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REPORTING COMPREHENSIVE INCOME ISSUES EMPIRICAL EVIDENCE FROM GHANA

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Abstract

The issue of reporting comprehensive has generated lots of debate in the accounting and finance literature in a bid to find a common ground for international harmonization of financial statements. The debate ranges from relevance of CI, through format to basic contents of the statement of profit or loss and other comprehensive. This the IASB tends to address by issuing IAS 1 revised (2007 and 2011). This Study intends to interrogate the issues raised in IAS 1 revised and the academic literature using the 2013 annual financial statement as published on the Ghana Stock Exchange (GSE). The issues that were investigated include; title or denomination used, single or two statement approach, expense classification and contents of the statement of 'profit or Loss and other comprehensive income'. The results show that there is a high degree of homogeneity in accounting practices in Ghana, making it easier for financial information users to compare entities. Thus, making a strong case for the need for IASB and FASB to co-operate in setting financial reporting standards. Further, we find that the classification of expense by function by majority of the entities in the sample may due to the nature of those entities.

Keywords: Statement of comprehensive income (CI), separate income statement, other comprehensive income (OCI), expense classification, Ghana Stock Exchange, IAS 1 revised.

INTRODUCTION

Accounting For Companies - 4th Schedule of the Ghana Companies Code, Act 179 (Act 1963). The code requires companies to prepare a profit and loss account. The balance of profit and loss account after the inclusion of the items required by the code, so far as these are relevant to the figures in the account, shall be transferred to a second account to be called the income surplus account.Ghana also had a customized version of the International Accounting Standards christened Ghana National Accounting Standards (GNAS).

According to GNAS 1: Disclosure of Accounting Policies, the term "financial statements" covers balance sheets, income statements or profit and loss accounts, statement of cash flows, notes, and other statements and explanatory material which are identified as being part of the financial statements. GNABS Standards apply to the financial statements of any commercial, industrial, or business enterprise.

The management of such an enterprise may prepare financial statements for its own use in a number of different ways best suited to other persons, such as shareholders, creditors, employees, and the public at large, they should conform to GNASB Standards. Ghana had used two statements of income statement and income surplus account where the profit after tax (profit for the year) is transferred to the income surplus account for distribution. Even though, Ghana adopted the IAS in January 2007; this practiced continued for compliance reasons.

Presentation of financial statements (IAS 1)

IAS 1 provides guidelines on the presentation of the "general-purpose financial statements," thereby ensuring comparability both with the entity's financial statements of previous periods and with those of other entities. It provides overall requirements for the presentation of financial statements, guidance on their structure, and the minimum requirements for their content. It also prescribes the components of the financial statements that together would be considered a complete set of financial statements.

The requirements of IAS 1 are to be applied to all "general-purpose financial statements" that have been prepared and presented in accordance with International Financial Reporting Standards (IFRS). "General-purpose financial statements" are those intended to meet the needs of users who are not in a position to demand reports that are tailored according to their information needs. IAS 1 is not applicable to condensed interim financial statements prepared according to IAS 34. Modification of the presentation requirements of the Standard may be required by non-profit entities and those entities whose share capital is not equity.

All listed companies are required to produce annual reports with audited financial statements that include a balance sheet, income statement, and cash flow statement.

Consolidation is required if a public company controls or has majority ownership in other companies. The great majority of listed companies produce annual reports on a timely basis. Since 2008 companies have been required to use International Financial Reporting Standards (IFRS). These have been promulgated by the Institute of Chartered Accountants of Ghana (ICAG). ICAG has made an effort to raise awareness of the need to apply IFRS, but has done less to build accountant and auditor capacity. It does not review the quality of reports or their compliance with IFRS, and peer review is not established. While the BoG and SEC do monitor reporting, they do not have the capacity to ensure compliance with IFRS, and market participants have raised concerns on IFRS compliance in banks and (other) listed companies.

In Ghana, companies are not required to disclose their annual reports or other information on the internet. In practice, some material information is available through the Ghana Stock Exchange (GSE) website, and many, though not all, companies post their annual reports and other materials on the worldwide web (ROSC, 2010).

Kvaal and Nobes (2010) find significant evidence that pre-IAS/IFRS national practices continue where this is allowed within IAS/IFRS, thus documenting the existence of national patterns of accounting within IAS/IFRS. Macias and Muiño (2011) also document that countries requiring the use of local standards in separate financial statements exhibit a significantly lower level of accounting quality, both prior to and following the IFRS adoption, which suggests that these countries have domestic standards more oriented towards the satisfaction of regulatory needs rather than towards those of investors.According to Palea (2013), considered as a whole, these studies suggest that if, on the one hand, there are arguments to support an improvement in accounting quality under IAS/IFRS, on the other hand, there are also reasons to think that mandatory adoption by itself is not sufficient to increase the quality of financial reporting (p.80).

LITERATURE REVIEW

Statement of comprehensive income

IAS 1 offers the choice of presenting all items of income and expense recognized in the period: either in a single statement of comprehensive income, or in two statements; that is, a statement displaying components of profit or loss, together with another statement beginning with profit or loss and displaying components of “other comprehensive income.”

The standard prescribes, as a minimum, the following line items to be presented in a statement of comprehensive income: Revenue, finance costs, share of profit or loss from associates and joint ventures accounted for using the equity method, tax expense, amounts required to be disclosed under IFRS 5 relating to “discontinued operations”

Profit or loss for the reporting period

Each component of other comprehensive income classified by nature

Share of other comprehensive income of associates and joint ventures accounted for using the equity method

Total comprehensive income

Profit or loss for the reporting period as well as total comprehensive income for the period attributable to non controlling interests and owners of the parent are required to be disclosed separately. Since the Standard prescribes minimum line item disclosure, an entity is permitted to present additional line items, headings, and subtotals in the statement of comprehensive income and the separate income statement (if the entity opts to present this statement). Such additional disclosures are allowed when such presentation is relevant to an understanding of the entity's financial performance.

Profit or loss for the period

An entity shall recognize all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise.

An entity shall present an analysis of expenses recognized in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.

An entity classifying expenses by the "function of expense" method shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense (staff costs).

Material income and expense should be disclosed separately with their nature and amount. (Examples of circumstances that give rise to separate disclosure of material income and expenses are: write-down of inventories to their net realizable value or property, plant, and equipment to their recoverable amount, as well as reversals of such write-downs).

In September 2007 the IASB issued a revised IAS 1 and they made many changes to the terminology including changes to the titles of individual financial statements. Entities are no longer permitted to present transactions with owners in their capacity as owners in the notes to the financial statements (since now the "statement of changes in equity" must be presented as a separate financial statement). New detailed requirements have been added regarding the presentation of items of "other comprehensive income". The main innovation brought about by the IASB with the revised version of IAS 1 is the substitution of the traditional income statement with the comprehensive income statement (Allegrini & Ninci, 2008; Bertoni, De Rosa, & Maffei, 2007; Dezzani, Biancone, & Busso, 2010, Ferraro, 2011).

In May 2010 the IASB issued "Improvements to IFRS 2010" incorporating amendments to seven IFRS, including IAS 1. Through this amendment to IAS 1, which is effective for periods beginning on or after January 1, 2011 (with earlier application permitted), the IASB clarified that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.There are two reasons for the FASB to make this change: (1) this will increase the prominence of items reported in other comprehensive income, (2) this facilitates the convergence between US GAAP and IFRS (Henry, 2011, p. 85).

The choice between single and multiple step formats

The accounting literature provides little guidance on when it is suitable to use a single step or a multiple step format. The single step format has the advantage of simplicity and obviates the need to develop names (labels) for intermediate classifications. The multiple step format is potentially more informative to decision makers because it highlights important relationships in the report. Advocates of the multiple step format believe that there are important relationships between revenue and expense data, and the income statement is more useful when these relationships are explicitly shown (Dychman, Davis & Dukes, 2005)

The proposal of the IASB and the FASB theorized in the 2008 Discussion Paper to draw up a single scheme of income statement (a single statement of comprehensive income) in which the net income would be a mere intermediate result compared to the Omni comprehensive total comprehensive income, it would seem to bring out the orientation of standard setters to the consideration of the OCI and the TCI as key measures of performance evaluation, at the expense of the commonly used net income (Le Manh, 2009).

Empirical literature

The empirical literature will be discussed in two separate parts. Part one discusses studies on SFAS No. 130 whilst part two discusses recent studies on ISA/IFRS; and the two will be integrated where appropriate.

Campbell, Crawford and Franz (1999) analysed a sample of 73 companies which voluntarily showed comprehensive income in the 1997 financial statements, one year before the SFAS No. 130 first-time adoption. They find that 53% of the companies reported comprehensive income in the statement of changes in stockholders' equity, 30% in the separate statement of comprehensive income and 16% in the combined statement of net income and comprehensive income. Jordan and Clark (2002) aimed to verify the results of the study by Campbell et al. (1999) through an examination of the financial statements for the year 1998 on a sample of 100 financial service firms. In particular, they wanted to ascertain whether there was any correlation between the direction and the size of the OCI components, the size of the company and the chosen format for presenting the comprehensive income. They find that, 63% chose to present comprehensive income in the statement of changes in stockholders' equity, 25% preferred a separate statement of comprehensive income and only 12% chose two in a combined statement of net income and comprehensive income.

As a matter of fact, five years after the adoption of SFAS 130, companies continued to prefer the presentation of comprehensive income in the statement of changes in stockholders' equity, as demonstrated by Pandit and Phillips (2004) who analyzed the financial statements of a sample of 100 companies listed on the New York Stock Exchange, or by Mazza and Porco (2004) who studied a sample of 111 US companies.Pandit and Phillips (2004) show that 89% chose the statement of changes in stockholders' equity, 9% disclosed comprehensive income in the combined statement of net income and comprehensive income and only 2% chose the separate one. Mazza and Porco (2004) also argue that 75% of the companies chose the statement of changes in stockholders' equity, 13% the separate statement of comprehensive income and the residual 3%, the combined statement of net income and comprehensive income. Pandit, Rubenfield and Phillips (2006) focused on information and communication technology industry, collecting data from the financial statements of 100 companies listed in 2002 on NASDAQ, and obtained similar results.

All the previous studies limited their analysis on the companies' reporting choices to a specific year, this study is not an exception; however, in the literature there are several papers with longitudinal analysis. Among them, Bhamornsiri and Wiggings (2001) give a precious contribution studying the reporting choices between 1997 and 1999 of a sample of 100 US companies. They find that 76% of these companies chose the statement of changes in stockholders' equity in each of the three reporting dates, validating the preference for such a statement.

Apart from showing the preference of the entities, several scholars demonstrate that the attitude to hide other comprehensive income components in the statement of change in stockholders' equity contrasts with the outsiders' reporting preferences. For example, King, Ortegren and Reed (1999) demonstrate, through interviews, that while the large majority of the CFOs prefers a less readable prospect, such as the statement of changes in stockholders' equity, professional investors prefer to read comprehensive income in one of the performance-based statements because they facilitate the assessment of the traditional performance measures. Hirst and Hopkins (1998) reach the same conclusion, explaining that the performance-based prospects are the best in terms of readability.

The CFOs' preference for the less clear statement of changes in stockholders' equity is due to the possibility to manipulate the perceived volatility of the firm's performance (Hirshleifer & Teoh, 2003; Yen et al. 2007; Maines & McDaniel 2000), but also avoids that users who perceive the firm's performance as more volatile will place a lower value on the stock and will assess the manager as less competent (Graham et al., 2005; Maines & McDaniel, 2000). This is due to the fact that in the literature, the statement of changes in stockholders' equity is considered less readable than the performance-based ones; Maines and McDaniel (2000) demonstrate that is true especially for nonprofessional investors, who consider the separate statement of comprehensive income by far simpler to read.

Therefore, imagining that the previous research findings about the outsiders' preferences are representative, in presence of reporting discretion, when issuers decide to display comprehensive income and its components differently from these predilections, impression management occurs. In other words, in case of reporting discretion, issuers could behave opportunistically against outsiders by concealing or exalting them in different manners when negative or positive, respectively. This could be the reason why FASB amended SFAS No. 130 and obliged companies to disclose comprehensive income in a performance-based prospect.

Talking about such amendment, the chairman of the FASB explained that they heard from investors "there was a need to present other comprehensive income information more prominently in financial statements and this update, which was developed jointly with the International Accounting Standards Board, responds to those investor needs, and will bring greater consistency and prominence to the reporting of other comprehensive income around the world" (Cimini, 2012).

On the one hand, the number of line items and the number and the type of intermediate results presented in the sampled entities signify a high degree of heterogeneity of financial information, which decreases the comparability across entities, highlighting the urgent need to complete the joint project of the standards setters (IASB and FASB) on financial statement presentation. On the choice of certain alternatives by most of the sampled entities (the two-statement approach, some denominations used for the income statements, and the classification by nature) is likely to be influenced by the Italian accounting tradition, which could nevertheless hamper the comparability across countries and the international financial reporting convergence (Ding, Jeanjean, & Stolowy, 2005; Delvaille, Ebbers, & Saccon, 2005).

This observation is further confirmed by the results of studies verifying the effects of the different formats for representing comprehensive income on the users of company accounts (Hirst & Hopkins, 1998; King et al., 1999; Hirst et al., 2004; Hunton et al., 2006).

In order to find out if there are other reasons for the choice of format for representing CI in Italy as well as the margin of action left to management when carrying out accounting policies, the study proceeds with a search for a link between the format chosen and the characteristics—in terms of direction and size—of net income, OCI and CI.

The results show that the companies that opt for the second income statement are those with positive net income and negative OCI values with a significant impact on the overall total and that, therefore, seek to highlight traditional income as a measure of company performance through the use of this format. On the other hand, companies that opt for the single comprehensive income statement relegate to a mere intermediary result traditional income with a (negative) direction, which the market is likely to find unattractive.

At international level, however, the results of the search for a correlation between the directions of OCI and how OCI is represented in income statements are inconclusive. Some authors (Campbell et al., 1999; Jordan & Clark, 2002) show that when, as in the majority of cases in their sample, the OCI components are represented in the statement of net equity, they have a negative effect on company performance. Others (Bhamornsiri & Wiggins, 2001; Pandit & Phillips, 2004), on the contrary, were not able to find any correlation between the direction and the accounting format.

The results of this empirical research are very mixed and conflicting. On the one hand, some tests show that CI is more value relevant than NI (Biddle & Choi, 2006; Hodder, Hopkins, & Whalen, 2006; Kanagaretnam, Mathieu, & Shehata, 2009) or point out the incremental value relevance of individual items of OCI (Bartov, 1997; Louis, 2003; Pinto, 2005; Roberts & Wang, 2009). On the other hand, some tests underline that there is not a clear evidence of the most value relevance of CI compared with NI (Cheng, Cheung, & Gopalakrishnan, 1993; Dhaliwal, Subramanyam, & Trezevant, 1999; O'Hanlon & Pope, 1999; Isidro, O'Hanlon, & Young, 2004; Wang, Buijink, & Eken, 2006; Ernstberger, 2008; Barton, Hansen, & Grace, 2010; Mechelli, 2011). Instead, the option between the presentation of OCI items before or after the taxes effects does not show uniformity in accounting practice.

Several previous researchers examined the usefulness of comprehensive income disclosures by examining their contemporaneous value-relevance. Cheng et al. (1993) examined the relation between abnormal returns and three measures of income: operating income, net income, and comprehensive income. Comparing the adjusted R^2s for the three models, their findings support two alternative scenarios: (a) net income and/or operating income are superior to comprehensive income as a measure of performance, or (b) that investors are "fixated" on net income, thus ignoring comprehensive income.

Some other studies examined whether the usefulness of comprehensive income depends upon how it is disclosed. Using an experimental approach, Hirst and Hopkins (1998) report that comprehensive income is useful for analysts only when it is reported as a separate statement but not useful when it is reported as part of the statement of changes in stockholders' equity. Another experimental study by Hunton et al. (2006) finds that more transparent format (i.e., single statement of comprehensive income) reduces the likelihood of managers engaging in earnings management. However, in contrast, Maines and McDaniel (2000), also using an experimental approach, report that comprehensive income is useful regardless of the format. Similar to this experimental evidence, Chambers et al. (2005), using archival data over the post-SFAS No. 130 period, provide evidence that the type of financial statement in which firms report comprehensive income and its components do not affect pricing.

Studies using international data also find mixed evidence in support of the usefulness of comprehensive income disclosures. O'Hanlon and Pope (1999) find "little evidence that U.K. dirty surplus accounting flows contain value relevant items." Cahan et al. (2000) also did not find any evidence of incremental value relevance for such disclosures for New Zealand firms. However, Kanagaretnam, Mathieu, and Shehata (2005), using Canadian data, provide evidence that reporting of comprehensive income and its components improve the usefulness of accounting information.

More recently Shan and Dong (2012) investigated the comprehensive income reporting choices by analysing the annual reports of 200 commercial banks that comply with SFAS No. 130. They find that those entities that reported negative other comprehensive income components and, between them, significant losses on remeasuring available-for-sale securities, not only disclosed comprehensive income in the statement of change in stockholders' equity, but also presented information in the footnotes of annual reports rather than in the primary statement.

ISA/IFRS

Different from USA, the countries that adopted the IASB standards do not have a longer tradition in reporting comprehensive income, so the number of the research on this topic is not very significant.

For the IAS/IFRS compliant entities, the first Italian scholars (Cimini, 2012; De Cristofaro & Falzago, 2012; Ferraro, 2011) that focused on the choice of the prospect conclude that at the time of first-time adoption of the revised version of IAS 1 (2007), the large majority of the entities preferred to disclose comprehensive income in a separate income statement, taking into account that IAS 1 revised does not allow the use of the statement of change in stockholders' equity.

Single statement or two-statement approach

According to Cimini, (2012) the separate statement of comprehensive income is largely the most chosen, as 87% of the entities preferred it both in 2009 and 2010. With regard to the single countries, in France, Germany and Italy it has been chosen by 88.6% (171 over 193), 81.6% (169 over 207) and 91.5% (183 over 200) of companies, respectively. This preference could probably be due to the possibility to isolate in a separate statement, the other comprehensive income components from the traditional revenues and costs disclosed in the traditional income statement. The authors conclude that only in some circumstances, companies with other comprehensive income components equal to zero preferred the combined statement of comprehensive income.

Agostini and Marcon (2013) examined a sample of Italian listed corporate. The results show that a large majority (90%) opted to present two separate income statements. This choice could be explained by several factors. First of all, such a presentation is more familiar with the accounting format used hitherto in Italy. Secondly, it is consistent with the typical measurement basis of Italian accounting doctrine based on the historical cost system, hence with NI. Moreover, this option is justified by preparers stating that it facilitates comparisons with non-IFRS national competitors (Ferraro, 2011).Regarding the accounting format adopted for CI by Italian companies in the first application of the revised of IAS 1, Ferraro, (2011) states 86% of the sample opted to present components of OCI in a Separate Statement of Comprehensive Income. Only a small proportion of companies (14%) chose to present comprehensive income in a Combined Statement of NI and CI.

The decision to add a second income statement, rather than integrate the components of OCI in a single document, is justified by accountants on the grounds of the need for uniformity that facilitates not only interpretations of published accounts, but also comparisons with national competitors, as well as obviating the need to overturn the traditional and familiar accounting structure used hitherto. Gazzola and Amelio (2012), conducted a research to analyze the choices made by the 15 companies listed on the Czech Republic Stock Exchange for the new income statement to be prepared according to the International Accounting Standards – IAS 1 revised in 2007. The first result they obtain is that there is no greater propensity for the one statement; in fact 53% of the companies adopted the two statement approach while the 47% chose the single statement. Gazzola and Amelio, (2014) carried out an analysis of 26 Czech Companies, and the results obtained were the following: (1) the majority of the companies in the Czech Republic and Italy has opted for the two statement approach; (2) considering the Czech societies in the years 2010, 2011 and 2012, 73 % of companies opted for the former approach and 27 % for the single statement approach and there have been no changes in the adopted approach; (3) considering the Italian companies, the percentage of companies that opted for the two statement approach rises to 92 %, compared to 8 % who took the opposite approach.

Fellagara and D'Esté (2009) study the impacts of disclosure of the first application of the 2007 revised version of IAS 1 on interim financial statements (at June and September) of 110 listed groups at the Italian Stock Exchange for fiscal year 2009. The study analyses format choice selected for CI and other CI aspects. The study finds the majority (95%) of companies chose to disclose CI in a Separate Statement of Comprehensive Income, while only a small group opted for a Combined Statement of NI and CI.

Denominations (labels) used

With reference to the denominations assigned to the income statements, the most interesting result is related to the fact that 84% of those entities adopting the two-statement approach used simply the term “income statement” rather than separate income statements. It can be considered only as a matter of labels, but the use of such a name could implicitly underscore the fact that most Italian entities give more weight to traditional NI, believing that it is the “true” income for measuring performance. The number of items and subtotals presented in the statement of CI and the different types of intermediate margins used show a high diversity in accounting practice (Agostini & Marcon, 2012).

The intermediate result which appears most of the time is “earnings before taxes”. It has been included by 52 sampled groups. Its denominations are quite similar: 30 entities (58% of the sample) have used the name “earnings ante taxes”, 18 entities (34% of the sample) have preferred the title “profit/loss ante taxes”, three entities have adopted the name “profit/loss ante taxes from continuing operations”, and an entity has chosen the name “total earnings before taxes from continuing operations”. The second intermediate result mostly included in the analyzed statements is “operating income”, which has been included in 48 reports. In this case, the denominations adopted have been only three: 40 corporate groups (84% of the sample) have used the title “earnings before interest and taxes (EBIT)”, five corporate groups (10% of the sample) have preferred the designation of “operating profit/loss”, and three corporate groups (6% of the sample) have adopted the term “net operating income”. The last studied denomination is the “gross operating margin (MOL)”, which may be considered similar to the

EBITDA. It has been included in 19 income statements with four titles which appear to be quite different: 10 entities (53% of the sample) chose the name “gross operating margin” (MOL), five corporate groups preferred the title “(industrial) gross profit”, two entities (10.5% of the sample) opted for the name “EBITDA”, and the last two entities (10.5% of the sample) have used the denomination “gross trading margin” (Agostini & Marcon, 2012).

Classification of expenses either by nature or by function

As regards the classification of expenses, either by nature or function, 89% of the entities preferred the presentation of expenses by nature, while only 11% adopted the presentation of expenses by function (Agostini & Marcon, 2012). The results of Ferraro, (2011) also show a clear preference for the classification of expenses by nature (72%), while a smaller percentage of companies opt for classification by function (28%). Considering the fact that the study by Devalle (2010) shows that about 50% of European companies chose the classification by nature and the other 50% by function, this result reflects again the strong link with the Italian accounting tradition. In fact, it is worth observing that the previous practice before the introduction of IFRS is dictated by Civil Code, which requires the classification by nature (this means that historical national requirements play an important part in the reporting preferences of preparers of financial statements) (Agostini & Marcon, 2012). Gazzola and Amelio (2012), observe that the majority of the companies adopted a classification by nature instead of by destination (87% vs. 13%). This result should be not surprising for two reasons: first, the drafting of the statement by function requires information that only a thorough analytical accounting system can provide; second, this preference can be explained in terms of cultural attitude and accounting tradition. In fact, after the Fourth Directive of the E.U., accounting entities in Czech Republic should compile the profit and loss statement vertically, allowing a reclassification criterion either by nature or by function. However, if the profit and loss statement is arranged with respect to the function of entries involved, the accounting entity must also include a schedule disclosing the operating costs classified with respect to their nature (Strouhal, 2007). This may have led to the classification preference by nature and this trend was maintained even in the financial statements under IFRS. This is consistent with (Kvaal & Nobes, 2010).

OBJECTIVE OF THE STUDY

The objective of this work is to give an account of how companies listed on the Ghana Stock Exchange, a developing country exchange for that matter, are complying with issues of comprehensive income raised in IAS 1 (revised 2007 and 2011) in their annual reports for 2013 financial year. The specific area being; the name /title given to comprehensive income (CI), the methods used to present the statement of CI as allowed by IAS 1: single or double, and the classification of expenses either by function or nature, further disclosure by entities adopting functional classification of expenses and contents between revenue and net Income (NI).

The main contribution of this study is to demonstrate companies listed on the Ghana Stock Exchange (GSE) comply with ISA 1 revised 2007 and 2011) and to contribute to the international debate about which choice is made by the companies about the total comprehensive income in the IFRS financial statement.

METHODOLOGY

The methodology is to use secondary data of annuals reports of companies that are listed and file their reports with the Ghana Stock Exchange (GSE). For achieving this goal, this study considers the following issues: (1) presentation of all items of income and expense in a single statement or in two separate statements; (2) a detailed level of the content in terms of number of items between revenue and net income (NI); (3) classification of expenses either by nature or by function; (4) number and type of intermediate margins. The results show some clear evidences.

Sample

The sample size for our analysis includes thirty four (34) companies out of the thirty six (36) listed on the Ghana Stock Exchange (GSE), who have filed their annual audited financial statements for 2013. Two companies: CFAO (Ghana) Limited, which filed its reports up to 2010 and MEGA AFRICAN Capital Limited, which just got listed in 2013 were excluded. We decided to use companies across all sectors due to the limited number of companies listed on GSE since its' launched in 1990. This therefore means that all financial institutions are included, this will be a departure from Agostini and Marcon (2013) who excluded the banks because according to them 'they were subjected to different regulation by the Legislative Decree 32/2005' when they investigated companies listed on the Italian Stock Exchange.

By listing on the GSE implies dealing with companies complying with excellent requirements as part of the listing requirement as stated under part 1 section 6 of the GSE 'Dealing Membership Rule (2006)' which states among others that 'a member shall file with the Exchange a copy of the annual reports required, under the Companies Code 1963 (Act 179) to be filed with the Registrar of Companies and any other document required by the Council to be filed, adhere to the principles of good business practice in the conduct of its business affairs'. With these requirements in mind companies will no doubt adhere to changes to meet international best practice as far as they do not contravene national requirements such as

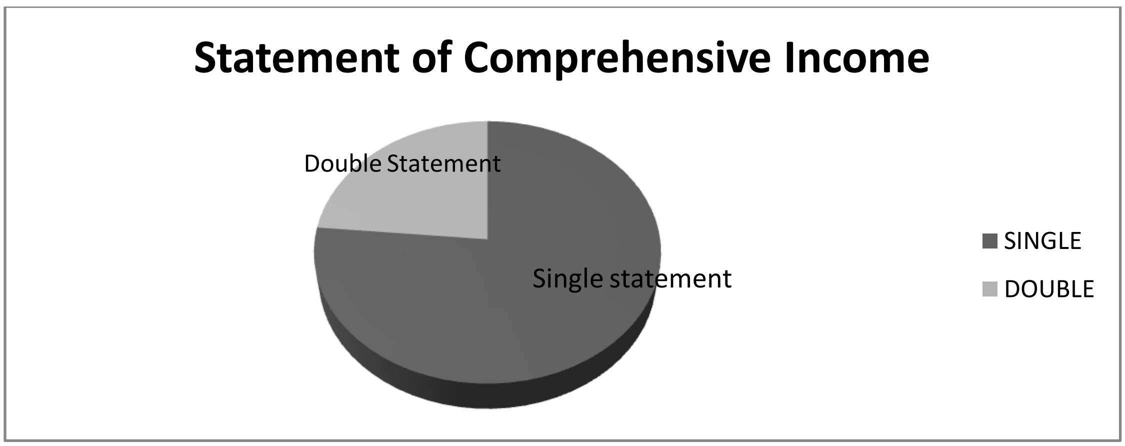
International Accounting standards (IASs) (in this case the framework for the presentation of financial statements as highlighted under IAS 1 revised 2007 and 2011).

EMPIRICAL RESULTS AND DISCUSSIONS

Single statement or two-statement

Ghanaian companies recognised other income in the statement of changes in equity. From figure 1 below, out of a total of 34 Ghanaian companies sampled, 28 (i.e.76%) use the single statement approach while only 8 (24% of the sample) opted for the two statement approach with majority of the corporate group being finance and Insurance companies. However, our analysis did not consider whether the choice of a single or double mode of presentation depends on the sign of the net income or profit figure.

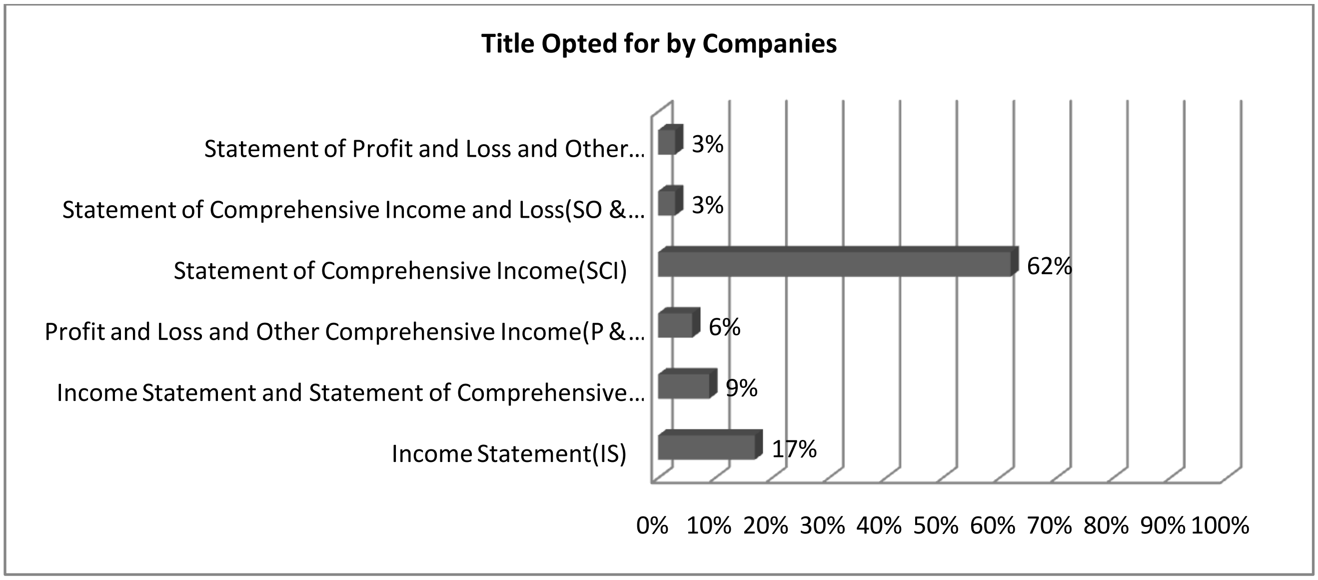
Figure 1: Statement of Profit and loss and OCI (or Two Separate Statement)



Titles (labels) used

With reference to the title be assigned to the statements of comprehensive, IAS 1 revised suggests that “profit or loss’ and or ‘other comprehensive income’ should be used but further states that other terms such as ‘other comprehensive income’, ‘profit or loss’ and ‘total comprehensive income’, may be used for example “statement of Comprehensive Income” and concludes that “an entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term ‘net income’ to describe profit or loss. It was not surprising therefore that our investigation find varied denominations assigned in the case of Ghana as illustrated in figure 2 below.

Figure 2: Title of Statement of Comprehensive Income

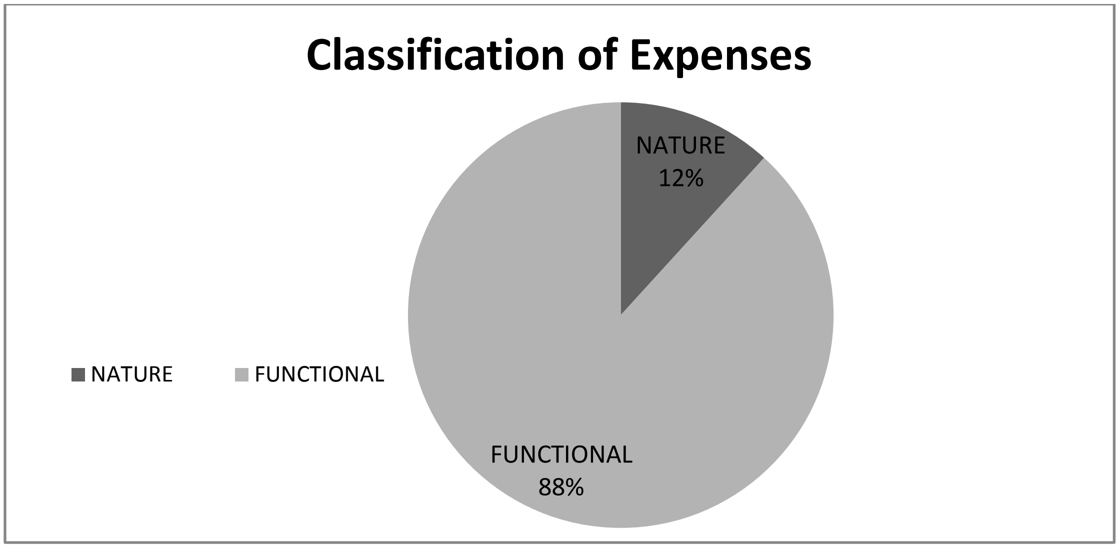


From the figure above, 21 out of the 34 companies analysed (i.e. 62 %) use the title 'statement of comprehensive income (SCI), 6 companies use 'Income Statement' (17%), 3 companies use 'Income statement and other comprehensive Income' (9%). Other titles used in our findings include; 'Statement of Operations and Comprehensive Income and Loss'', 'Statement of Profit and Loss and Other Comprehensive Income' and finally' Profit and loss and other comprehensive Income. However, we can conclude that majority of the companies in Ghana are gradually adopting the denomination stated in the IAS 1 i.e. 'SCI', which is a welcome news despite that the GSE is an exchange from a less developed market for securities and the fact that GNAS 1: Disclosure of Accounting Policies, uses the terms 'income statements' or 'profit and loss accounts' has clear titles designated for the financial statement. This again shows lots of harmonisation for Ghanaian companies in terms of their reporting standards.

Classification of expenses either by nature or by function

In our analysis of the expense classification, either by nature or function, we observe that out of the 34 companies sampled, 30 companies (representing 88%) used the functional classification while only 4 company (i.e. 12% of the sample) prefer the expense classification by nature as in the figure below. This is not surprising because 32% of the sample are financial institutions.

Figure 3: ‘Nature of expense’ and ‘Function of expense’

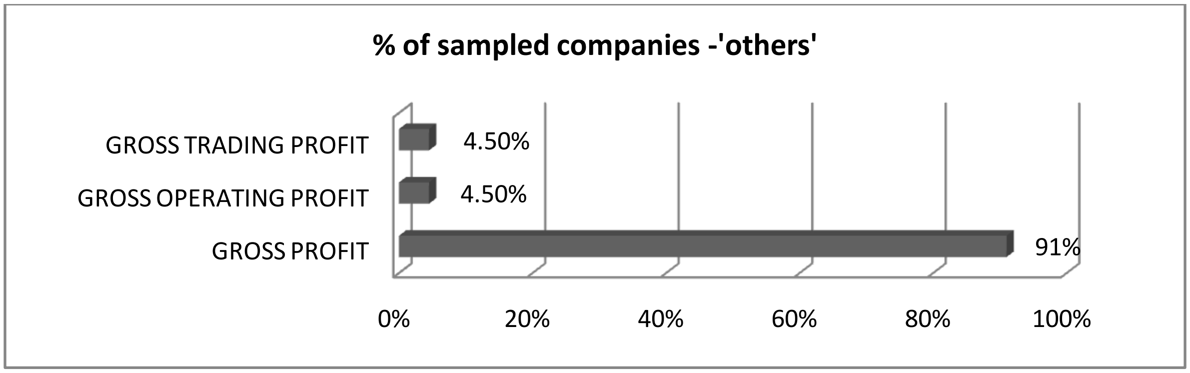


Apart from classifying either by nature or by function, the various expenses under the functional classification need to be disclosed in a note including depreciation, amortisation and employee benefit expense (IAS 1, paragraph 104). We therefore did a further analysis of the detailed financial statements to establish the extent of compliance with this first requirement of providing a disclosure in a note. The results reveal that out of the 30 companies which opted for the functional classification, 26 (i.e. 87 %) went ahead to disclose in full compliance with the requirement of IAS 1(revised), with only 4 companies (13%) not providing further disclosure.

Intermediate items between revenue and net income

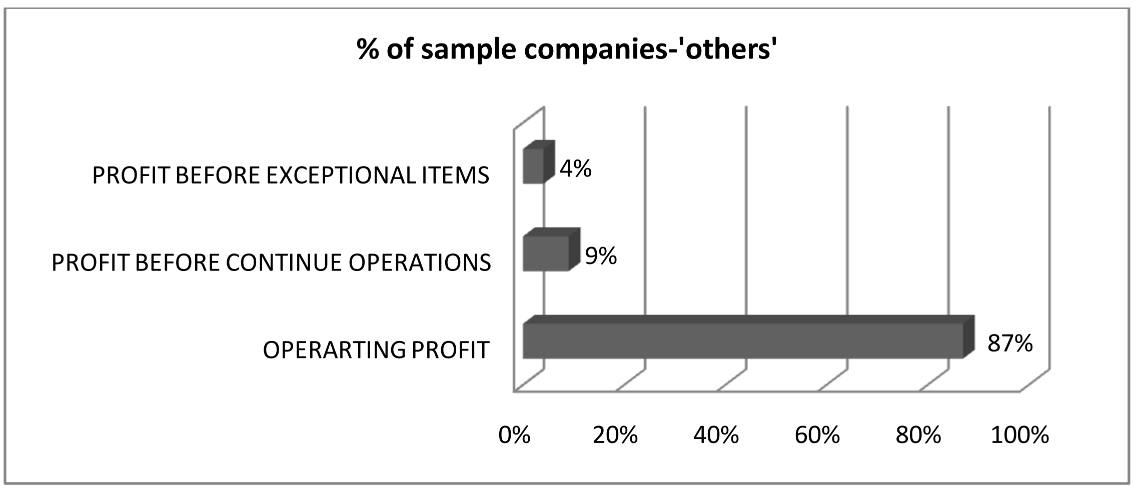
Motivated by the work of Agostini and Marcon (2013), we also examined the titles adopted between revenue and NI, by separating the sampled companies into finance and insurance on one side and ‘others’ (entities other either than finance and insurance) on the other hand. The separation becomes necessary due to the fact that the financial statements of financial institutions and insurance companies are quite different. It is however noted that all the 34 companies sampled (Financial and Non-financial) use the first denomination of “Profit before tax” or “profit before income tax”. Thus with regard to the second intermediate results ‘gross operating margin’ which is akin to EBITDA (earnings before interest, taxes and depreciation), which appear out of the ‘others’ investigated show that all 23 companies included it with three different titles as depicted in figure 5: 21 entities (representing 91%) use the name “gross profit”, one entity (4.5%) opted for “gross trading profit” and finally one entity (4.5%) also use “gross operating profit”.

Figure 4: Gross operating margin denominations



Additionally, under “operating income” the denominations adopted were only three: 20 companies (i.e. 87%) out of the 23 ‘others’ use the denomination ‘operating profit’, 2 entities (9% of the sample) used ‘profit before continuing operations’ and finally one entity (4% of the sample) used profit before exceptional items’ as shown in figure below.

Figure 5: Operating income denominations



Finally, we analyse the number of entries between revenue and net income (NI), and find that, out of the 34 sampled companies on the GSE, the minimum number of entries was 4 reported by one entity while the maximum number of entries was 16 in the report of a mining company. The modal number of entries were 5 and 7 reported by seven entities each, 6 entries were reported by 6 companies and 8 entries by 4 companies. One entity each reported entries for 9, 10 and 12, and finally, entries 11 and 13 were also reported by 3 and 2 entities respectively. The mean number of total entries is 8, while the median is 7 (see Table 1).

Table 1: Descriptive Statistics: the Number of Entries Between Revenues and NI

Range of variation in the number of intermediate results	Mode	Mean	Median	Minimum	Maximum
	5	8	7	4	16

CONCLUSIONS

This work analysed a sample 34 Ghanaian listed entities, to ascertain the extent of compliance with the CI statement format with IAS 1 revised (2007 and 2011).

With reference to the main innovation introduced by the 2007 revision of IAS 1, the results show that 76% opted for the single separate income statement approach and 24% entities adopted two statements approach. The possible reasons being Ghanaian companies are familiar to the single approach and perhaps the ease of use. Also, the approach was consistent with the typical measurement basis of Ghanaian accounting doctrine (GNASs and Company Code 1963) based on the historical cost antecedents, that is with the net profit/profit after tax method which place emphasis on performance of an entity.

Agostini and Marcon (2013) conclude that studies pointed out the tendency by entities to reduce the importance of CI as measure of performance by not adopting the single statement of CI. We conclude that Ghanaian companies still place greater emphasis on net profit and hence the wide adoption of this approach.

In respect of the denominations assigned to the income statements, the most interesting result is related to the fact that 62% of those entities adopting the term "statement of comprehensive income", as it is stated in IAS 1 revised (paragraph 10b), 17% adopting the title "Income Statement". The remaining entities adopting titles with varied titles. This implies Ghanaian entities as much as possible move towards convergence but at the same time still taking the flexibility allowed by IAS 1 by not opting for the double statement approach.

Regarding the number of items and subtitles presented in the statement of CI between revenue and NI, and the different types of intermediate margins used show a high diversity in accounting practice in Ghana.

On the issue of classification of expenses, 88% of the sample opted for functional classification, while 12% opted for the nature of expense classification. This is in sharp contrast to Agostini and Marcon (2013), who find that "89% of the listed Italian entities preferred the presentation of expenses by nature, while only 11% of the sample adopted the presentation of by function". Devalle (2010) also find that "50% of European companies chose the classification by nature and the other 50% by function". In Ghanaian case, the 88%, who use the functional classification, 87% of the entities went ahead to do further disclosure in the notes, while 13% did not. The reason for not providing this disclosure, as required by IAS 1 revised was not clear.

To conclude, the findings from this piece of work show some quite clear evidences. On the one hand, the number of line items and the number and the type of intermediate results presented in the sampled Ghanaian entities present a high degree of homogeneity of financial information for those listed on the GSE, which increases the comparability across entities. This contrasts with (Agostini & Marcon, 2012) who find high degree heterogeneity of financial information across entities. Hence the joint project of the standards setters (IASB and FASB) on financial statement presentation will provide a further impetus for Ghanaian companies in their quest to improve on reporting financial information. Since the goal of the project is to improve the comparability and understandability of financial statements by imposing a greater degree of standardization in the format, setting a meaningful model of disaggregation with some mandatory key line items.

On the other side, the choice of certain alternatives by most of the sampled entities (the single-statement approach, some denominations used for the income statements, and the classification by function) is likely to be influenced by the Ghanaian accounting tradition. Thus, it is recommended that Ghanaian entities should endeavour to implement the recommendations of standard setters (such as IASB framework) to make their financial information relevant, reliable, understandable and comparable to improve transparency and hence attract investors (both existing and potential).

LIMITATIONS OF THE STUDY

The main limitation of this research is the fact that we investigated the comprehensive income reporting choices of the entities listed on the GSE, a developing country exchange, considered not be active in terms of trading and small number of companies listed. Therefore, future research could focus on an extension of our analysis, including in the sample entities listed in other IAS/IFRS compliant countries such as the Nigerian Stock exchange.

Further research, other than enlarging the sample size, could also collect data from other Stock exchanges in the sub-region for comparative studies to be carries out to determine the extent to which developing countries are moving toward convergence. Finally, our work did not analyse the presentation of OCI items before or after the taxes effects and this could be an avenue for further research.

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