OTHER COMPREHENSIVE INCOME IN THE INTERNATIONAL FINANCIAL REPORTING STANDARDS: A LITERATURE REVIEW

Oldiano Tito Nugraha*
Airlangga University, 4-6 Airlangga Street, Surabaya, Indonesia, 60286
**oldiano.tito.n-2020@feb.unair.ac.id*

A R T I C L E   I N F O

Article history:
Received June 4, 2023
Revised August 12, 2023
Accepted September 15, 2023

Keywords:
Comprehensive Income; Other Comprehensive Income; Net Income International Financial Reporting Standards

DOI:
https://doi.org/10.33508/jako.v16i1.4679

A B S T R A C T

Research Purposes. *This research aims to examine studies regarding investor and contractual profits from Other Comprehensive Income (OCI), as well as its components can provide more evidence regarding whether there are characteristics that differentiate between OCI.*
Research Methods*. This research is research using literature review. The process of reviewing selected articles focuses on understanding the problem, context, complexity and subjectivity of researchers in studying and interpreting OCI's conceptions and OCI components (and AOCI) and their various relevance that are beneficial to investors in IFRS. Google search, www.semanticscholar.org and onlinelibrary.wiley.com were used to find journal special issues.*
Research Results and Findings*. OCI information and OCI components in the IFRS standard income statement are of little use to investors, especially for assessing risk in making investment decisions. Investors should be careful not to overly consider OCI information and OCI components (and AOCI) when making investment decisions, including debt contracts.*

A B S T R A K

Tujuan Penelitian. *Studi ini bertujuan mereview penelitian-penelitian tentang investor dan manfaat kontrak dari Other Comprehensive Income (OCI), dan komponen OCI untuk memberi lebih banyak bukti tentang apakah ada karakteristik yang membedakan antara OCI, Comprehensive Income (CI) dan Net Income (NI) dalam International Financial Reporting Standards (IFRS).*
Metode Penelitian. *Penelitian ini merupakan penelitian dengan studi literatur. Proses review artikel terseleksi fokus pada pemahaman tentang problem, konteks, kompleksitas dan subjektivitas peneliti dalam mempelajari dan menginterpretasi kosepsi OCI dan komponen OCI (dan AOCI) dan berbagai relevansinya yang bermanfaat bagi investor dalam IFRS. Google search, www.semanticscholar.org dan onlinelibrary.wiley.com digunakan untuk menemukan journal special issues.*
Hasil Penelitian dan Temuan Penelitian. *Informasi OCI dan komponen OCI dalam laporan rugi-laba standar IFRS kurang memberi manfaat bagi investor, terutama untuk menilai resiko dalam membuat keputusan investasi. Investor harus lebih berhati-hati untuk tidak terlalu mempertimbangkan informasi OCI dan komponen OCI (dan AOCI) dalam membuat keputusan investasi, termasuk kontrak utang.*

INTRODUCTION

Countries in the world apply IFRS financial reporting standards, but consequences of its implementation have not been fully explored by previous researchers, especially OCI and its OCI components (and AOCI) as an integral part of the income statement. Study of intangible assets, cost of capital, and Non Generally Accepted Accounting Principles (non-GAAP) financial performance measures generates lively and spirited debate. Some reviewers agree that financial reports may ignore a large part of a company's market value due to unrecorded intangibles. Reviewers suggest that by not recording market values, account-ting becomes irrelevant. Another reviewer felt the value of intangibles was too imprecise to record on the balance sheet. Other reviewers argue that traditional financial reports are invalid because they do not account for intangible assets which further encourage wealth creation. Investors on the one hand, seem to be fine in formulating their own estimates in determining investments (Cahan, 2016).

Statement of Financial Accounting Standards No. 130 (1997) mandates CI reporting separately from the financial statements for a fiscal year beginning after December 15, 1997. CI contains a mix of realized, unrealized, interim, persistent, and recyclable elements. When and where CI elements should be reported in earnings and equity has been a contentious issue, and is being intensively changed by international regulators (Hodgson & Russell, 2014). OCI sparked controversy in financial reports. Opponents of OCI include OCI in NI or essence of performance measures to note that OCI is volatile and unpredictable.

Although the consequences of the volatility of performance measures on capital markets are debatable, and managers are unable to directly and completely control market price fluctuations that affect OCI components or items, managers feel anxious about the volatility of performance mea-sures and continue to involve themselves in economic transactions that affect the amount recognized in OCI.

Investors, creditors and users of company financial reports obtain information about micro and macro-economic conditions based on the OCI report and its components. There may be conceptual differences between OCI and NI items. There is no formally adopted conceptual distinction between items appearing in NI vs. which is displayed in OCI in the consolidated financial statements prepared based on and adjusted to US GAAP or IFRS (IASB, 2013). The gaps that exist in US GAAP or IFRS conceptual standard-setting guidelines are particularly interesting, as similar economic transactions likely trickle down to NI and OCI. For example, unrealized gains-and-losses on traded securities (NI) versus AFS (Available-For-Sale) securities (OCI) and unrealized gains-and-losses on fair value (NI) securities versus cash flow value securities (OCI).

How can OCI and its components in financial reports provide informative benefits for investors? This research reviews research related to the benefits of investors and contractual OCI and its components so that researchers can show more evidence whether there are differentiating characteristics between OCI, CI and NI in IFRS.

This literature study will have contribute to company accountants and practitioners in making considerations about including OCI in profit and loss exposure or financial reports based on IFRS standards which in Indonesia are adopted as *Pernyataan Standar Akuntansi Keuangan* (PSAK).

LITERATURE REVIEW

Comprehensive Income (CI)

CI is a financial term that refers to NI, inclu-ding costs, income, and realized gains-and-losses. Unrealized Income is an amount of money that originates from non-owners, for example foreign currency transactions (Indeed Editorial Team, 2023), fluctuating asset values, and hedging financial instruments (Lewis, 2022). CI shows the company's accurate income over a certain period of time (Indeed Editorial Team, 2023).

CI is the total amount of OCI plus NI (Lewis, 2022). CI's income statement contains NI or net loss (Net-Loss [NL]), adjustments for foreign currency transactions, beneficial post-retirement programs and cash flow hedges. CI can also show changes in net worth over a certain period of time. Once CI is calculated, the total amount can be separated into two categories, namely adding NI to retained earnings and OCI to the AOCI list (Indeed Editorial Team, 2023).

The Financial Accounting Standards Board (FASB, 2023) describes CI as a measure of changes in an entity's equity resulting from recognized transactions and other economic events in a period other than transactions with owners in their capacity as owners (Accounting Standards Codification [ASC] 220-10-10-1). According to the FASB (2023), CI is a measure of changes in equity of an entity resulting from recognized transactions and other economic events in a period other than transactions with owners in their capacity as owners (Accounting Standards Codification [ASC] 220-10-10-1).

CI is an accounting period spanning months, quarters, years, and; a combination of revenues, expenses, unrealized gains, or losses that change shareholder equity in an accounting period. Income in the income statement starts with NI or NL. However, CI also includes gains or losses from hedging derivatives, foreign currency exchange rate, and unrealized pensions (Lewis, 2022).

CI consists of: Hedging fluctuating cash flows according to market conditions; Debt securities, if transferred until maturity, gains or losses are un-realized in company profits; Foreign currency, foreign currency transactions can have gains and losses that need to be recorded, and; Pension benefits, allowances have gains and losses that need to be recorded even though they are not fixed income (Lewis, 2022). CI includes NI which can provide less detailed income; realized and unrealized in-come, and can act as an umbrella statement. CI allows accountants to record income in CI reports obtained and received from all sources (Indeed Editorial Team, 2023).

Other Comprehensive Income (OCI)

Revenues, expenses, gain-and-losses are parts of OCI. GAAP and IFRS standards state that OCI is not included in NI in the income statement. Income, expenses, gains-and-losses reported as OCI are nothing but unrealized amounts (FASB, 2023; Corporate Finance Institute , 2023).

Adjustments for unrealized gains and losses on AFS securities and cash flow value securities, pension-related adjustments, and foreign currency adjustments, are included in OCI (CFI, 2023; Cahan, 2016). Almost the same as retained earnings, OCI is displayed on a company's balance sheet. Except for items excluded from NI, NI affects OCI. OCI contributes to reducing NI volatility because the value of unrealized gains-and-losses is fluctuating. Gains /losses on AFS investments, derivatives held as cash flow hedges, foreign exchange rates, and; pension plans are all covered by OCI (CFI, 2023).

The element added to NI to determine CI is OCI. An ordinary income statement cannot be equated with OCI. The benefit of OCI is that it can show a positive impact on earning, and shareholder equity is the basis for OCI reporting (Indeed Editorial Team, 2022). OCI is often confused with CI. OCI is sometimes known as CI. Although they are not same, they influence each other, so OCI and CI need to be tracked in same period to get a clear picture of company's financial status according to wishes of stakeholders (Lewis, 2022).

According to accounting standards, OCI cannot be included in the income statement and cannot be reported as part of NI. In contrast, on the balance sheet, the AOCI report includes the OCI figure in the bottom row of shareholders' equity. OCI only records unrealized items. After a transaction is realized, for example, a company investment is sold, the balance sheet must display the transaction and in the profit and loss statement, the transaction is recognized as a realized gains/loss (CFI, 2023).

OCI is a financial analysis matrix for evaluating inclusive income and total profit. Profit and loss statement remains main indicator of profitability, OCI increases reliability and transparency of reporting. OCI information can-not reveal a day-to-day company's operations, but it will provide another important insight. Analysts gain insight into investment management. Unrealized gains/losses from reported investments can predict actual gains/losses realized by company on its investments. OCI helps understand the dynamics of a company's foreign operations and assess the impact of fluctuating foreign currencies. OCI information can help determine extent to which a company's future pension obligations may affect unrealized earnings.

Accumulated Other Comprehensive Income (AOCI)

The classification in the equity section of the balance sheet in general ledger accounting is none other than AOCI. Unrealized gains-and-losses on income statement items classified as OCI are accumulated with AOCI. If it has not been completed, then the transaction cannot be realized. If a company invests in bonds, then accountants record gains-and-losses at fair value in OCI until the bonds are sold, at which time the gains-and-losses are realized (Accumulated Other Comprehensive Income Definition, 2023).

Gains-and-losses closely correlated with foreign currency transactions, unrealized and unexpired gains-and-losses, as well as costs related to administering the pension program, can be included in AOCI accounting. After gains and losses are realized, they are transferred from AOCI accounting to NI section of the balance sheet. AOCI accounting is mandatory, except for private companies and non-profit organizations (CFI, 2023). Realization of gains and losses effectively shifts AOCI accounting amount to retained earnings accounting. Investors can use AOCI information to better understand nature of gains and losses that ultimately appear in NI. Unrealized gains and losses that can be combined into AOCI accounting, include: unrealized ownership of investments classified as AFS; foreign currency translation, and; retirement plans and expenses, or prior service credits (Accumulated Other Comprehensive Income Definition, 2023).

Net Income (NI)

Gross is all income from products and services, regardless of costs and expenses related to production. After accountants reduce costs and expenses, company has an NI value (Lewis, 2022). NI reflects profits after all costs have been paid. NI does not include cash flow representation. Net Earnings or Net Profit is also used to refer to NI. On the income statement, in the last line, NI is included. NI plays a role in determining net profit margin (Indeed Editorial Team, 2023).

NI is what remains of gross income after deducting expenses and the cost of goods sold. CI combines NI with various unrealized gains that are not reported as income. NI is different from CI. NI can be estimated by subtracting expenses from revenues. Total net CI and any unrealized income. Net in a certain period can highlight retained earnings. CI moved to AOCI. NI reveals a company's capacity to generate profits, but CI shows a clearer picture of its overall financial status. The income statement reports NI. The CI statement reports CI (Lewis, 2022). Accountants use OCI to calculate CI. NI is total income originating from sales. OCI contains gains-and-losses that cannot be realized by the company, and therefore does not qualify to be calculated as NI (Indeed Editorial Team, 2023).

RESEARCH METHODS

Researchers explored literatures to document OCI issues; reviewing the literature to critically describe and analyze OCI; explains prescriptively what happens with OCI in the IFRS. Qualitative studies can use documents alone with a focus on nature and essence; the associated phrases are naturalistic, grounded and subjective; goals of understanding, description, discovery, meaning and hypothesis generation; researcher as the main instrument for collecting data; inductive analysis and findings are comprehensive, holistic, expansive, and rich in description.

Literature studies collect available research information referred to. The source for collecting literature data is journals special issues. Appropriate literatures tracked using Google search, and several websites, the main ones being www.semanticscholar.org, onlinelibrary.wiley.com. The keywords used are other comprehensive income and market prices and returns on equity, exposure to income, risks to investors, debt con-tracts and compensation contracts, International Financial Reporting Standards, value for investors. Tracking uses the date range selection criteria of the last 5 and 10 years which is available on the web site application of each tracking source. Literature is selected based on the quality of the content and relevance of the article, especially for scientific journal publications over 5 years old. Literature tracking found 45 selected articles, with a compo-sition of 37 articles (82.2%) published in the last 5 years and 8 journal articles over 5 years (17.8%).

Internal validity achieve by: focusing on literature reviews; use current literature; analyze with focus, carefully and meticulously to obtain analytical sharpness, and; triangulation of data from various literature. The main source of data collection is journals special issues. The degree of reliability of the study may be lost. If the study is repeated, the results may not be exactly the same, because company stakeholders may have changed, reporting standards may have changed, and reporting documents may also be different.

Selected literature was reviewed using qualitative descriptive analysis. The review process focuses on understanding the problem, context, complexity and subjectivity of researchers in studying and interpreting the concept of OCI and OCI components (and AOCI) and their various relevance which is useful for investors in the IFRS.

RESULTS AND DISCUSSION

NI and CI have been widely accepted in IFRS standard income statements. Discussion of OCI and OCI components (and AOCI) is discussed based on their relevance to points that have been widely accepted in the IFRS standard income statement by referring to related and current research findings. The relevance of the points includes value creation for investors, predictability of financial performance, equity market prices and returns, positive value creation for the company, risk assessment information for investors, and relevance to debt contracts and compensation contracts.

Relevance of OCI and components of OCI to creation of value for investors in the IFRS standard income statements

The concept of net surplus is used to deter-mine total shares value of a corporation's. With net surplus accounting, a business does not record equity-related losses or gains on its income state-ment. Instead, the changing fair values of assets and liabilities are presented in the income statement. Net surplus accounting provides an alternative to the discounted cash flow accounting method (What is Clean Surplus Accounting, 2022). If the book value of equity is measured accurately and abnormal profits are predicted based on net surplus accounting, then equity can be valued accurately. The best measurement method of book value of equity and earnings for setting accounting standards has been the subject matter of debate. If the accounting measure is similar to net surplus accounting, there will be an increase in equity valuation. This is because accounting measures become more aligned. CI not measure NI surplus, but compared to NI under US GAAP and IFRS, CI is more aligned with net surplus accounting. Compared to NI, CI more changes in assets-and-liabilities from period to period in OCI.

The arguments against including an OCI component in NI are largely tentative, stemming from the frenzied up-and-down movement of market prices that do not fully reflect substantive changes in the company and its assets and liabilities. There are three properties of transitory items, namely: inability to predict financial statements; the irrelevance of the next period's abnormal net CI forecast, and; irrelevance in value

Graham & Lin's (2018) research findings show that the ups and downs of book value are shown in OCI items. The nature of OCI is temporary, but it can have a positive effect on the wealth effect which influences improved decision making in the area of spending. OCI for the current year is positively correlated with future financing, investment and operational expenditure which will experience discretion. However, OCI-influenced expenses do not correlate with future profitability. Findings show spending does not create value. Further analysis shows that at high leverage firms, discretionary spending predicts positive OCI along with negative OCI, but at low leverage firms, it only predicts positive OCI. In highly leveraged firms, future debt spending limits are relaxed by positive OCI and tightened by negative OCI. In companies without debt limits, it is possible to transfer wealth to shareholders from debt holders.

Kusuma et al. (2021) shows three important relevance of OCI for value creation for investors in the income statement. NI and OCI predict future CI; NI and OCI have the ability to predict future CI and that predictive ability can be enhanced through CI attribution, and NI is more immune than OCI. The relevance of CI, OCI, and OCI components, as well as prices and returns appear to be influenced by jurisdiction. The relevance of CI compared to NI remains unresolved in the Canadian market. Although there is no evidence that CI values are more relevant than NI for stock prices and returns, some OCI components gradually have relevance values beyond NI in total stock prices and returns. The correlation of several OCI components and prices or returns is different for companies operating in the financial services sector and other companies. Financial services companies even encourage some correlation. Data from the excluded financial crisis period also influenced the results of the correlation test of OCI components with prices or returns, and even after the adoption of IFRS, the direction of the correlation changed (Djaballah & Fortin, 2020).

The influence of jurisdiction is also demonstrated in studies of China. OCI exposure generally improves performance, and earnings management reduces performance; OCI exposure and governance complement each other in preventing earnings manipulation and enhancing performance, and; Company performance is simultaneously influenced by OCI exposure and management profits in a causal relationship (Wang et al., 2022).

OCI reporting on performance reports is statistically significant in increasing value relevance. Two OCI items are: holding unrealized or declared gains/losses on securities that have AFS, encouraging increased value relevance and; share of the investee's OCI based on the equity method. The location of OCI reporting is important to support investors' psychology to pay more attention to important information (Wang et al., 2019). The findings of this study provide strong support for the standard setter's approach to reporting OCI in performance reports.

Harasheh et al. (2020) in a European context, testing the value relevance of OCI. Researchers including the benefits of OCI volatility on total equity risk contribute suggestions and criticism to the never-ending debate about how markets digest diverse accounting information. Post IAS implemented: companies must inform OCI, shifting focused attention from NI to CI. These findings show the company's profits obtained from its economic resources, increasing the potential of investors in the investment decision making process. On the other hand, several studies show that CI is not actually a performance indicator. This is because CI includes non-recurring items, namely unrealized gains and losses related to changes in the fair market value of securities that have AFS. Research shows OCI and equity prices are negatively correlated, but the correlation is weak, a correlation that points to company-specific effects. Weak mixed correlations are similar to equity returns; OCI volatility and total equity risk are positively related. The findings of this research open new insights in European Union countries regarding the uncertainty of the benefits of OCI assessments.

Predictability of OCI and components of OCI on financial performance in the IFRS standard income statements

Fair value predicted through CI, which has not yet realized gains-and-losses, is highly predictive of earnings quality. The fair value predicted through NI, which has not realized gains-and-losses, is highly predictive of the quality of earnings in commercial banks (Shaban et al., 2020). OCI items as a whole have no effect on dividends. However, dividends are positively affected by OCI items, particularly gains-and-losses on AFS financial assets. Profitability and cash flow mediate the effect of OCI on dividends (Kusuma & Agustin, 2023).

Future income can be positively predicted through net unrealized gains-and-net losses on AFS investment securities. Unrealized net gains-and-net losses in the valuation of cash flow hedge derivatives are not related to future income. OCI's predictive capacity, particularly unrealized net gains-and-net losses on AFS investment securities, became clearer when several large audit firms audited the company's companies. Overall, the information content embedded in OCI can provide useful information for decisions that are useful for predicting future company performance (Lee et al., 2020).

Net surplus and CI accounting are very important in accounting theory and for accounting researchers to value companies. Researchers obser-ve that OCI is routinely ignored in sell-side equity analysis. Equity analysts instead focus on pre-OCI earnings estimates. Compared to alternative time series models, lower prediction errors generally result from zero OCI estimates. Although analysts' estimates of future OCI points are typically zero, analysts' estimates of a positive variance for OCI are consistent with their implied cost of equity estimates (Wallis, 2023).

Understanding whether predictive ability varies from one time to the next and with macro-economic conditions requires more research. A research agenda on the predictive ability of CI and OCI on clean CI would greatly aid understanding. The predictability of the OCI is thus, unreliable.

Relevance of OCI and components of OCI to stock market prices in the IFRS standard income statements

Price relevance is the relationship between financial report items and the market price of company equity. Based on equity assessment models and measurement techniques, as well as a relatively strong explanatory and incremental comparison of CI and NI. Elshamy et al. (2019) tested whether reporting CI figures based on IFRS, in equity valuation, is relevant to value compared to NI. CI in equity assessment has been empirically proven not to outperform NI. An income statement that has OCI profit and loss statement elements, will produce an income measure that weakens the valuation model explanation, and; the information content of additional income is reduced. When the assessment model added OCI advantages and disadvantages as explanatory variables, this did not significantly strengthen the explanation. These fin-dings support the IFRS requirement to defer OCI gains-and-losses and the discussion of the relevant value of OCI gains-and-losses in capital markets becomes richer in the literature.

The impact of the 2016–01 Accounting Standards Update (ASU) on values: predictive, confirmatory, and earning relevance has been evaluated in McGregor's (2021) study. ASU 2016–01 requires that all securities be equity in nature and must be recognized as income, including changing and unrealized gains and losses. Securities are not OCI as per previous guidance (Summary of Financial Accounting Standard [SFAS] 115) for companies in the insurance industry that are large holders of equity securities. The study compares changing earnings volatility and analyst misforecasts for the period before and after the adoption of ASU 2016–01, and the effect of the percentage of assets invested in equity securities on changing earnings volatility and analyst misforecasts. The study also examines price reactions to earnings releases using event studies. It also tests the dependence of earnings value through measuring the correlation between earnings and stock prices, as well as changes in earnings and stock returns. The study examines the value relevance of the correlation between investment profit/loss components with earnings, OCI, and stock prices and returns. The study results indicate that in the post-implementation period of ASU 2016–01 and overreaction to initial earnings releases has increased earnings volatility and analyst misforecasts. Components of investment gains-and-losses derived from income and OCI; unrealized gains-and-losses on equity securities in income are all irrelevant to value. The irrelevance of all this reduces the value relevance of earnings in the period following the adoption of ASU 2016–01, especially at large companies that have large equity investment portfolios. The implication is that standard setters should consider recognizing income changes in fair value across investment securities. Industries impacted by ASU 2016–01 should clarify earnings to reduce initial misunderstandings about earnings announcements. The implication is that standard setters should consider recognizing changes in the fair value of all investment securities in income. Industries affected by ASU 2016–01 should clarify earnings to reduce initial misunderstandings about earnings announcements.

Ertuğrul's (2020) study found that the impact of OCI on equity market value was not significant, and; Impact of OCI and book value of equity on the market value of equity shares does not change significantly when OCI is negative. By concluding the irrelevance of the direct and indirect values of OCI, it is revealed that OCI is not considered a form of real income by the market.

FASB (2011) issued ASU No. 2011-05 as a form of change to the CI reporting policy. ASU No. 2011-05 requires performance reports to report CI, separately from a single income statement, as well as an income statement with NI or CI, rather than on the previously permitted equity statement. This study examines price and earnings correlation tests that result in higher market prices of additional CI volatility shifting to NI volatility, indeed due to changes in CI reporting positions. This study found that non-financial companies in CI reporting were for-ced to prioritize performance reports to shift the position of equity reports to increase the market price of additional CI volatility from the pre- to post-ASU period. In companies that report income, the increase in market prices is more obvious than in companies that report CI separately. In addition, increasing market pricing of additional CI volatility lowers the OCI valuation weight to a lower level (Cao & Dong, 2020). The choice of design and research samples with mixed findings is very varied in CI and OCI price relevance studies.

Relevance and components of OCI to stock market returns in the IFRS standard income statements

The persistence of earnings and systematic risks in the equity market faced by the company, is in accordance with the results of varying correlation tests between income and returns. News about company fundamentals contains price moments that are free from the influence of temporary innovations in financial statement items, which can be proven by examining the relationship between TCI (Total CI), OCI, and single volatile components of OCI based on time series in financial statement items with stock returns/ equities that are also volatile based on time series. The volatility of stock returns is positively and significantly related to the volatility of TCI and OCI with several single components (Lucchese et al., 2020).

The relevance of TCI risks and its components, which have sparked lively international debate, is supported by the findings of this study. TCI and its components are not only related to the size of the risk measure and the volatile TCI, what is even more exciting is that debates also debate the relationship between the size of the risk measure and the OCI and its single component itself. Firmansyah et al. (2020) pointed out that there is no relationship between the volatility of NI and the volatility of stock returns. However, the rise and fall of stock return volatility can be predicted from the volatility of OCI and the volatility of CI.

Razak et al. (2021) shows that the dynamics of stock returns can be significantly predicted from OCI. OCI is relevant to stock returns because: it includes overall changes in a company's net worth which has transparency in adjusting to the volatility of market conditions, and has predictive value for future profits that can influence the company's positive value. Based on these conditions, managers' considerations are not only limited to internal factors, but also external factors that influence the positive value of the company. Siregar & Khodijah (2022) prove the significant simultaneous influence of OCI and NI on stock returns; OCI partially does not affect stock returns, and; and NI influencing to stock returns negatively. Adriansyah & Helmy (2021) tested the relevance of the volatility of the OCI component to the volatility of stock returns. The research results point to only the fair value of financial instruments in cash flow hedging as the only OCI component that influences stock return volatility.

Meichyel & Dewi (2019) show that NI has a positive influence on stock returns; CI, OCI, and high subjectivity OCI have a negative influence on stock returns, and low subjectivity OCI has no effect on stock returns. Bortoli et al. (2020) found NI, OCI, and CI to be relevant values for the market value and stock returns of Brazilian public companies. However, only NI and CI contribute positively in explaining company value.

OCI and components of OCI in the IFRS standard profit and loss exposure and their relevance to the company's positive value

Prior to the implementation of ASU No. 2011-05 (FASB, 2011), companies are required to disclose CI in financial reports. Other financial statements are included in the CI exposure (ASC 220-10-45-8 replaced by ASU 2011-05).

OCI reporting reduces the level of managerial revenue activity; Comprehensive income statements may have positive and significant implications in preventing the development of aggressive accounting and helping report users better identify earnings management (Sajnóg & Sosnowski, 2018). Kusuma (2023) shows that aggregate OCI accumulation has no influence on earnings management and income smoothing. Group OCI items that will be reclassified to net income actually have a negative influence on earnings management and income smoothing. Nurjanah et al. (2021) also points out that OCI has no effect on earnings management.

Cedergren et al. (2022) examine whether note exposure plays a role in increasing value relevance when the placement of financial statement line items becomes uniformly more prominent. Study considers ASU 2011-05 which limits the reporting of OCI in statements of changes in equity. The results of the study documenting companies cha-nging OCI placements demonstrate additional positive changes in the value relevance of OCI, in line with the FASB's goal of enhancing OCI excellence. The effect of these changes increases when exposure to OCI-related notes is more specific, numeric, readable, or shorter.

Characteristics of financial statement placement and note exposure interact in such a way that when a financial statement line item influences judgment to a greater extent through prominent placement, then the qualitative characteristics of the accompanying note exposure are also considered to play a more prominent role.

Khan et al. (2018) investigated the value relevance of CI and its components in New Zealand companies. There is a stronger correlation between aggregate CI and stock prices and market returns relative to NI. Changes in asset revaluation reserves and changes in the fair value of securities that have AFS drive the correlation. However, translation against foreign currencies, as well as securities cash flow values, are also correlated with prices and returns.

Huang et al. (2021) use an alternative approach to identify whether companies use more than one approach of statements, and evaluate the value relevance simultaneously of CI, NI, and OCI. The study results found that in the one statement approach, NI was less relevant, and more relevant in the two statement approach, while the relevance of the OCI value increased slightly. The rise and fall of the value relevance of operating income (unrealized gains-and-losses on asset securitization) has driven the rise and fall of the value relevance of NI (OCI) which is referred to from the one statement approach. Additional analyzes showed the relevance of NI scores based on a single statement approach was only reduced in the subsample with positive OCI reporting.

This finding fits with the argument presented in the comment letter recommending a one-statement approach, namely that OCI has increased in prominence, greatly influencing investors to incorporate more OCI information in the process of making valuation decisions. However, the comment letter opposing the single statement approach, presenting the evidence that recommends equating the OCI statement with the NI, also has the potential to divert attention from the portion of the NI that serves as a reflection of the company's core operations.

Research by Kusuma et al. (2022) points out that the income statement format policy by including additional information is very relevant to increase the transparency of OCI reclassification and profit attribution and information asymmetry can be reduced. OCI reclassification and earnings attribution have a negative effect on earnings management, but have a positive effect on earnings quality. Presentation of OCI separated based on realized potential and presentation of profits attributable to each owner has been proven to reduce opportunities for earnings management and improve earnings quality compared to aggregate-gate presentation. OCI's presentation of reclassify-cation and profit attribution was responded positively by the market in Indonesia.

CI and earnings management studies have shown that investors' ability to assess company performance increases through earnings manage-ment, when the comprehensive income statement includes CI and OCI. However, how relevant the OCI score and its various components are has been demonstrated based on different presentation methods.

<u>Relevance of OCI and components of OCI to risk assessment for investors in the IFRS standard income statements</u>

Investors are helped by the information contained in Statement of Accounting Concepts No. 8 in making decisions, making judgments about the amount, appropriate timing, and uncertain future net cash inflows to arrive at the entity (FASB, 2010). The researchers followed the conceptual framework of the FASB and used time series equity return volatility benchmarks to explain the relationship of component volatility with a company's total risk (FASB, 2010). The researchers assume that investors efficiently incorporate risk-relevant information into equity share prices, and that share prices represent investors' future cash flows.

ASU 2011–05 has removed the option to display OCI on the changed equity statement. Are changes to the OCI presentation format required to achieve financial reporting transparency as a goal of the FASB? OCI continuity from one period to the next was greatly reduced in ASU 2011–05. Increased OCI volatility carries an inherent risk for companies to be more transparent with investors, this is because OCI items are temporary. NI was able to significantly increase its influence on share prices in the 2011–05 version of the ASU report. The interconnectedness between OCI and NI makes OCI exposure more prominent, allowing investors to better interpret earnings. These findings support the FASB's position of requiring greater clarity in the presentation of OCI items. Transparency and usefulness of information in OCI reporting, increa-sed in ASU 2011–05 (Shi et al., 2017).

The presentation of OCI in the comprehensive income statement is appreciated by investors only during periods of financial crisis, namely when OCI experiences a significant increase in size and volatility. Investors' temporary investment biases do not drive the findings of this study. After the implementation of ASU 2011-05, companies that shift-ted the location of OCI reporting from shareholder equity to the statement of comprehensive income, experienced a decrease in the value relevance of OCI. The same decline did not occur in companies that did not change their OCI reporting location. This brings the hope that information reported in more transparent locations will be considered by investors for inclusion in prices (Lin et al., 2018).

<u>*Relevance of OCI and components of OCI to debt contracts in the IFRS standard income statements*</u>

Mahmood & Mahmood (2019) tested alter-native CI information reporting formats and the extent to which accumulated losses in OCI could be specifically measured in the context of two major FASB updates, namely SFAS No. 130 and ASU 2011–05. The research results show that OCI items as part of shareholder equity have been reported by several companies. The average CI and net profit differ quite significantly for most companies, and over three years fluctuate in absolute terms by up to 15%. OCI has a significantly negative effect on Earnings Per Share (EPS). OCI is negative for most of the sub-sample companies that report OCI as a loss. The research findings have an impact on general earnings reports that depict book values that are too optimistic. A more adequate statistic for de-termining profitability has been proven to be conservative book value, rather than investors income.

Li (2018) examines how non-cash items are adjusted in the measurement of profit-based covenants in loan contracts. The results of the study provide descriptive evidence regarding the form and frequency of adjustments, namely 15% of the agreement reduces non-cash income; 36% added back other non-cash costs (non-cash costs other than depreciation and amortization costs), and; 89% adds back depreciation and amortization costs. Furthermore, it is evident that the cross-sectional variation of non-cash item adjustments is consistent with concerns about the reliability of the non-cash items themselves being the reason for their ex-clusion. Firms with higher agency costs of debt and lower reputational capital are more likely to exclude non-cash items. Working capital accruals in-crease the usefulness of earnings in measuring cre-dit risk and operating cash flows are significantly less related to credit risk than NI. These findings indicate that the inclusion of working capital accruals in the measurement of debt agreements is consistent with contractors choosing performance mea-sures that are more useful in measuring credit risk.

The benefits of OCI for debt investors are examined in non-financial companies. The examination is carried out by measuring additional OCI volatility. The measure is designed to capture the influence of OCI on the volatility of a company's total assets as the main cause of credit risk. Research shows high OCI volatility is associated with higher debt costs, collateral requirements, and strong credit rationing (lower debt). Research also points to evidence that is economically weak, but statistically significant. OCI volatility statistically predicts debt with short maturities and low-rated credits. Credit markets derive useful information from the volatility of the total OCI that forms the debt contracts and capital structures of companies. Defaults, credit ratings, and debt costs can all occur due to additional OCI volatility. Creditors use information obtained from OCI to assess the level of credit risk that the company will bear and determine the price of debt contracts (Bao et al., 2020).

Salama & Zoubi's (2022) research findings point to the relevance of OCI and OCI components to debt contracts. Information about adjustments in the areas of foreign currency translation, pension funds, AFS securities, derivative securities, foreign currency hedging, and total OCI which are all presented separately, are all relevant to the cost of debt. This information Creditors, reporting standards setters, and government economic officials or regulators can use this information to assess the impact of each OCI component on the cost of debt capital.

<u>*Relevance of OCI and components of OCI to compensation contracts in the IFRS standard income statements*</u>

NI outperforms CI in explaining executive compensation paid in cash and in compensation contracts, OCI is less useful and NI is quite useful (Biddle & Choi, 2006). Strong equity incentives, which go hand in hand with low job security, influence Chief Executive Officers (CEOs) to tend to prepare reports of changes in shareholder equity by including CI. An increase in changes in equity incentives that goes hand in hand with a decrease in changes in CEO job security will shift the trend of CI reporting in performance reports to reports of changes in shareholder equity (Bamber et al., 2010).

CONCLUSION

On many sides, OCI information and OCI components in IFRS standard income statements are less useful for investors, especially for assessing risk in making investment decisions. The OCI and OCI components included in the financial state-ments appear to be limited to the need to meet formal standards or additional information in the income statement. Across companies, over time, in the global eco-nomy, and based on specific types of companies, OCI has changed in composition and reporting. The implication is that risk relevance becomes important for further exploration and investors must be more careful not to overly consider OCI information and OCI components (and AOCI) in making investment decisions, including debt contracts.

The limitations of this literature review study lie in that the results do not promote a complete understanding of one or more specific items of OCI that are most important to report in a particular industry, and how micro- and macroeconomic conditions influence variations in OCI components. NI differs from OCI because of its unrealized characteristics. The decisions taken by managers will affect OCI and AOCI. Investors, boards of directors, and lenders may encourage managers to make choices that affect OCI and AOCI. OCI and AOCI will likely continue to be at the center of the debate in performance reporting under the provisions of IFRS standards. Therefore, it is recommended that further research examines the benefits of contractual OCI and AOCI to increase understanding of the importance of OCI and AOCI components included (separately or not) in company financial performance reports.

REFFERENCES

Accumulated Other Comprehensive Income Definition. (2023, December 4). *Accounting Tools*. Retrieved from https://www.accountingtools.com/articles/what-is-accumulated-other-comprehensive-income.html.

Adriansyah., & Helmy, H. (2021). Komponen-Komponen Other Comprehensive Income dan Relevansi Risiko Comprehensive Income. *Jurnal Eksplorasi Akuntansi*, *3*(4), 764-783. https://doi.org/10.24036/jea.v3i4.408.

Bamber, L. S., Jiang, J., Petroni, K. R., & Wang, I. (2010). Comprehensive Income: Who's Afraid of Performance Reporting?. *The Accounting Review*, *85*(1), https://doi.org/97–126. 10.2139/ssrn.930699.

Bao, M. X., Billett, M. T., Smith, D. B., & Unlu, E. (2020). Does Other Comprehensive Income Volatility Influence Credit Risk and The Cost of Debt?. *Contemporary Accounting Research*, *37*(1), 457–484. https://doi.org/10.1111/1911-3846.12548.

Biddle, G. C., & Choi, J-H. (2006). Is Comprehensive Income Useful?. *Journal of Contemporary Accounting and Economics*, 2(1), 1–32. https://doi.org/10.1016/S1815-5669(10)70015-1.

Bortoli, C., Juaniha, A. M., Scarpin, J. E., Musial, N. T. K., & Barros, C. M. E. (2020). Value Relevance of Net Income, Other Comprehensive Income, and Comprehensive Income in Brazil. *Cuadernos de Contabilidad*, *21*, 1-22. https://doi.org/10.11144/Javeriana.cc21.vrio.

Cahan, S. (2016). Consequences of IFRS for Capital Markets, Managers, Auditors and Standard-Setters: an Introduction. *Accounting and Finance*, *56*(1), 5–8. https://doi.org/10.1111/acfi.12206.

Cao, Y., & Dong, Q. (2020). Does Reporting Position Affect the Pricing of the Volatility of Comprehensive Income? *Journal of Business Finance & Accounting*, *47*(9-10), 1113–1150. https://doi.org/10.1111/jbfa.12496.

Cedergren, M., Chen, C., Chen, K., & Wang V. X. (2022). *Do Note Disclosures Influence Value Relevance More After Financial Statement Placement Becomes More Standardized? Evidence from ASU 2011-05*. Retrieved from https://ssrn.com/abstract=3766529, May 27, 2023.

Corporate Finance Institute. (2023). *Other Comprehensive Income*. Retrieved from https://corporatefinanceinstitute.com/resources/accounting/other-comprehensive-income/.

Djaballah, A., & Fortin, A. (2020). Value Relevance of Comprehensive Income For The Canadian Market. *Accounting Perspectives*, *20*(1), 49–77. https://doi.org/10.1111/1911-3838.12235.

Elshamy, M., Alyousef, H. Y., & Al-Mudhaf, J. (2019). Is Comprehensive Income Superior to Net Income in Equity Valuation? Evidence from the Capital Market of Kuwait. *The Journal of Applied Business Research*, *35*(4), 87-108. https://doi.org/10.19030/jabr.v35i4.10304.

Ertuğrul, M. (2020). Is Other Comprehensive Income A Form of Real Income? Evidence from the Value Relevance Analysis. *International Journal of Contemporary Economics and Administrative Sciences*, *10*(1), 151-172. https://doi.org/10.5281/zenodo.3940510.

Financial Accounting Standards Board (FASB). (2010). *Conceptual Framework for Financial Reporting: Statement of Fnancial Accounting Concepts No. 8*. Retrieved from https://www.fasb.org/page/PageContent?pageId=/standards/concepts-statements.html.

Financial Accounting Standards Board (FASB). (2011). *Accounting Standards Update no. 2011-05*: *Comprehensive Income* (*Topic 220*). Retrieved from https://www.fasb.org/page/document?pdf=ASU2011-05.pdf&title=UPDATE%20NO.%202011-05%E2%80%94COMPREHENSIVE%20INCOME%20(TOPIC%20220):%20PRESENTATION%20OF%20COMPREHENSIVE%20INCOME.

Financial Accounting Standards Board (FASB). (2023) *Accounting Standards Codification Master Glossary*. Retrieved from https://asc.fasb.org/MasterGlossary.

Firmansyah, A., Utami, W., Umar, H. & Mulyani, S. D. (2020). Risk Relevance of Comprehensive Income: Evidence from Non-Financial Indonesia Companies. *Humanities & Social Sciences Reviewes, 8*(3), 371-380. https://doi.org/10.18510/hssr.2020.8340.

Graham, R. C., & Lin, K. C. (2018). The Influence of Other Comprehensive Income on Discretionary Expenditures. *Journal of Business Finance & Accounting*, *45*(1-2), 72–91. https://doi.org/10.1111/jbfa.12284.

Harasheh, M., Doni, F., Franceschelli, M. V., & Amaduzzi, A. (2020). The Value Relevance of Other Comprehensive Income: Extensive Evidence from Europe. *International Journal of Finance & Economics*, *26*(3), 3835–3851. https://doi.org/10.1002/ijfe.1990.

Hodgson, A., & Russell, M. (2014). Comprehending Comprehensive Income. *Australian Accounting Review*, *24*(2), 100-110. https://doi.org/10.1111/auar.12022.

Huang, L., Cussatt, M., Wong-On-Wing, B. (2021). The Value Relevance of Comprehensive Income Under Alternative Presentation Formats Permitted by ASU 2011-05. *Review of Quantitative Finance and Accounting*, *57*, 1123–1153. https://doi.org/10.1007/s11156-021-00972-7.

Indeed Editorial Team. (2023). *What is Comprehensive Income: Definition and Examples*. Retrieved from https://in.indeed.com/career-advice/career-development/comprehensive-income.

International Accounting Standards Board (IASB). (2013). *A Review of the Conceptual Framework for Fnancial Reporting*. Retrieved from https://www.ifrs.org/content/dam/ifrs/project/conceptual-framework/discussion-paper/published-documents/dp-conceptual-framework.pdf.

Khan, S., Bradbury, M. E., & Courtenay. (2018), Value Relevance of Comprehensive Income. *Australian Accounting Review*, *28*(2), 279–287 https://doi.org/10.1111/auar.12181.

Kusuma, M. (2023). Can the Reclassification of Other Comprehensive Income Narrow the Opportunities for Creative Accounting: Earnings Management and Income Smoothing? *Jurnal Akuntansi dan Keuangan*, *25*(1), 25-38. https://doi.org/10.9744/jak.25.1.25-38.

Kusuma, M., & Agustin, B. H. (2023). Can Other Comprehensive Income Affect Dividend Payments in Indonesia? *Jurnal Ekonomi dan Keuangan Islam*, *12*(1), 124-154. https://doi.org/10.22373/share.v12i1.15513.

Kusuma, M., Chandrarin, G., & Cahyaningsih, D. S. (2022). Reclassification of Other Comprehensive Income, Earnings Management and Earnings Quality: Evidence from Indonesia. *Asia-Pacific Management Accounting Journal*, *17*(3), 205-237. https://www.doi.org/10.24191/APMAJ.V17i3-08.

Kusuma, M., Zuhroh, D., Assih, P., & Chandrarin, G. (2021). The Effect of Net Income and Other Comprehensive Income on Future's Comprehensive Income with Attribution of Comprehensive Income as Moderating Variable. *International Journal of Financial Research*, *12*(3), 205-219. https://doi.org/10.5430/ijfr.v12n3p205.

Lee, J., Lee., S. J., Choi, S., & Kim, S. (2020). The Usefulness of Other Comprehensive Income for Predicting Future Earnings. *Asian Finance, Economics and Business*, *7*(5), 031-040. https://doi.org/10.13106/jafeb.2020.vol7.no5.031.

Lewis, S. S. (2022). *Comprehensive Income*: *A Definition and Examples*. Retrieved from https://www.lewis.cpa/blog/comprehensive-income-a-definition-and-examples, May 27, 2023.

Li, N. (2018). *Adjustment for Non-Cash Items in Earnings-Based Covenants*. Retrieved from https://ssrn.com/abstract=2875413, May 27, 2023.

Lin, S., Martinez, D., & Yang, Y-w. (2018). Is Other Comprehensive Income Reported in The Income Statement More Value Relevant? The Role of Financial Statement Presentation. *Journal of Accounting, Auditing & Finance*, *33*(4), 624-646. https://doi.org/10.1177/0148558X16670779.

Lucchese, M., Carlo, F. D., & Incollingo, A. (2020). Risk Relevance and Volatility of Other Comprehensive Income in the Banking Sector: Evidence from European countries. *Corporate Ownership & Control*, *17*(3), 187-197. http://doi.org/10.22495/cocv17i3art15.

Mahmood, J., & Mahmood, I. (2019). Comprehensive Income Disclosure (The Case of US

Companies). *Cogent Economics & Finance*, *7*, 1-14. https://doi.org/10.1080/23322039.2019.1674587.

McGregor, S. (2021). Fair Value Accounting Impact on Decision-Usefulness of Accounting Information: Evidence from Accounting Standards Update 2016–01 on the US Insurance Industry. *Journal of Financial Reporting and Accounting*, *20*(5), 926-952. https://doi.org/10.1108/JFRA-12-2020-0352.

Meichyel, M., & Dewi, N. S. (2019). The Value Relevance and Subjectivity of Other Comprehensive Income. *Proceedings*. The 3rd Asia Pacific Management Research Conference: Denpasar.

Nurjanah, M., Kustono, A. S., & Roziq, A. (2021). The Effect of Other Comprehensive Income (OCI) Disclosure, Deffered Tax Expenses and Capital Adequacy Ratio (CAR) on Earnings Management. *American Research Journal of Humanities Social Science*, *4*(7), 35-39.

Razak, L. A., Haliah., Habbe, A. H., & Usman, A. (2021). Value of Relevance of Other Comprehensive Income in Listing Companies in LQ 45 Index. *Psychology and Education*, *58*(1), 512-517. https://doi.org/10.17762/pae.v58i1.801.

Sajnóg, A., & Sosnowski, T. (2018). The Effect of Other Comprehensive Income Reporting on Accruals-Based Earnings Management Activities. *Annales Universitatis Mariae Curie-Skłodowska, sectio H – Oeconomia*, *52*(3), 127-135. http://dx.doi.org/10.17951/h.2018.52.3.127-135.

Salama, F. M., & Zoubi, T. A. (2022). Other Comprehensive Income and the Cost of Debt Capital. *Corporate Ownership & Control*, *19*(2), 194–203. https://doi.org/10.22495/cocv19i2art15.

Shaban, O. S., Alqtish, A. M., & Qatawneh, A. M. (2020). The Impact of Fair Value Accounting On Earnings Predictability: Evidence from Jordan. *Asian Economic and Financial Review*, *10*(11), 1466-1479. https://doi.org/10.18488/journal.aefr.2020.1012.1466.1479.

Shi, L., Wang, P., & Zhou, N. (2017). Enhanced Disclosure of Other Comprehensive Income and Increased Usefulness of Net Income: The Implications of Accounting Standards Update 2011-05. *Research in Accounting Regulation*, *29*(2), 139-144. https://doi.org/10.2139/ssrn.2998040.

Siregar, D. K., & Khodijah, I. (2022). Pengaruh Other Comprehensive Income dan Net Income terhadap Return Saham Perusahaan LQ45 yang Terdaftar di Bursa Efek Indonesia (BEI) Tahun 2016-2020. *Jurnal Bina Bangsa Ekonomika*, *15*(2), 510-527. https://doi.org/10.46306/jbbe.v15i2.192.

Statement of Financial Accounting Standards No 130. (1997). *Reporting Comprehensive Income*. Retrieved from avierpaper.com/documents/usgaap/n.Fas130.pdf.

Wallis, M. (2023). Why do Analysts Use a Zero Forecast for Other Comprehensive Income? *Abacus*, *59*(4). 1074-1115. https://doi.org/10.1111/abac.12292.

Wang, X., Jiang, H., & Lu, M. (2019). Does the Reporting Location of Other Comprehensive Income Matter? The Investor's Perspective. *Australian Accounting Review*, *29*(3), 546–555. https://doi.org/10.1111/auar.12230.

Wang, Y., Shan, Y. G., He, Z., & Zhao, C. (2022). Other Comprehensive Income, Corporate Governance, and Firm Performance in China. *Managerial and Decision Economics*, *43*(1), 262–271. https://doi.org/10.1002/mde.3382.

What is Clean Surplus Accounting? (2022, December 04). *GoCardless*. Retrieved from https://gocardless.com/en-us/guides/posts/what-is-clean-surplus-accounting/.