders' Equity. This format will not affect the traditional Income Statement but will provide the necessary information easily in one statement. However, this format fails to achieve *SFAS No. 130*'s major goal, i.e., Other Comprehensive Income items once again will be physically separated from the Net Income number.

The impact of *SFAS No. 130* will vary from industry to industry, but foreign currency translations will affect a majority of the multinational firms in most industries. If the objectives of reporting comprehensive income are met, financial statement users should gain additional insights into a company's activities, which should enable them to better predict future cash flows (Luecke & Meeting, 1998). If the market is efficient, no reaction to the implementation of *SFAS No. 130* should occur since no new information will be presented.

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Endnotes

1. The Financial Accounting Standards Board (FASB), a private agency established in 1973, sets the accounting standards for all private businesses.

2. The following five statements, issued by the *FASB,* allowed the changes to go directly into the Balance Sheet within the Stockholders' Equity Section: SFAS No. 12, *Accounting for Certain Marketable Securities;* SFAS No. 52, *Foreign Currency Translation;* SFAS No. 80, *Accounting for Futures Contracts;* SFAS No. 87, *Employers' Accounting for Pension;* SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities.*

3. Under the **current rate method**, all assets and liabilities are translated at the current exchange rate on the Balance Sheet date and revenues and expenses are translated at an average exchange rate for the accounting period.

4. Under the **temporal method**, all monetary assets and liabilities are translated at the current exchange rate on the Balance Sheet date; other assets and equities are translated at the historical exchange rates, and revenues and expense are translated at the average exchange rate for the accounting period.

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