THE MATERIALITY AND VOLATILITY OF COMPREHENSIVE INCOME

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ABSTRACT

The objective of this research is to investigate the materiality and volatility of comprehensive income for non financial firms in a non US environment. As the FASB and IASB are planning to require the reporting of comprehensive income in a single performance statement, it is important to resolve the issues surrounding the materiality and the volatility of comprehensive income.

This study investigates the materiality of comprehensive income and its components in relation to total comprehensive income and closing equity for 37 non financial companies listed on the NZX from 2003 to 2008. Moreover, the cumulative impact of comprehensive income on equity over time is investigated. Further the volatility of comprehensive income is compared to the volatility of net income. This study also investigates the impact of the change to NZ IFRS on comprehensive income

The results show that other comprehensive income is material in relation to total comprehensive income, but not in relation to closing equity. Moreover, some components of comprehensive income have a cumulative effect over time on closing equity. Comprehensive income is more volatile than net income. However, these findings are due to asset revaluations, which is the most dominant component of other comprehensive income. Though, all components of comprehensive income are significant for some firm year observations. Further, the move to NZ IFRS affects the materiality of some components of other comprehensive income and reduces the volatility of comprehensive income compared to net income.

This study provides evidence that other comprehensive income is material for non financial firms in a non US environment. This suggests that it should be displayed clearly in the financial statement in order to be taken into consideration by financial statement users. Further, this study provides evidence that the difference in volatility between comprehensive income and net income in New Zealand can be avoided by choosing the cost method when measuring assets after recognition.

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