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VOLATILITY, VALUE RELEVANCE AND PREDICTIVE POWER OF COMPREHENSIVE INCOME

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ABSTRACT

Despite analysts' demands for (and standard setters' preferences for) a single statement of comprehensive income, both the IASB and the FASB have not been able to achieve this objective. Proponents of a single statement presentation argue that comprehensive income brings discipline to managers and analysts as it requires them to consider *all* factors affecting owners' wealth. Opponents argue that other comprehensive income items are transitory in nature, including them with core business earnings increases the volatility and reduces the predictive power of earnings. Thus, this thesis examines the volatility, value relevance and predictive power of comprehensive income relative to net income. Motivated by the concerns that the volatility of comprehensive income leads to the perception of increased risk, this thesis investigates the volatility and risk relevance of comprehensive income for a sample of non-financial United States (US) and New Zealand (NZ) firms. The findings show that comprehensive income is more volatile than net income. The findings also show that comprehensive income volatility is associated with market-based measures of risk (volatility of stock returns and beta). However, the incremental volatility of comprehensive income (over net income) is not associated with market risk and is not priced. Prior literature documents mixed evidence on the pricing of comprehensive income. The mixed results are attributed to the use of *as if* measures of comprehensive income, which introduces measurement error. This thesis uses *as reported* data from US and NZ firms and shows that comprehensive income is more value relevant compared to net income. However, net income is a better measure for predicting future operating cash flows and future net income. These results have important implications for the FASB/IASB in deciding whether to report comprehensive income in a single statement of performance.

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LIST OF ABBREVIATIONS

AAA	-	American Accounting Association
AICPA	-	American Institute of Certified Public Accountants
APB	-	Accounting Principles Board
ARB	-	Accounting Research Bulletin
ASRB	-	Accounting Standards Review Board
ASU	-	Accounting Standard Update
CAP	-	Committee on Accounting Procedure
EAA	-	European Accounting Association
FASB	-	Financial Accounting Standards Board
FRS	-	Financial Reporting Standard
FRSB	-	Financial Reporting Standards Board
GAAP	-	Generally Accepted Accounting Practice
IAS	-	International Accounting Standards
IASB	-	International Accounting Standards Board
IFRS	-	International Financial Reporting Standards
NZ IAS	-	New Zealand Equivalents to IAS
NZ	-	New Zealand
SFAC	-	Statement of Financial Accounting Concept
SFAS	-	Statement of Financial Accounting Standard
UK	-	United Kingdom
US	-	United States