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How Do Malaysian ACE Market Companies Report Comprehensive Income

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Abstract In Nov 2009, the Malaysian Accounting Standards Board (MASB) released FRS 101, Presentation of Financial Statements, effective for fiscal years beginning on or after 1 January, 2010. This statement established certain standards for reporting and presenting comprehensive income in the general-purpose financial statements. In accordance with the definition provided by FRS 101, total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners. Data were collected from 84 non-financial companies of the ACE market listed on the Bursa Malaysia (Malaysian Stock Exchange). The study showed that 82 companies used a first format which combined the statement of net income and comprehensive income (using a single statement of comprehensive income), while only 2 companies used the second format which separated the income statement from the statement of comprehensive income. Only 51 companies reported items that fall under the Other Comprehensive Income (OCI) category. Foreign currency translation adjustment was the most prominent item in the OCI, followed by gains and losses on re-measuring available-for-sale financial assets. Almost half of the companies that reported OCI were negatively affected by the foreign currency translation adjustment. Further, the paper also discusses some ancillary findings pertaining to the presentation of the details of comprehensive income.

Keywords: *ACE market, comprehensive income, FRS 101, Malaysia, malaysian accounting standards board*

1. Introduction

In Nov 2009, the Malaysian Accounting Standards Board (MASB, 2009) released FRS 101, Presentation of Financial Statements, effective for fiscal years beginning on or after 1 January, 2010, which required public listed companies to separately report comprehensive income in their financial statements. This MASB statement established certain standards for reporting and presenting comprehensive income in the general-purpose financial statements. FRS 101 was issued in response to users' concerns that certain changes in assets and liabilities were bypassing the income statement and appealing in the statement of changes in shareholders' equity. The purpose of FRS 101 was to report all items that met the definition of "comprehensive income" in a prominent financial statement for the same period in which they were recognized. In accordance with the definition provided by FRS 101, total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.

According to the revised FRS 101, there are items, referred to as Other Comprehensive Income (OCI), that are part of the total comprehensive income but generally are excluded from net income. Specifically, these items are:

(a) changes in revaluation surplus (see FRS 116 Property, Plant and Equipment and FRS 138 Intangible Assets);

(b) actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of FRS 119 Employee Benefits;

(c) gains and losses arising from translating the financial statements of a foreign operation (see FRS 121 The Effects of Changes in Foreign Exchange Rates);

(d) gains and losses on remeasuring available-for-sale financial assets (see FRS 139 Financial Instruments: Recognition and Measurement);

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge (see FRS 139).

Under the old FRS 101 (Revised in 2005), three of the items above (items b, c, and d) were disclosed as separate components of shareholders' equity on the balance sheet. So, under the revised FRS101, they are to be reported as OCI. Furthermore, they must be reported separately, as MASB decided that information about each component is more important than information about the aggregate.

1.2. Purpose of the Current Study

The primary purpose of this study is to examine the presentation of comprehensive income in the financial statements of a sample of companies listed on the Malaysian ACE market to determine which format predominates one year after the release of FRS101. The significant decline in stock prices during the years 2007-2009 might have caused several companies to experience huge unrealized losses on their investment portfolios, a potential component of OCI if those investments were categorized as available-for-sale securities. Similar to the Campbell et al. (1999) study and Bhamornsiri and Wiggins (2001) study in the USA, the authors wanted to (i) examine which OCI items is dominant among the companies, (ii) what titles do the companies use to present OCI, and (iii) where do the companies present the details of the OCI items. These three issues are explained in the next section. The second purpose of the study is to see the potential impact of the change based on a comparison of the traditional Net Income and Total Comprehensive Income for firms representing four industries that could be affected by FRS 101.

The next section provides background on the comprehensive income reporting issues and prior academic research. Section 3 outlines the sample selection and methodology. Section 4 reports the results, and section 5 concludes.

2. Background of Comprehensive Income Presentation

According to FRS101 (revised FRS 101.81), two alternative formats are allowed for presenting OCI and total comprehensive income:

* Below the line for net income in a traditional income statement (as a combined statement of net income and comprehensive income);

* In two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

Under FRS101, MASB encourages reporting entities to display the components of OCI and total comprehensive income using the first or second format above. The previous version of FRS 101 required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, together with owner changes in equity. It also labelled the statement of changes in equity comprising profit or loss, other items of income and expense and the effects of changes in accounting policies and correction of errors as ‘statement of recognised income and expense’. The revised FRS 101 now requires all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. The purpose is to provide better information by aggregating items with shared characteristics and separating items with different characteristics

According to the first format, total comprehensive income is to be shown below net income in a traditional income statement (as a combined statement of net income and comprehensive income). Exhibit 1a presents the Income Statement using the old FRS101 (Revised in 2005); while Exhibit 1b shows the new Statement of Comprehensive Income using the first format[1]. Hence, in the first format, total comprehensive income is the concluding line of the income statement.

According to the second format, total comprehensive income is to be reported in a separate statement of comprehensive income that begins with net income for the reporting period. Exhibit 1c provides an illustration of format 2.

As explained earlier, MASB also requires companies to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. Exhibit 2a presents the Statement of Changes in Equity using the old FRS 101 while Exhibit 2b presents the Statement of Changes in Equity using the new FRS 101. For example, under the old FRS 101, companies are allowed to show the gains and losses arising from translating financial statements of a foreign operation (see Exhibit 2a), but under the new FRS 101 this item is no more allowed as it represents non-owner changes in equity. Regardless of which format is used, accumulated OCI for the reporting period should be presented in the Statement of Changes in Equity as a component of shareholders' equity, separate from share premium and retained earnings.

This study also investigates the following additional issues related to reporting comprehensive income:

Firstly, which component of OCI was dominant for the year of study among the companies sampled?

The interest in OCI dominance was primarily academic in nature. The theoretical rationale for this question was that, due to the fall of the stock market and consequent decrease in the value of investments, as well as the volatility of exchange rates, the authors expected a majority of the companies to report unrealized losses on readily marketable securities or to report gains and losses arising from translating the financial statements of a foreign operation, which could have prompted them to bury the OCI as part of the Statement of Shareholders’ Equity. Also, in a prior study, Dhaliwal, et al. (1999) found a correlation between the unrealized gain/loss on available-for-sale securities component of the OCI and the market's valuation of that information[2].

Secondly, if a company reported comprehensive income in a single income statement (first format) or in a separate statement of comprehensive income and an income statement (second format), did the title of the statement include the words "Comprehensive Income"?

The interest in whether the title of the statement includes the term "comprehensive income" arises from the authors' belief that inclusion of this term in the title may bring prominence to the comprehensive income figure in the financial statements, especially when that figure is not being presented in a separate statement of comprehensive income (second format). The intent of the MASB in requiring the reporting of comprehensive income was to provide useful additional information to readers of financial statements about the overall performance of the entity that caused the shareholders' equity to change from the beginning to the end of the accounting year. If the comprehensive income figure is simply buried in the myriad of information presented in the financial statements without making a special effort to provide it some prominence, the readers are likely to miss the importance of that number. This is evident from the prior research (Hirst and Hopkins 1998; Maines and McDaniel 2000) that suggested that a separate statement of comprehensive income provided more information than the currently predominant practice (in the USA) of including it in the Statement of Shareholders' Equity.

Thirdly, were the details of OCI reported in the body of the financial statements, or in notes to the financial statements[3]*?*

While the Notes constitute an integral part of the financial statements, presenting the comprehensive income information in the body of the financial statement may give it more prominence compared to its presentation in the Notes to financial statements. Thus, the main objective is to determine how much prominence is given to comprehensive income in the published financial statements to carry the intent of FRS 101.

Most of the prior studies that examined the presentation of comprehensive income were conducted in the U.S. For instance, Campbell et al. (1999) studied a sample of 73 early adopters of SFAS 130 and found that the majority of companies chose to report comprehensive income in the statement of shareholders' equity. The same researchers found that "the firms that chose the statement of shareholders' equity format had a materially negative amount of OCI" (page 18). Later, Bhamornsiri and Wiggins (2001) found that a significant number of firms in the S&P 100 reported comprehensive income in the statement of changes in shareholders' equity, regardless of whether the OCI was negative or positive. They also found that foreign currency translation adjustments represented the largest component of OCI.

In Bamber et al.'s (2010) study using U.S. companies, based on theory, analysis of comment letters, and results of survey-based and behavioral research, they identify two factors—equity-based incentives and concerns over job security— that help explain why most firms do not follow policymakers' preference to report comprehensive income in a performance statement. Their empirical evidence on a broad cross-section of firms shows that managers with stronger equity-based incentives and less job security are significantly less likely to report OCI using the first or second format, but rather to use the statement of shareholders' equity.

Income Statements
for the Financial Year Ended 31 December 2009

		The Group	The Company	
	Note	2009	2009	2008
		RM	RM	RM
REVENUE	27	10,395,635	-	-
COST OF SALES		(4,743,983)	-	-
GROSS PROFIT		5,651,652	-	-
OTHER INCOME		3,199,276	-	-
		8,850,928	-	-
SELLING AND DISTRIBUTION EXPENSES		(3,943,413)	-	-
ADMINISTRATIVE EXPENSES		(2,588,666)	(698,832)	(2,685)
FINANCE COSTS		(77,278)	-	-
PROFIT/(LOSS) BEFORE TAXATION	28	2,241,571	(698,832)	(2,685)
INCOME TAX EXPENSE	29	(298,968)	-	-
PROFIT/(LOSS) AFTER TAXATION		1,942,603	(698,832)	(2,685)
ATTRIBUTABLE TO:-				
Equity holders of the Company		1,942,603	(698,832)	(2,685)
EARNINGS PER SHARE				
- basic (sen)	30	31	-	-
- diluted (sen)	30	Not applicable	-	-

Exhibit 1a. Income Statements (Old FRS101, Revised 2005)

STATEMENTS OF COMPREHENSIVE INCOME
for the Financial Year Ended 31 January 2011

	Note	Group 2011 RM	Group 2010 RM	Company 2011 RM	Company 2010 RM
REVENUE	23	6,258,310	3,475,403	4,000,000	-
COST OF SALES	24	(886,633)	(2,066,715)	-	-
GROSS PROFIT		5,371,677	1,408,688	4,000,000	-
OTHER INCOME		114,897	187,689	27,088	84,071
		5,486,574	1,596,377	4,027,088	84,071
ADMINISTRATIVE EXPENSES		(4,245,377)	(1,173,457)	(3,638,688)	(515,390)
SHARE OF RESULTS IN ASSOCIATE		(56,346)	521,240	-	-
FINANCE COSTS		(18,622)	(8,506)	-	-
PROFIT/(LOSS) BEFORE TAXATION	25	1,166,229	935,654	388,400	(431,319)
INCOME TAX EXPENSE	26	(43,075)	(21,867)	-	(25,662)
PROFIT/(LOSS) AFTER TAXATION FOR THE FINANCIAL YEAR		1,123,154	913,787	388,400	(456,981)
OTHER COMPREHENSIVE INCOME:					
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATION		(138,214)	(7,064)	-	-
TOTAL COMPREHENSIVE INCOME/ (EXPENSES) FOR THE FINANCIAL YEAR		984,940	906,723	388,400	(456,981)
PROFIT/(LOSS) AFTER TAXATION ATTRIBUTABLE TO:					
Owners of the Company		266,665	566,115	388,400	(456,981)
Non-controlling interests		856,489	347,672	-	-
		1,123,154	913,787	388,400	(456,981)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Owners of the Company		211,870	563,289	-	-
Non-controlling interests		773,070	343,434	-	-
		984,940	906,723	-	-
Earnings Per Share (Sen)	27	0.10	0.23		

Exhibit 1b. Statement of Comprehensive Income (New FRS101, Revised 2009) – Format 1

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Revenue	4	14,580,837	10,407,859	355,446	173,293
Other income		2,172,614	1,787,265	-	-
Net fair value loss on financial instruments		(37,093,462)	-	-	-
Administrative expenses		(5,305,251)	(6,424,473)	(784,245)	(1,023,651)
Allowances for doubtful debts	5	-	(171,720)	-	(71,471,720)
Impairment losses	6	-	(62,346,217)	-	(18,977,319)
Operating loss		(25,645,262)	(56,747,286)	(428,799)	(91,299,397)
Finance costs		(1,132,596)	(771,125)	(1,132,596)	(771,125)
Share of losses of associated companies, net of tax		-	(54,954,837)	-	-
Loss before tax	7	(26,777,858)	(112,473,248)	(1,561,395)	(92,070,522)
Income tax benefit/(expense)	10	11,287,945	(268,682)	(1,556)	(22,235)
Loss for the year		**(15,489,913)**	**(112,741,930)**	**(1,562,951)**	**(92,092,757)**
(Loss)/profit attributable to:					
Owners of the Company		(17,665,805)	(114,424,286)	(1,562,951)	(92,092,757)
Minority interest		2,175,892	1,682,356	-	-
		(15,489,913)	**(112,741,930)**	**(1,562,951)**	**(92,092,757)**
Loss per share attributable to owners of the Company (sen):					
Basic and diluted	11	**(11.21)**	**(77.94)**		

Exhibit 1c. Statement of Comprehensive Income (New FRS101, Revised 2009) - Format 2

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Loss after tax for the year	(15,489,913)	(112,741,930)	(1,562,951)	(92,092,757)
Other comprehensive income				
Share of associated companies' other comprehensive income	-	1,331,806	-	-
Other comprehensive income for the year, net of tax	-	1,331,806	-	-
Total comprehensive loss for the year, net of tax	**(15,489,913)**	**(111,410,124)**	**(1,562,951)**	**(92,092,757)**
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(17,665,805)	(113,092,480)	(1,562,951)	(92,092,757)
Minority interest	2,175,892	1,682,356	-	-
	(15,489,913)	**(111,410,124)**	**(1,562,951)**	**(92,092,757)**

Exhibit 1c. Statement of Comprehensive Income (New FRS101, Revised 2009) - Format 2 continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

		Attributable To Shareholders Of The Company							
		Non-distributable				Distributable			
	Note	Share capital	Share premium	Translation reserve	Share option reserve	Retained earnings	Total	Minority interest	Total equity
		RM	RM	RM	RM	RM	RM	RM	RM
At 1 January 2008		15,884,050	1,140,101	(124,646)	201,072	2,646,400	19,746,977	267,050	20,014,027
Foreign exchange differences on translation		-	-	(61,070)	-	-	(61,070)	-	(61,070)
Profit for the year		-	-	-	-	2,150,748	2,150,748	(55,032)	2,095,716
Total recognised income and expense for the year		-	-	(61,070)	-	2,150,748	2,089,678	(55,032)	2,034,646
Share issue cost		-	(93,820)	-	-	-	(93,820)	-	(93,820)
Dividend	12	-	-	-	-	(317,681)	(317,681)	-	(317,681)
At 31 December 2008/ 1 January 2009		15,884,050	1,046,281	(185,716)	201,072	4,479,467	21,425,154	212,018	21,637,172
Foreign exchange differences on translation		-	-	178,012	-	-	178,012	-	178,012
Profit for the year		-	-	-	-	3,020,599	3,020,599	-	3,020,599
Total recognised income and expense for the year		-	-	178,012	-	3,020,599	3,198,611	-	3,198,611
Acquisition of minority interest	5	-	-	-	-	-	-	(709)	(709)
Disposal of subsidiary	5	-	-	-	-	-		(211,309)	(211,309)
At 31 December 2009		15,884,050	1,046,281	(7,704)	201,072	7,500,066	24,623,765	-	24,623,765

Exhibit 2a. Statement of changes in equity (Old FRS101, Revised 2005)

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2010

	Non-Distributable					
	Share Capital RM	Share Premium RM	Share Option Reserve RM	Merger Deficit RM	Accumulated Losses RM	Total RM
Group						
Balance at 1.1.2009	6,528,000	3,278,657	578,539	(1,349,492)	(4,711,796)	4,323,908
Total comprehensive income for the financial year	-	-	-	-	212,074	212,074
Balance at 31.12.2009/1.1.2010	6,528,000	3,278,657	578,539	(1,349,492)	(4,449,722)	4,535,982
Total comprehensive income for the financial year	-	-	-	-	114,415	114,415
Balance at 31.12.2010	6,528,000	3,278,657	578,539	(1,349,492)	(4,385,307)	4,650,397
Company						
Balance at 1.1.2009	6,528,000	3,278,657	578,539	-	(3,230,135)	7,155,061
Total comprehensive income for the financial year	-	-	-	-	548,704	548,704
Balance at 31.12.2009/1.1.2010	6,528,000	3,278,657	578,539	-	(2,681,431)	7,703,765
Total comprehensive expenses for the financial year	-	-	-	-	(1,293,360)	(1,293,360)
Balance at 31.12.2010	6,528,000	3,278,657	578,539	-	(3,974,791)	6,410,405

Exhibit 2b. Statement of changes in equity (New FRS101, Revised 2009)

A few studies have examined the relationship between comprehensive income disclosures and the market's valuation of the earning information. In one such study, Smith and Tse (1998) suggested that financial statement users did not consider comprehensive income to be relevant in predicting future cash flows. Dhaliwal, Subramanyam, and Trezevant (1999) also found no evidence of a relationship between comprehensive income information and market valuation. In another study, Dehning and Ratliff (2004) concluded that there was no difference in the way the market valued the comprehensive income disclosures after SFAS 130 became effective.

However, other empirical research about the usefulness of comprehensive income information, although limited, is noteworthy. For example, Hirst and Hopkins (1998) have concluded that a separate presentation of comprehensive income facilitated detection, by security analysts of active earnings management with the use of marketable securities portfolio. Similarly, Maines and McDaniel (2000) have found evidence that non-professional investors would use comprehensive income information in their decision making only if it was included in a separate financial statement rather than as a component of the statement of stockholders' equity.

Therefore, the current research attempts to examine, for the first time in the Malaysian context, the comprehensive income presentation, just one year after the implementation of the related standard, to determine which format of presentation the majority of the sampled companies prefer to choose. The findings of this study is particularly useful in knowing whether the reporting behavior of Malaysian firms have really served the intent of FRS 101, which is to give prominence to the amount of change in shareholders' equity that is caused by nonowner transactions (revised FRS 101.IN2). The seemingly lack of association between the comprehensive income information and investors' use of that information, as observed in the above studies, may be partially a function of the ordinary investors' level of understanding as to what is comprehensive income. More research may be needed to assess the investors' ability to evaluate the comprehensive income information, which is not the motivation for the current study.

2.1. Presentation Significance

The income of a company for a given financial year is best represented by the increase in its wealth. However, an increase in company's wealth may have occurred for several reasons, some of which are not related with daily operations. For example, wealth may change because of fluctuations in foreign currency exchange rates causing the currency value of subsidiaries to increase or decrease. In addition, wealth may increase or decrease because of changes in economic conditions that cause current values of certain assets and liabilities to change. For example, changes in the stock market may result in unrealized holding gains or losses for investments held by the company. These changes in wealth are supposed to be captured by "comprehensive income". FRS 101 intended comprehensive income to be an important measure of the overall performance of an enterprise. If comprehensive income is displayed as prominently as it was intended by the MASB, the purpose of presenting it will be well served.

Some researchers opined that a more prominent presentation of comprehensive income would be achieved better by using the second format of reporting. For example, Hirst and Hopkins (1998), and Maines and McDaniel (2000) have found evidence in favour of the presentation of comprehensive income in a separate financial statement rather than as a component of the statement of stockholders' equity. In its 2009 exposure draft, the IASB indicated that the placement of comprehensive income in the financial statements could influence its perceived importance to investors. On June 16, 2011, The Financial Accounting Standards Board (FASB) had issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, which requires all U.S. companies to report comprehensive income in an income statement-type location (Chambers, 2011). The amendments will be effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. Therefore, the current study also supports the use of the second format of presentation, which would present the comprehensive income information in a separate statement of comprehensive income.

3. Research Method

All ACE market companies (except finance companies) listed on the ACE market as at 31 December 2010 were scrutinised for their annual report for 2010 from the Bursa Malaysia website. The total number of listed companies on the ACE market as at that date was 134 companies. After excluding 22 finance companies, only 112 companies were eligible for analysis. However, from these 112 companies, 28 companies have not yet submitted their annual reports to be posted on the Bursa Malaysia website, thus giving a final sample of 84 companies comprising of consumer product (1), industrial product (11) trading/services (14) and technology (58) companies. The companies' annual reports for fiscal periods ending on or after December 31, 2010, were examined for the presentation of OCI and total comprehensive income.

4. Results and Discussion

The study showed that 82 companies used the first format, which is by presenting comprehensive income as a component of their income statements (together with the normal income statement), while only two companies used the second format of using a separate Statement of Comprehensive Income. This shows that almost all ACE market companies prefer to report comprehensive income in a single statement. It also indicates that they are well-prepared in meeting the new changes in accounting regulation, compared to their former practice of presenting the components of OCI under the statement of changes in equity.

Of the 84 companies, only 51 companies reported items that fall under the OCI category. The remaining 33 companies did not report any OCI items. Of the 51 companies, only 17 companies (33%) had overall positive OCI, while the remaining 34 companies reported overall negative OCI. This means that a significant percentage-67%-of the companies in the current sample that chose the first reporting format had negative OCI.

The study also furnished other observations pertaining to the presentation of OCI and total comprehensive income. In terms of titles used, 49 companies included the term "Comprehensive Income" in the title of their financial statements where OCI and total comprehensive income were presented, while only one company (GPRO TECHNOLOGIES BHD) used the old title 'Income Statement'. Also, there was almost a complete uniformity among the companies in the sample as to the use of the term comprehensive income. In such cases, the most commonly used titles were Consolidated Statement of Comprehensive Income.

Furthermore, in terms of location of OCI items presentation, only one ACE market company (SUNZEN BIOTECH BHD) presented the details of OCI in the Notes to financial statements. The rest presented the details in the body of the financial statements. This is in line with MASB's preference that such information should be presented prominently since the details of OCI may be more important to the readers than total comprehensive income (revised FRS 101.11).

4.1. Further Impact of the New FRS 101

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 1 indicates that only 23 firms are affected positively (i.e., Total

Comprehensive Income is greater than Net Income), while 28 firms are affected negatively. Thirty-three firms do not have any OCI items and, therefore, are not affected by FRS 101. If a material impact is defined as at least a five percent increase or decrease, 16 firms are affected positively, 15 firms are affected negatively, and 53 firms are not affected by the implementation of FRS 101. The range of the impact of the Total OCI items on the Net Income number by industry is presented in Table 2.

Table 1. Impact of Other Comprehensive Income on Net Income

Impact	N	%
Positive effect	23	98%
No effect	33	0%
Negative effect	28	2%
Total	84	100%

Table 2. Material Impact of Other Comprehensive Income on Net Income

Impact	N	%
Greater than positive 5%	16	19%
Negative 5% to positive 5%	53	63%
Less than Negative 5%	15	18%
Total	84	100%

Among the ACE market companies in the sample, foreign currency translation adjustments was the most prominent item in the OCI, followed by gains and losses on re-measuring available-for-sale financial assets. This findings support a recent study by Chambers et al. (2007) using U.S. firms who find that the two items are priced by investors. Furthermore, foreign currency translation adjustment was the most significant item, if not the only item, among the majority of the companies that reported either positive or negative OCI.

Table 3 presents the impact of the six OCI items on Net Income. Given the relatively stable rate of Malaysian currency against the U.S. since 2007, it is not surprising that only 25 companies (30%) of the firms were negatively affected by the foreign currency translation adjustment, while 37 companies (44%) of the firms were not affected. 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. This means if the U.S. dollar weakens in relation to the Malaysian currency, 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 OCI item, gains and losses on re-measuring available-for-sale financial assets, affects only 4 of the 84 firms in this study. This is not surprising because this item will normally affect only financial institutions such as banks, savings and loans institutions, insurance firms, etc., which are excluded from the sample. 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. For financial institutions, they 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).

Table 3. Impact of Other Comprehensive Income Items on Net Income

OCI Items	Positive effect(n)	%	No effect(n)	%	Negative effect(n)	%
Gains and losses arising from translating the financial statements of a foreign operation	22	26	37	44	25	30
Gains and losses on remeasuring available-for-sale financial assets	3	4	80	95	1	1
Share of associates	3	4	80	95	1	1
Changes in revaluation surplus	1	1	82	98	1	1
Transaction cost on demerger	0	4	83	95	1	1
Gains and losses arising from disposal of a foreign operation	0	0	83	99	1	1

The third OCI item, share of associates, affects only 4 of the 84 firms in this study. This item represents the firm's interest in associated companies. The majority of the companies in the ACE market do not have any interest in other companies due to their small size and they are relatively newly established firm. The fourth, fifth and sixth OCI items, namely changes in revaluation surplus, transaction cost on merger/demerger activities, and gains and losses arising from disposal of a foreign operation affect only 2, 1, and 1 of the 84 firms, respectively. These items usually represent special or unusual items which do not recur in the normal business operations. As such, they only affect very few companies.

Thus, with the implementation of FRS 101, a majority of the ACE market firms have experienced a relatively stable (i.e., between -5% and 5%) in the new bottom-line number or financial performance measure, i.e., the Total Comprehensive Income number. The increase or decrease was not so material both in percentage and absolute amounts. However, 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. However, for a country like Malaysia, with a real GDP expansion rate at 7 percent in 2010 (though this has reduced slightly to around 5.5 percent in 2011) together with the new economic transformation program introduced by the Malaysian government, it is possible that the Malaysian Ringgit could be strengthened in the future and the impact will be much more favorable.

The findings of this study should be interpreted carefully. For instance, it would be unfair to hold management responsible for a negative impact from the OCI items, mainly because the management of a firm has little control over these items. But by giving the OCI items equal prominence as the Net Income number, FRS 101 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.

5. Conclusions

This study finds that 98 percent of ACE market companies in the sample are using the first format of presenting comprehensive income. This indicates that regulation can change companies' reporting behavior. Previously Malaysian companies were accustomed to report non-owner items in the statement of changes in equity. Based on the findings of this study, it is possible to conclude that Malaysian companies on the ACE market feel 'safe' to present the OCI in a single statement of comprehensive income because the title "other comprehensive income" lies between the net income (or loss) and total comprehensive income (or loss), which make it not too visible to the ordinary eyes compared to if it was presented in a separate statement. This may explain why the selected companies have more negative OCI than positive ones.

FRS 101, "Presentation of Financial Statements", issued in November 2009, merely addresses a financial statement presentation issue. Five OCI items, i.e., foreign currency translation adjustment, changes in revaluation surplus, actuarial gains and losses on defined benefit plans , gains and losses on hedging instruments and gains or losses on available-for-sale financial assets, that previously by-passed the income statement will now be given the same prominence as the net income number. Most firms in this study have presented these OCI items in single statement of comprehensive income. It will be interesting to see within the next few years which of the two 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 OCI items in a single statement (the first format). This format will not affect the traditional Income Statement but will provide the necessary information easily in one statement. However, using the second format (a separate statement of comprehensive income statement from the usual income statement) will enable users to examine directly the OCI items that could affect companies' bottom line figures.

The impact of FRS 101 will vary from industry to industry, but foreign currency translations will affect a majority of firms in most industries especially technology companies. 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 FRS 101 should occur since no new information will be presented.

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Notes

1 All the exhibits were taken from the actual annual reports of selected ACE market companies to show their current practices of presenting comprehensive income.

2 In the Dhaliwal, et al. (1999) study, the authors found no association between comprehensive income and a firm's market valuation and they conclude that comprehensive income is not a better predictor of future cash flows than net income.

3 An example of a Notes presentation may be found in Note 27 of the 2010 Annual Financial Statements of SUNZEN BIOTECH BHD.