

## **REPORT ON 2017-2018 AFAANZ GRANT (Percy and Yao) - UPDATED MAY 2020**

### *(1) Names of Researchers:*

*Mid-Career Researcher:* Dr Majella Percy, (AFAANZ Membership #A1030129 )  
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### *(2) Project Title:*

Presentation prominence: Does it matter to non-professional and professional investors?  
The case of 'Other Comprehensive Income'.

### *(3) Updated Project Summary:*

The reporting of comprehensive income in a single statement is a controversial issue. 'Other Comprehensive Income' (OCI) consists mainly of changes in the fair value of various assets and liabilities, which are currently unrealised gains or losses. The question of interest to many academics and regulators is whether OCI is a performance measure. There are still significant differences between the FASB and the IASB on what items are reclassified (recycled) into Net Income (NI). Bradbury (2016) has called for experiments on the impact on recycling of components of 'Other Comprehensive Income', saying (p.53): (That) experimental research ...may be more tractable..."

### *(4) Funds **Granted**: \$5,000*

### *(5) Detailed Report on Expenditure of Funds against Budget Items, with variations explained*

- Expenditure on research assistant and coffee vouchers \$1,000 ( we did most of the data entry)
- \$4,000 was spent on a computer programmer to put the experiments in an online format.
- Explanation:
- Very little money was spent on a research assistant and coffee cards as we did most of the data entry and analysis ourselves.
- Unfortunately the data analysis provided very mixed results which were difficult to interpret. In this process we identified several areas for improvement in survey instruments.
- We have redesigned the experiments to enhance clarity of the questions being asked.
- As we still had most of the money left, we employed a computer programmer to put the experiments into an online survey which will be distributed and completed in the second half of 2020.

### *(6) Outcomes, for example, working papers, presentations and publications (give full details, including abstracts)*

- Presentation of working paper to staff at Griffith University and QUT in May 2019 from the pilot study

- “Which performance measure will you use? (or - Presentation prominence: Does it matter to non-sophisticated and sophisticated investors? The case of ‘Other Comprehensive Income’)

*(7) Future Intentions for this Project (give full details)*

*a. Conference submissions*

- Run the experiment online using professional and non-professional investors to achieve a larger and more diverse response rate.
- Submit working paper to AFAANZ 2021 conference

*b. Journal submissions*

- Submit paper to Accounting and Finance journal after corrections from presentations

*c. Grant applications*

- To submit an Expression of Interest for an ARC Linkage (possible partner, CPA Australia)

*d. Projects*

- Percy, M., and Yao, T. “Presentation salience and subjectivity of fair value measurements: Is there an impact on non-professional investor judgements?”

*(8) Summary of Outcomes and Benefits*

- We have gained a lot of experience in questionnaire design and experimental analysis.
- We will have a good data set after the experiments are run online using professional and non-professional investors.
- It is important that as academic accountants we reflect on how performance is reported especially with the possible inclusion of unrealised gains and losses.
- The global focus on integrated reporting requires an in-depth understanding of **how alternative performance measures may impact on the decision making ability of investors, both professional and non-professional**. These alternative performance measures can be statutory net profit (Net Income) or ‘Other Comprehensive Income’.
- The project will have important implications for standard setting as the reporting of performance is such a key issue.

## Idea

- The global focus on integrated reporting requires an in-depth understanding of **how alternative performance measures may impact on the decision making ability of investors, both professional and non-professional**. These alternative performance measures can be **statutory net profit (Net Income)** or **'Other Comprehensive Income'**.
- **Our three research questions are:**
  - » (1a) Does the use of the one-statement format of comprehensive income **significantly influence investor judgements** as compared to the two-statement format of consecutive statements of profit and loss and other comprehensive income **when making decisions about firm performance?**
  - » (1b) **Do non-professional investors** place a **greater weight on OCI** when it is displayed on the same page as NI in a **one-statement format?**
  - » (1c) **Can non-professional investors distinguish** between items that the IASB require to be **recycled through profit and loss** as opposed to items that are **not reclassified into profit and loss?**

Department of Accounting, Finance and Economics

This research focuses on how companies report performance. The concern is that allowing items of other comprehensive income (for example, changes in the fair value of available-for-sale financial assets) to be included with core business could **confuse non-sophisticated users of financial statements**.

- *How performance is reported is a fundamental issue in accounting. However, what is new is the inclusion in performance of items in OCI that include unrealised gains and losses from the extensive use of fair values. Previously, unrealised gains and losses were contained in the "Statement of Owners' Equity". The concern is that allowing items of other comprehensive income (for example, changes in the fair value of available-for-sale financial assets) to be included with core business could confuse non-professional users of financial statements. Some of these OCI items require significant judgement complexity to be able to understand them e.g., changes in the fair value of available-for-sale securities. Dilla et al., (2013) applied cognitive fit theory to argue that the influence of graphical information presentation formats is contingent on investor type and judgement complexity. They find that nonprofessional investors' current fiscal year earnings performance, earnings potential, and investment amount judgements are all influenced by graphical displays. However, professional investors are not influenced by graphical displays of pro forma (or non-GAAP) earnings information in assessing current year performance judgements. Interestingly, once the judgements are more complex, eg, assessing earnings potential and investment amount judgements, the professional investors are influenced by these graphical displays of these non-GAAP performance measures (ie, pro forma disclosures).*

- How accountants measure and report performance (profit) and what shareholders read in highlight statements may be very different. Managers take off large losses from the statutory profit (loss) figure to highlight non-GAAP (generally accepted accounting principles) at the front of the annual report and the reconciliation of these two figures may not be easy to find.

- Our research has demonstrated that non-sophisticated investors pay more attention to the first profit figures presented in the annual report. In so doing these investors may make less than ideal investment decisions. As well, the term "Other comprehensive income" can also be misleading.

