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An Analysis of other comprehensive income under Ind AS in financial statements

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ABSTRACT

The statement of profit and loss presented, in addition requires other comprehensive income. The adoption of Ind AS 1- Presentation of Financial statements includes comprehensive income in profit and loss account and allows only one single approach of enabling presentation against IAS-1 which has option of two parts. An entity must show in its OCI separately, the items which would be reclassified to profit and loss account and those items which would never be reclassified to profit and loss account. The tax effect related to these items are calculated.

Therefore, other comprehensive income includes incomes and expense which includes reclassification adjustments which are not recognized in profit and loss account. The study tries to draw the insights other comprehensive income and secondly, to understand the items of other comprehensive income in the financial statements with reference to ITC ltd which helps to make better decisions by the investors.

1. Introduction

Investors decision depends on the performance of the company measurable through the profit and loss account. Under previous GAAP the profit and loss account statement were prepared as per schedule III to find out profit or loss. The expenses in profit and loss account were presented in the nature of expenses. After the recent changes in regulatory framework which has resulted in the introduction of Ind AS (converged from IFRS). An entity shall present the statement of profit and loss account in a single statement along with comprehensive income unlike IAS 1 refers to the statement in two approach.

The statement of profit and loss is the total revenue less expenses excluding the other comprehensive income. Therefore, the components of profit and loss account and other comprehensive income added equals to total comprehensive income.

1.1. Definitions

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.

Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods.

Total comprehensive income shows the changes resulting in equity from the transactions and events other than those changes resulting from transactions with owners in their capacity as owners. The total comprehensive income for the year is attributable to the owners of the parent and non-controlling interest.

2. Other Comprehensive income

The revenues, gains, expenses and losses appear in OCI when they have not realised. So it clearly states that this OCI is introduced to show separately the unrealised revenue, expenses, gains and losses from realized profits.

2.1 Components of other comprehensive income

- Changes in revaluation surplus remeasurements of defined benefit plans
- gains and losses arising from translating the financial statements of a foreign operation.
- gains and losses from investments in equity instruments designated at fair value through other comprehensive income.
- gains and losses on financial assets measured at fair value through other comprehensive income.
- the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk
- changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value.
- changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument.

3. Literature review

There are not much studies in this area since the roadmap for adoption of Ind AS has began from 2016. Though one single statement of profit and loss is prepared along with comprehensive income the unrealised items have shown significant effect in financial statements when the OCI was shown under IFRS.

D. C., Linsmeier et.al., (2006) provides evidence that post SFAS 130 period OCI was priced on a dollar-for-dollar basis. The author reported the document that two components of OCI priced by investors are foreign currency translation adjustment and unrealized gains/losses on available-for-sale securities. The findings suggested that investors paid a greater attention to OCI which had reported in statement of changes in equity rather than the financial performance.

Praulins and Bratka (2012) studied the changes in regulatory framework which gave the introduction of performance measurement of comprehensive income. Investors decision mainly depends on the measurement of financial performance.

Harris et.al., (2013) compared the US GAAP and IFRS for teaching the CPA level exams. This paper showed the items treatment necessary for understanding the IFRS statements and its presentation.

Barth (2013) paper developed the measurement concepts based on individual assets and liabilities and concluded the fair value measurement is more consistent with existing concepts then which was either modified or unmodified historical cost. This determined the changes in amounts of individual assets and liabilities which had effect in turn on comprehensive income.

4. Objectives of the study

The objectives of the paper is to study the concept of OCI. Secondly, to analyse the OCI in the financial statements after implementation of Ind AS.

5. Observation and Analysis

As observed from the above literature the unrealised gain or losses (UGL) has significant impact on comprehensive income while making important decisions by the investors. Therefore, this study aims to analyse the comprehensive income UGL (unrealized gain or losses) in the statements of ITC Ltd.

The information in other comprehensive income is presented in line items by nature (including share of the other comprehensive income in associates and joint venture using equity method) and grouped into those in accordance with other Ind Ass:

- items that will not be reclassified to profit and loss
- items that will be reclassified to profit and loss

Income tax applied to both the above cases is calculated under the other comprehensive income.

Table:1

Extract of Consolidated statement of comprehensive income for the years ending 31st march

	2018	2017
Other Comprehensive Income		
A i) Items that will not be reclassified to profit or loss:		
Remeasurements of the defined benefit plans	86.17	(27.19)
Equity instruments through other comprehensive income	360.84	139.68
Effective portion of gains/(losses) on designated portion of hedging instruments in a cash flow hedge	10.29	(61.19)
Share of OCI in Associates and Joint Ventures (7.45)	(7.45)	10.71
Income tax relating to items that will not be reclassified to profit or loss	(33.40)	23.91
B i) Items that will be reclassified to profit or loss:		
Exchange differences in translating the financial statements of foreign operations	(6.08)	(55.55)
Effective portion of gains/(losses) on designated portion of hedging instruments in a cash flow hedge	(18.69)	18.29
ii) Income tax relating to items that will be reclassified to profit or loss	6.42	(6.31)
Other Comprehensive Income [A (i+ii) +B (i+ii)]	398.10	42.35

The above was analysed comparing the data from the statement of profit and loss before adoption of IFRS. As per IGAAP the statement of profit and loss was calculated as revenue minus expenses in a single statement. After the adoption of IFRS which has two approaches to prepare the statement of profit and loss.

All Indian companies now adopt Ind AS which has single approach in preparation. Therefore, within the statement of profit and loss, other comprehensive income is presented to show the changes in equity from the transactions. It is observed that in 2012 under IGAAP the items mentioned above were within the revenue and expenses but whereas here they are separately presented.. E.g. translation adjustments and share of OCI in associates and joint ventures were part of expense.

6. Conclusion

This study was done in order to understand the concept of OCI which was not applicable in our previous GAAP. Secondly to show how the statement of profit and loss is prepared with reference to ITC Co. Ltd. This concept was initially adopted in U.K which had actually emerged from USA. OCI is found as a line item on a company's balance sheet.

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