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Accounting for Equity and Other Comprehensive Income

Dual Reporting under U.S. GAAP and IFRSs

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EXECUTIVE SUMMARY

Accounting for Equity and Other Comprehensive Income: Dual Reporting Under U.S. GAAP and IFRSs, examines and compares the reporting of stockholders' equity as required by U.S. GAAP, SEC rules and regulations, and International Financial Reporting Standards.

APB Opinion No. 12, *Omnibus Opinion – 1967*, permits several alternatives for reporting changes in equity. FASB Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income*, allows alternative statements for reporting comprehensive income. SEC Regulation S-X requires a multi-step equity section of the balance sheet but allows an analysis of the changes in each caption of other stockholders' equity in the form of a schedule or a note. International Accounting Standard No. 1, *Presentation of Financial Statements*, used to adopt two alternative forms of equity reporting as part of the basic financial statements but finally moved to a single format of the Statement of Changes in Equity. SEC Form 20-F is in some way similar to both the IFRS formats and SEC Regulation S-X.

This Book thoroughly analyzes and discusses in detail the concepts of capital and reserves, retained earnings, additional paid-in capital, other comprehensive income, and the relevant accounting literature, proposed Exposure Drafts and Discussion Papers. It explains the rules and alternatives, describes the mechanics of applying them, and illustrates the formatting of the related statements through samples of company's annual reports.

The pros and cons concerning the different approaches followed by the respective standards, their purpose and rationale and how to reconcile them are discussed. The book also identifies grey areas and practical implementation issues, as well as the proposals currently under discussion to amend those standards. In addition it illustrates relevant joint efforts of the FASB and the IASB to converge domestic and international accounting standards. Finally, it deduces the major implications for companies and suggests planning points on how the pertinent standards inform the resolution of issues that practitioners are likely to encounter.

The book also includes an analysis of the diverse relevance and implementation of the concept of defense of legal capital and appropriations of retained earnings in certain jurisdictions, the accounting for each caption of the equity section of the statement of financial position, the items directly affecting retained earnings, the concept and mechanics of recycling, also including, among other items, foreign currency translation adjustment, unrealized gains or losses on available-for-sale investments, effective portion of gains or losses on cash flow hedge and on hedge of a net investment in foreign operations, the impact of pension accounting, revaluation surplus, and taxes on items recognized in other comprehensive income or directly in equity.

It then builds possible theoretical accounting models that explicitly or implicitly result from those requirements. Finally, it brings these suggestions together in a proposed overall approach to equity. This model gives a consistent response to the other comprehensive income dilemma, preserves the clean-surplus concept of income, develops from capital maintenance concepts, enhances the quality of earnings and the quality of equity, and at the same time does not violate jurisdictional corporate governance and defense of capital frameworks.

This Book treats the experience gathered first hand in an international context and becomes an indispensable tool for accounting and management decision making as well as academic study.