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Labelling in financial reporting: An examination of “other comprehensive income” and non-professional investors' judgements

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Abstract

Other comprehensive income (OCI) is often confusing for financial statement users and the International Accounting Standards Board has proposed new labelling to improve its presentation. Using an experimental method, we find that OCI labelling influences non-professional investors' evaluation and judgements on financial performance. Non-professional investors place greater weight on OCI information presented with explicit labels when assessing both the current and future performance of a company. Our results indicate that improving the presentation of OCI information enhances their perceived relevance in investors' decision-making. The results have practical implications for standard setters and financial statement users.

KEYWORDS

accounting standard setting, financial statement presentation, judgement, non-professional investors, other comprehensive income

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1 | INTRODUCTION

The revised Conceptual Framework for Financial Reporting states, “The statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period” (IASB, 2018). Since 2020, the International Accounting Standards Board (IASB) has been seeking feedback on the exposure draft *General presentation and disclosures*,¹

¹The exposure draft *General presentation and disclosures* can be accessed via <https://www.ifrs.org/projects/work-plan/primary-financial-statements/ed-primary-financial-statements/>.

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intending to improve the communication of information in primary financial statements (such as the statement of profit or loss). The exposure draft identified an issue regarding the disaggregation of reported information, wherein investors may face difficulties interpreting a company's reported information when it lacks proper labels or explanations. Therefore, it is crucial to properly present information on financial performance,² as it is of great interest to existing and potential investors, shareholders, and creditors.

As an essential component of comprehensive income, other comprehensive income (OCI)³ has attracted both interest and controversy. Some researchers have critiqued the relevance of OCI, arguing that OCI items are often non-recurring, possess weak predictive power (Jones & Smith, 2011), and do not truly reflect fundamental changes in assets and liabilities (Black, 2016). The concern is that allowing OCI items⁴ (e.g., changes in the fair value of available-for-sale financial assets) to be included in core business performance may confuse non-professional users of financial statements, as some see OCI as a black box or “dumping ground” for controversial items (Rees & Shane, 2012). Further, some OCI items can be recycled subsequent to the profit or loss statement.⁵ Therefore, understanding OCI items requires significant interpretation and judgement by financial statement users.

The IASB emphasises that understanding an entity's financial performance for the period requires analysis of all recognised income and expenses – including those in OCI – and other information included in the financial statements (IASB Conceptual Framework, 2018, para. 7.16). Several research studies (e.g., Cao & Dong, 2020; Graham & Lin, 2018; Shi et al., 2017) have indicated that there has been an increase in investor use of OCI information. However, it is important to note that there are issues surrounding OCI, such as a lack of clarity in reporting requirements (Black, 2016) and a lack of understandability among users (Hodder et al., 2008; Tarca et al., 2008). Therefore, it is crucial to make OCI more useful for financial statement users. In response to the IASB's calls for better communication regarding OCI, this study aims to examine the effect of OCI labelling on non-professional investors' assessment of financial information.

We focus on nonprofessional investors because sophisticated users of financial statements (professional investors and analysts, etc.) and accounting professionals (AASB, CPAs) already have the assumed knowledge in evaluating OCI information so labels may not matter much to them. Professional investors only represent a part of financial statement users. However, non-professional investors are relevant to stock markets and hence an important stakeholder group that utilises financial information. Thus, we respond to the call of IASB/AASB (in the discussion paper ‘Better ways to communicate other comprehensive income’ published in November 2017) on how financial information can be better communicated to the larger group of users and improve the decision usefulness of accounting information.

The IASB released a discussion paper in 2017 that proposed additional changes to the labelling and ordering of OCI items (IASB, 2017). Specifically, the IASB proposed a new label named “remeasurements reported outside profit or loss” for those OCI items that are currently not recycled. The remaining OCI items should be labelled as “income and expenses to be included in profit or loss in the future”. In addition, the IASB proposed to add the subtotal line item “income after remeasurements reported outside profit or loss” to better distinguish between these two categories of OCI items. The IASB staff (IASB, 2017,

²The reporting requirements of financial performance are specified in the new IAS 1 *Presentation of financial statements* (2019).

³According to IAS 1 *Presentation of financial statements*, comprehensive income for the period equals to the sum of profit or loss and OCI, where profit or loss is “the total of income less expenses, excluding the components of other comprehensive income”. and OCI comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other (IFRS).

⁴The list of OCI components: <http://www.iasplus.com/en/standards/ias/ias1>.

⁵According to 2011 amendments to IAS 1, entities are required to group items presented in OCI on the basis of whether or not they will be subsequently recycled to profit or loss (reclassification adjustments).

p. 7) identified two advantages of these changes: (i) removing reference to OCI in the labels used in the statement(s) of financial performance, a term that is not well understood, and dividing OCI items into two clearly labelled categories, which may improve understandability and mean that information about OCI is less likely to be ignored by users; and (ii) the additional subtotal would exclude only those items of income and expense that will be reclassified to profit or loss in a later period (i.e., the subtotal would reflect a “clean-surplus”) and would also help to clarify the effect of OCI items on current and future profit. In our study, we do not test if proposed new labels are more understandable or clearer (as identified in the IASB staff paper). Instead, we use an experimental research design to determine the implications of the proposed labels on non-professional investors' information processing and judgements. Specifically, we explore whether the proposed labels for OCI items influence non-professional investors' judgement of a company's financial performance, including both present and future performance. In addition, we examine whether the impact of proposed labelling of OCI is influenced by a firm's operating performance (e.g., a negative net income).

We conducted an experiment⁶ using a 2×2 between-subjects design. We manipulated the labelling variable at two levels (proposed new labels for the OCI items versus existing labels for OCI items) and the financial position variable at two levels (positive versus negative net income). We recruited 128 non-professional investors to complete our online experiment. Participants were asked to evaluate the provided income statements of a fictitious company, and we recorded their judgements on various decisions.

Our study builds on a psychology-based framework developed by Maines and McDaniel (2000), which suggests the presentation format affects non-professional investors' information acquisition, evaluation, and weighting processes. We predict the proposed labels on OCI items will assist non-professional investors to better comprehend the impact of these items, improve the information processing of their evaluations, and encourage them to place greater weight on such information when making judgements. Consistent with our predictions, we find that non-professional investors are more likely to use OCI information to assess a firm's current and future performance when the OCI items are presented with the more explicit labels proposed by the IASB. Our findings support the psychology-based framework and suggest that the way OCI information is presented and labelled influences non-professional investors' evaluation and weighting of OCI information. Further analysis shows that the impact of proposed OCI labelling on investors' judgement is not affected by the company's financial position (i.e., negative net income).

Our study makes incremental contributions beyond the prior literature in two ways. First, empirically, our investigation extends prior studies on the presentation format of financial information. Early studies primarily investigate the reporting format of OCI items when they are presented in either the statement of changes in equity or the comprehensive income statement, taking into consideration the discretion allowed in previous accounting standards (Cahan et al., 2000; Chambers et al., 2007; Hirst & Hopkins, 1998; Lee et al., 2006; Lin et al., 2018; Maines & McDaniel, 2000). Further, a stream of studies examines whether two existing OCI presentation formats (i.e., single-statement versus two-statement formatting) lead to different judgements among users (Cao & Dong, 2020; Huang et al., 2021). Our study extends the research by investigating more specific presentation matters – the labelling of OCI items – and examining the impact of labelling on non-professional investors' decision-making. This aspect of the presentation of OCI information has not been addressed in existing research.

Second, the findings of this study improve the understanding of when investors are more inclined to interpret OCI information. Specifically, our research adds value by deepening

⁶Bradbury (2016, p. 53) has called for experiments on the impact on recycling of components of OCI, saying: “(That) experimental research ... may be more tractable”.

researchers' understanding of how presentation format influences investors' information processing (i.e., acquisition, evaluation, weighting, and judgement), and which formats are most effective at improving information processing and resulting decision-making. Our results suggest that non-professional investors appreciate the proposed labelling for OCI items and are more likely to provide further consideration to OCI information when evaluating a company's performance. Overall, well-presented information in the financial statements enhances a user's awareness about items outside profit and loss (P&L), and challenges preconceptions about OCI being difficult to understand.

Our study provides timely evidence that addresses the IASB's request for feedback on the proposed changes to the presentation of OCI information. Additionally, it offers valuable insights for accounting standard setters as they continue to work on improving the clarity of financial disclosures, and for researchers interested in understanding how alternative OCI reporting formats influence investors' judgements and decision-making. This study should also capture the attention of various stakeholders involved in financial analysis, including investors, financial analysts, publicly traded entities, and others.

The rest of the paper is structured as follows: Section 2 reviews the relevant literature and develops the hypotheses; Section 3 details our experimental design; Section 4 discusses our results; the final section (Section 5), addresses our conclusions and the limitations of our study.

2 | LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 | Presentation of OCI in financial statements

Existing research indicates that the presentation format of OCI information influences investors' use of that information.⁷ Maines and McDaniel (2000) examine OCI components presented in three different formats: (i) a pre-statement 130 format, where information is disclosed in footnotes; (ii) a statement of changes in equity; and (iii) a statement of comprehensive income. They find that non-professional investors are more likely to distinguish low and high OCI volatility conditions when OCI is presented in a statement of comprehensive income. Based on a sample of New Zealand firms, Cahan et al. (2000) find that OCI information presented in the statement of changes in equity does not provide incremental value relevance above comprehensive income. However, Chambers et al. (2007) show that OCI is significantly associated with returns only when reported in the statement of changes in equity. Lin et al. (2018) further find that the value relevance of OCI decreases when firms change the reporting format of OCI from the statement of stockholders' equity to a performance statement.

Research also suggests that whether OCI information is presented in a single statement along with net income or as separate statements influences investors' judgements.⁸ Cao and Dong (2020) find that the effect of the reporting location of comprehensive income (including OCI) on market pricing is more prominent for firms that switched to the two separate

⁷Prior to the adoption of ASU No. 2011-05, US firms could present comprehensive income in: (i) the statement of changes in equity; (ii) a separate statement of comprehensive income beginning with net income, ending with comprehensive income, and not immediately following the income statement; (iii) a separate statement of comprehensive income beginning with net income, ending with comprehensive income, and immediately following the income statement; or (iv) a single statement of comprehensive income beginning with revenue and ending with comprehensive income. Options (iii) and (iv) are currently allowed under ASU 2011-05 and IAS 1.17.

⁸Firms have the option of presenting comprehensive income either in a single statement of performance or in two separate but consecutive statements. In June 2011, the IASB issued "Presentation of items of other comprehensive income (Amendments to IAS 1)". Reporting entities can present profit or loss and OCI in either (i) a single statement of comprehensive income, or (ii) two statements with a statement displaying components of profit or loss (an income statement), and a second statement beginning with profit or loss and displaying the components of OCI (a statement of other comprehensive income).

statements than for firms that switched to a single statement. Huang et al. (2021) examine the value relevance of comprehensive income, net income, and OCI when presented under alternative approaches (a single statement versus two statements). They find that net income is less value relevant under the one-statement approach relative to the two-statement approach, while the value relevance of OCI is marginally enhanced. They also show that the increase in value relevance of OCI under the one-statement approach is driven by an increase in the value relevance of unrealised gains/losses on securitised assets.

Labelling is another important aspect of information presentation but has received limited attention in the accounting literature. Prior evidence indicates that how information is labelled can influence investors' information processing. For example, Hodge (2001) finds that unaudited information is perceived to be of higher credibility by investors if it is hyperlinked to audited information. Still, this association does not exist when the information is clearly labelled as audited or unaudited. Hodge et al. (2004) show that eXtensible Business Reporting Language (XBRL) enhances investors' information acquisition and evaluation ability because similarly tagged items signal to users the relativeness of information. Koonce et al. (2005) document that the different labels used by firms to describe their financial instruments lead to different perceptions of risk by investors. Recent studies examining the effects of financial information labelling on investment decision-making suggest that clearer labelling (such as short and identical descriptors, and comparable reporting) helps investors process complex accounting information (Anderson, 2023; Harris et al., 2021).

Prior studies show that comprehensive income is less value relevant than net income (Agnes Cheng et al., 1993; Ahmed & Takeda, 1995; Barton et al., 2010; Dhaliwal et al., 1999; Goncharov & Hodgson, 2011; Jones & Smith, 2011). As also noted by accounting standard setters, many investors perceive OCI as rather confusing.⁹ Others argue that some investors barely look at items presented below profit or loss. How to better communicate the OCI information and assist users in comprehending the information has long been on standard setters' working agenda. In November 2017, the IASB published a discussion paper and proposed different ways to make OCI more understandable for users of financial statements and to highlight the importance of considering OCI in their analysis.¹⁰ The IASB then called for more research and sought feedback on building on the 2011 amendments to IAS 1 by making the following *changes* to the labelling and ordering of the OCI items:¹¹ “(a) introducing a new label for those OCI items that are currently not recycled. The IASB posits that ‘remeasurements reported outside profit or loss’¹² would be a clearer description; (b) adding the subtotal ‘income after remeasurements reported outside profit or loss’ after the category in (a); and, (c) calling the remaining OCI items ‘income and expenses to be included in profit or loss in the future’”¹³

While OCI information is inherently complex and difficult to understand, it poses challenges for non-professional investors with limited accounting information processing capacities. Given the importance of the topic to standard setters and a wide range of investors, we

⁹Currently, IFRS do not require entities to recycle items such as actuarial gains/losses of employee benefits, financial instrument gains/losses taken to OCI, and revaluations of property, plant and equipment, and intangibles, etc. The IASB believes that reclassifying these items through earnings is redundant and provides limited additional benefits for financial statement users. Research studies show that investors are less likely to fully understand the impact of recycling items on financial performance (Badertscher et al., 2011; Dong et al., 2014; Hodder et al., 2008; Tarca et al., 2008).

¹⁰The discussion paper titled “Better ways to communicate other comprehensive income” can be accessed via: <https://www.ifrs.org/content/dam/ifrs/meetings/2017/november/iasb/primary-financial-statements/ap21c-better-ways-to-communicate-oci.pdf>.

¹¹In June 2011, the IASB published “Presentation of items of other comprehensive income (Amendments to IAS 1)” that changed the labelling and ordering of items in OCI by requiring items of OCI to be grouped into (paragraph 82A of IAS 1): those that will not be reclassified subsequently to profit or loss (i.e., not recycled), and those that will be reclassified subsequently to profit or loss (i.e., recycled) when specific conditions are met.

¹²This category would include, for example, gains on revaluations of property, plant and equipment, and remeasurements of defined benefit plans.

¹³This category would include, for example, gains on cash flow hedges and exchange differences on translation of foreign operations.

extend research in this area by examining the labelling effect of OCI information on investors' perceptions and judgements. This relationship has yet to be studied.

2.2 | Hypotheses development

Early studies (e.g., Hogarth, 1987) provide a conceptual model highlighting the critical factors that influence an individual's judgements and decisions, including personal traits, task environment, and actions. Concerning the task environment, the model suggests that the complexity of information and how information is presented considerably influence cognitive processes and how information is transferred into judgements (Hogarth, 1987; Maines & McDaniel, 2000). The inclusion–exclusion model also suggests that how information is categorised significantly impacts how information is processed by users (Schwarz & Bless, 2007). Fuzzier boundaries between two categories of items would promote assimilation because the closer the two categories are, the higher the likelihood of inclusion (e.g., two categories being treated similarly), whereas stronger boundaries and greater distance would lead to the opposite effect (Du et al., 2015).

Our study builds on a psychology-based framework developed by Maines and McDaniel (2000) to examine how the labelling of OCI information influences non-professional investors' processing of the information and resulting judgements. The framework suggests that presentation format affects non-professional investors' information *acquisition*, *evaluation*, and *weighting* processes. In the context of this study, the information acquisition process is the process of investors reading the OCI information and storing it in memory sufficiently well to recall where it appeared in financial statements. The information acquisition process is regarded as a prerequisite to the evaluation and weighting processes. The information evaluation process involves investors assessing the OCI information, and the information weighting process refers to the degree to which investors have considered the OCI information for judging company performance. If the information is highly weighted, it is more likely to influence investors' judgement of company performance.

Early research indicates that non-professional investors generally fail to identify the specific information required for financial analysis. They tend to have limited prior understanding of the importance of and/or relations between different items on financial statements (Bouwman, 1982; Maines & McDaniel, 2000). Thus, we expect, as shown by Maines and McDaniel (2000), non-professional investors to acquire the OCI information regardless of how it is labelled.

However, having read the OCI information, they will also perceive visible features, such as significant negative values, and then evaluate their importance. We expect that different labelling formats will affect the weighting placed on OCI information by non-professional investors. According to the IASB staff paper (IASB, 2017), the proposed labelling is expected to present complex OCI information in meaningful ways to help individuals better understand and process the information. With the proposed labels used in statements of financial performance, OCI items were separated into two explicitly labelled categories, and the terms (such as recycling) that are not generally well understood by non-professional investors were removed. The proposed new labels are expected to improve clarity and create an explicit boundary between the recycled OCI items and those not recycled. In addition, the proposed subtotal for the category of “income after remeasurements reported outside profit or loss” would exclude the income and expenses that will be reclassified to profit or loss in the future (i.e., the subtotal would reflect a “clean surplus”¹⁴),

¹⁴“Clean surplus” means that all income and expenses would be included in this subtotal either in the current period (for all income/expenses except those that will be reclassified at a future date) or future periods (for the income/expenses that will be reclassified at a future date).

which would also help to clarify the effect of OCI items on financial performance. Therefore, we expect these changes in labels to enhance non-professional investors' evaluations of the impact of OCI items on firm performance. We posit that non-professional investors are more likely to place a greater weight on the OCI information presented under the proposed new labels when evaluating firm performance. Accordingly, we hypothesise that:

H1. Non-professional investors place greater weight on OCI information presented with the proposed labels compared to the existing labels.

Our psychology-based framework indicates that differences in information weighting result in differences in performance judgements by investors (Maines & McDaniel, 2000). We further examine non-professional investors' judgements for two different performance measures: the company's current and future financial performance. Non-professional investors generally lack experience in financial analysis and their performance judgement decisions will infer the importance of OCI information from how it is presented. We argue that the proposed new labels emphasise the OCI components that influence firm performance. This, in turn, allows non-professional investors to be better informed about the tie between OCI items and current financial performance and the predicted impact on future performance. Therefore, we expect that OCI information with proposed labels will influence non-professional investors' assessments and judgements on current and future performance. We hypothesise:

H2a. Non-professional investors assess the company's current performance as lower when they receive negative OCI with proposed labels compared to the existing labels.

H2b. Non-professional investors assess the company's future performance as lower when they receive negative OCI with proposed labels compared to the existing labels.

In addition, we predict that a negative net income affects non-professional investors' perceptions of the importance of OCI information for judgements. Prior studies on earnings management show that managers try to avoid reporting losses because losses are often interpreted as negative signals by financial statement users (Jiang, 2008), leading to a negative market reaction. When a loss is reported in the income statement, investors are likely to pay more attention to the components of income statements to seek reasons for the reported loss (Lachmann et al., 2015). Therefore, we expect that the likelihood of using OCI information increases when negative net income is observed. With OCI information being presented with the proposed labels, we expect that non-professional investors will increase the weight placed on OCI items in forming their judgements of the company's current and future performance, leading to our last hypothesis:

H3a. When a company reports a negative net income as opposed to a positive net income, it will enhance the association between negative OCI and the assessment of the company's current performance under proposed labels compared to existing labels.

H3b. When a company reports a negative net income as opposed to a positive net income, it will enhance the association between negative OCI and the assessment of the company's future performance under proposed labels compared to existing labels.

3 | RESEARCH METHOD

3.1 | Experimental design

We conducted an experiment¹⁵ using a 2×2 between-subjects design. The label format variable was manipulated at two levels (proposed new labels for OCI items or existing labels for OCI items) and the financial position variable was manipulated at two levels (gain or loss of net income). Participants were randomly assigned to one of the four experimental conditions.

3.2 | Participants

We developed the materials in three stages. First, we tested the initial design with a student sample ($N=219$). Next, we conducted a further pretest online ($N=128$). Based on expert feedback and the preliminary findings, we revised the experimental materials resulting in the final design. The participants of the experiment were non-professional investors¹⁶ from the USA. We used a sample of US-based investors because the current US accounting standards (i.e., GAAP) do not mandate the use of the existing and proposed new labels for OCI items. Hence, US-based participants are less likely to provide biased responses because they are unfamiliar with either reporting format.¹⁷

We recruited the participants from Prolific – a widely used platform that facilitates research participation. The platform is used in various research disciplines, including economics (e.g., Marreiros et al., 2017), psychology (e.g., Callan et al., 2017; Stewart-Williams et al., 2021), marketing (e.g., Trump & Newman, 2020), and entrepreneurship (e.g., Engel et al., 2021).¹⁸ To ensure participants had the necessary knowledge and experience to complete the tasks, we selected the following conditions for the Prolific participants: (i) participants must have previously invested in the common stock of a company; and (ii) participants must have relevant experience in examining and reading a company's financial statements (e.g., through its annual report or SEC filings) as part of their evaluation for potential investments.

In total, 144 participants completed the survey. We removed seven participants because they had professional accreditation, such as Chartered Financial Analysts or Certified Tax Accountants. Since these individuals were likely to have more domain knowledge than average non-professional investors, they can be regarded as outliers that may bias the results. The average completion time for the experiment was 20 min and 8 s. Participants in the lower 25th percentile of average completion time (less than 5 min, 2 s) were removed from the analysis because it is unlikely they paid the necessary attention to complete the analysis of the financial statements. Thus, eight participants were removed due to insufficient completion time. One participant was removed because he/she failed the attention check. These sample selection procedures resulted in a final sample of 128 participants for the analysis.

¹⁵This study was approved by the University Human Research Ethics Committee at Queensland University of Technology (QUT Ethics Approval Number 2021000366). All participants provided written informed consent prior to participation in the study.

¹⁶We define non-professional investors as those who use financial information for personal investment. They are not securities broker-dealers, registered representatives, investment advisors, investment bankers, futures commission merchants, commodities introducing brokers or commodity trading advisors, money managers, or members of the Securities Exchange or Association or Futures Contract market. They are also not employed by a bank or an insurance company or an affiliate of either to perform functions related to securities or commodity futures investment or trading activity.

¹⁷The users from IFRS adoption countries may have adapted to the existing reporting format for OCI items since its implementation in 2011.

¹⁸See Palan and Schitter (2018) for a review and discussion of this subject pool (i.e., Prolific) for online experiments.

Demographic information of the 128 participants was collected at the end of the experiment (see [Table 1](#)). All participants had investment experience ranging from less than 1–42 years (mean: 10.13 years). Four general multiple-choice questions on accounting assessed domain knowledge (mean: 2.45; correct responses=61.25%) and four multiple-choice questions addressed OCI (mean: 2.21; correct responses=55.25%). Participant performance on these knowledge measures suggests that participants were not domain experts, which corresponds with our definition of non-professional investors. Males were overrepresented in the sample: 78.91% identified as males, 18.75% identified as females, and 2.34% as non-binary. The average age of participants was 39.41 years. The sample was highly educated, with 66.40% of participants holding a Bachelor's, Master's, or Doctorate degree.

3.3 | Treatment and dependent variables

We manipulated the format variable by presenting the OCI items using the existing and proposed new labels, respectively. Specifically, under the existing reporting format condition, OCI items were grouped under two labels: “Items that will not be reclassified subsequent to profit or loss” and “Items that may be reclassified subsequent to profit or loss”. Under the proposed reporting format condition, the OCI items that are currently not recycled were labelled with “remeasurements reported outside profit or loss” and the remaining OCI items were labelled “income and expenses to be included in profit or loss in the future”. Also, the proposed format added a subtotal “income after remeasurements reported outside profit or loss” after the first category. [Appendix 1](#) shows the treatments used in the experiment.

We manipulated the financial position – positive net income (NI) and negative NI. We achieved this by holding OCI constant at \$-19,288,000¹⁹ but varying profit or loss in the income statement. Both conditions had the same revenue of \$386,456,000. We varied the expense section, with a net income of \$28,887,000 for the positive condition and a net loss of \$-11,713,000 in the negative condition. Thus, we had a total comprehensive income of \$9599,000 in the gain condition and \$-31,001,000 in the loss condition (see [Appendix 1](#)).

The three dependent variables included the weight participants assigned to P&L and OCI information when evaluating the firm performance, participants' assessment and evaluation of the firm's current financial performance and future financial performance. Specifically, first, participants were asked to rate the financial performance of XYZ Ltd in 2020 (current financial performance) on a scale of 1–11, with 11 being “extremely strong”. Then, participants were asked to rate the perceived predictive value of P&L and OCI when evaluating the company's financial performance. Both measures were combined to calculate the OCI weighting based on the following formula:

$$\text{OCI weighting} = \frac{\text{Perceived predictive value of OCI}}{\text{Perceived predictive value of P\&L and OCI}}$$

Finally, we asked participants to make a judgement on XYZ Ltd's future performance. Participants were instructed to rate the expectation of XYZ Ltd's future performance on a scale of 1–11, with 11 being “strongly positive”.

¹⁹We picked a large number to ensure adequate contrast.

TABLE 1 Demographic information.

Variable	<i>N</i>	Min	Max	Mean	SD	Variance
Group 1 (existing labels, positive net income)						
Basic accounting knowledge score	34	1	4	2.62	0.89	0.79
OCI knowledge score	34	0	4	2.26	1.11	1.23
Age (in years)	34	18	73	41.62	14.50	210.36
Investment experience (in years)	34	1	40	11.29	9.53	90.88
Group 2 (existing labels, negative net income)						
Basic accounting knowledge score	35	0	4	2.49	1.09	1.20
OCI knowledge score	35	1	3	2.29	0.67	0.45
Age (in years)	35	19	71	36.86	12.76	162.83
Investment experience (in years)	35	0	33	8.03	8.36	69.97
Group 3 (proposed labels, positive net income)						
Basic accounting knowledge score	30	0	4	2.33	1.18	1.40
OCI knowledge score	30	0	4	2.23	1.14	1.29
Age (in years)	30	18	70	39.77	13.25	175.63
Investment Experience (in years)	30	2	42	11.50	10.92	119.22
Group 4 (proposed labels, negative net income)						
Basic accounting knowledge score	29	1	4	2.31	0.85	0.72
OCI knowledge score	29	1	4	2.03	1.02	1.03
Age (in years)	29	20	70	39.52	13.91	193.54
Investment experience (in years)	29	0	40	9.86	10.40	108.19
Total						
Basic accounting knowledge score	128	0	4	2.45	1.01	1.02
OCI knowledge score	128	0	4	2.21	0.99	1.02
Age (in years)	128	18	73	39.41	13.57	184.16
Investment experience (in years)	128	0	42	10.13	9.77	95.47
				<i>N</i>	Percentage	
Gender						
Male				101	78.91	
Female				24	18.75	
Non-binary				3	2.34	
Education						
No schooling completed				2	1.56	
High school graduate, diploma or the equivalent				30	23.44	
Trade/Technical/Vocational training				9	7.03	
Professional degree				2	1.56	
Bachelor's degree				59	46.09	
Master's degree				23	17.97	
Doctorate degree				3	2.34	

3.4 | Procedure and payments

We ran an online experiment using Qualtrics. In the experiment, we asked participants to assume the role of investors. Participants received general instructions on the experiment's procedures and were informed that the presented case was an Australian-based fictitious company called XYZ Ltd. The experiment started with a brief description of the company's background and its accounting practices. Then participants were randomly assigned to one of the four experimental conditions (see [Appendix 1](#)) and a respective income statement with data from the financial year 2020 (FY 2020) and the preceding period (FY 2019) was provided to participants.

After reviewing the provided information, participants made a series of decisions about XYZ Ltd. First, participants were asked to rate the financial performance of XYZ Ltd in 2020 (current financial performance). Then, participants were asked to rate the perceived predictive value of P&L and OCI when evaluating the company's financial performance. Finally, we asked participants to make a judgement on XYZ Ltd's future performance.

To determine whether participants acquired the information, we included three questions. The first question asked for the heading of the above-the-line item “Gain (loss) on property revaluation, net of tax”, while the second question asked for the heading above-the-line item “Exchange differences arising on translating foreign operations, net of tax”. Both questions provided four multiple-choice answers. The third question was binary (yes/no) and asked whether “Income after remeasurements reported outside profit or loss” was disclosed in the other comprehensive income.”

Participants finished the experiment by answering demographic questions. Participants were provided with a financial incentive of £2 to complete the experiment.

4 | RESULTS

To test our hypotheses, we conducted a chi-square test for the manipulation check and an analysis of covariance (MANCOVA) to compare the different treatment groups while considering the influence of covariances. We included the manipulated independent variables of label format and financial position. General accounting knowledge, OCI knowledge scores, and years of investment experience acted as covariances. Dependent variables were the weighting of OCI and P&L information, and the current and future performance of the company. The tests were computed using IBM SPSS 29.0. The descriptive statistics from the analyses are reported in [Table 2](#) and MANCOVA results are reported in [Table 3](#).

4.1 | Acquisition of OCI information

Following Maines and McDaniel's (2000) framework, we aimed to ensure that all participants read the OCI-related information, regardless of the presentation format used. Participants were asked to answer three questions regarding the OCI headings in the financial statement. Specifically, we asked participants to identify under which headings the two line items, “Gain (loss) on property revaluation, net of tax”, and “Exchange differences arising on translating foreign operations, net of tax” appeared, and whether the line item “Income after remeasurements reported outside profit or loss” was disclosed in the OCI. Answering all three questions correctly served as a manipulation check to control for the effect of the format variable.²⁰ Our

²⁰We did not include an additional manipulation check for the financial position.

TABLE 2 Descriptive statistics.

Label	Financial position	N	OCI weighting		Current performance		Future performance	
			Mean	SD	Mean	SD	Mean	SD
Existing label	Positive NI	34	0.23	0.14	8.94	2.04	9.21	1.65
	Negative NI	35	0.33	1.12	6.43	1.24	6.49	1.67
	Total	69	0.28	0.14	7.67	2.10	7.83	2.14
New label	Positive NI	30	0.42	0.08	5.40	1.10	5.10	1.30
	Negative NI	29	0.52	0.11	2.24	1.09	2.69	1.42
	Total	59	0.47	0.11	3.85	1.93	3.92	1.81

TABLE 3 MANCOVA results.

Effect type	Factor	Statistics	OCI weighting	Current performance	Future performance
Covariates	Accounting knowledge	<i>F</i>	1.026	0.598	0.000
		Partial eta squared	0.008	0.005	0.000
	OCI knowledge	<i>F</i>	0.656	3.963*	0.083
		Partial eta squared	0.005	0.032	0.001
	Investment experience	<i>F</i>	0.624	4.835*	0.007
		Partial eta squared	0.005	0.038	0.000
Main effects	Label format	<i>F</i>	83.923***	231.630***	204.171***
		Partial eta squared	0.410	0.657	0.628
	Financial position	<i>F</i>	20.832***	132.743***	85.933***
		Partial eta squared	0.147	0.523	0.415
	Label format × financial position	<i>F</i>	0.007	1.143	0.295
		Partial eta squared	0.000	0.009	0.002

Note: The dependent variables are: (i) the weighting of OCI based on the perceived predictive value of P&L and OCI; (ii) the financial performance of the company in the reporting period (on a scale of 1–11); and (iii) the financial performance of the company in future reporting periods (on a scale of 1–11). *** $p < 0.001$, * $p < 0.05$.

results showed that 13 out of 69 participants who received the version with the existing labels (18.84%) and seven out of 59 participants who received the proposed labels (11.86%) failed to answer all three questions correctly. However, a chi-square test of independence did not reveal a significant relationship between the format variable and the failure of the manipulation check $\chi^2(1, N = 128) = 1.17, p = 0.279$. Based on these findings, we conclude that both presentation formats successfully conveyed OCI-related information to more than 80% of the participants in both groups.²¹

²¹To assess the robustness of our results, we conducted an additional analysis excluding participants who failed the manipulation check. This analysis confirmed our findings, as none of the main effects, whether significant or insignificant, were altered. The only notable difference was that the covariate OCI knowledge, initially significant, became insignificant in relation to financial performance.

4.2 | Evaluation and weighting of OCI information

The findings of our study reveal that the manipulation of labels has a significant impact on the evaluation and weighting of OCI information in financial statements. Specifically, the results of the MANCOVA analysis (also see [Figure 1](#)) indicate that the OCI information presented with the proposed labels is weighted higher than the OCI information presented with the existing labels ($p < 0.001$).

Moreover, we requested the participants justify their weighting decisions in a written response. There is evidence that the group with the proposed new labels focused their assessment more on OCI and the related effects on firm performance. Specifically, 36 participants (out of 59) from the proposed new label conditions highlighted that they put higher weighting on OCI items when evaluating the financial performance, while only 16 participants (out of 69) from the existing label condition mentioned that they assessed OCI information. Below are three extracts from participants who received the proposed labels:

I considered it [P&L] to be relevant, although perhaps not as relevant as their OCI information, as it seemed to have less of an impact on their total financial performance. XYZ's OCI had a very large impact on their overall performance in 2020, so I considered it to be particularly relevant in my evaluation.

Other Comprehensive Income can show a more complete picture of the company, especially its impact on future performance, so it is more important to consider it when evaluating the company.

There are significant numbers in this section [OCI] apart from profit and loss and helps me make a better decision.

Thus, overall, the evidence presented infer that the manipulation had the intended effect of increasing the significance of OCI information. [H1](#) is supported.



Covariates appearing in the model are evaluated at the following values: Accounting Knowledge = 2.45, OCI Knowledge = 2.21, Investment Experience = 10.13

FIGURE 1 OCI weighting under label and financial position conditions.

4.3 | Performance assessment judgements

The MANCOVA results show a significant difference in performance assessment judgements between participants who received financial statements with proposed OCI labels compared to those with existing labels. Specifically, we found that the presence of proposed labels led to lower assessments of both current financial performance ($p < 0.001$) and future financial performance ($p < 0.001$) compared to the existing labels (also see Figures 2 and 3).

Notably, both treatment groups received financial statements reporting the same OCI loss, indicating that the manipulation of labels emphasised that loss, resulting in an overall worse perceived performance when the proposed OCI labels were used. These findings support our hypotheses H2a and H2b, which suggest that the use of proposed labels influences the assessment of a company's performance.

Upon analysing the written responses to participants' decisions, we observed that only four out of 69 participants under the existing label conditions related their responses to other comprehensive income (OCI) or specific OCI items. In contrast, a significantly larger proportion of participants (17 out of 59) under the new label conditions commented on either overall OCI or cited specific OCI items in their written answers. The differences between the two conditions (existing versus proposed labels) support our view that the new labels enable participants to make more informed decisions. Below are some examples of written responses from participants who received the proposed labels:

The company's gross profit went down significantly year over year. There were huge losses in the comprehensive income section.

They had a huge loss of Total Comprehensive Income in 2020.

Moreover, the participants who received the proposed labels also referred to specific OCI items (i.e., defined benefit pension plans, foreign exchange transactions, reclassifications of gains) in their written responses:

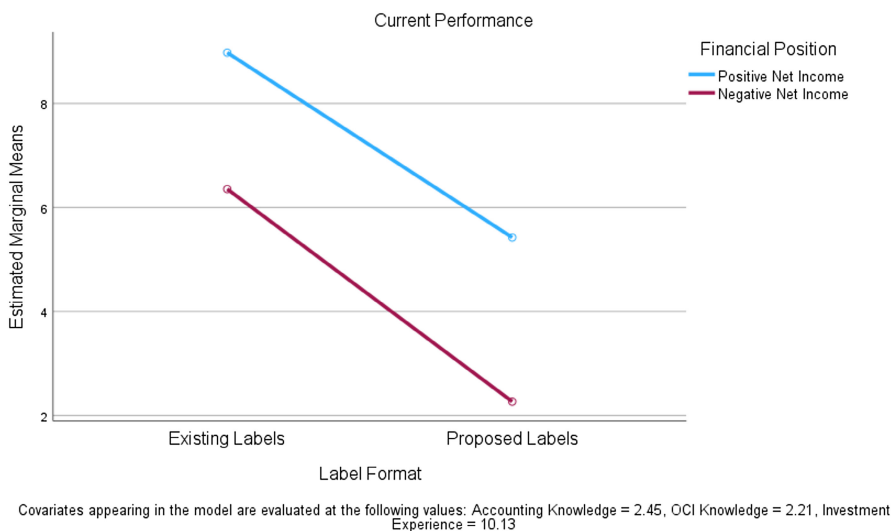


FIGURE 2 Assessed current performance under label and financial position conditions.

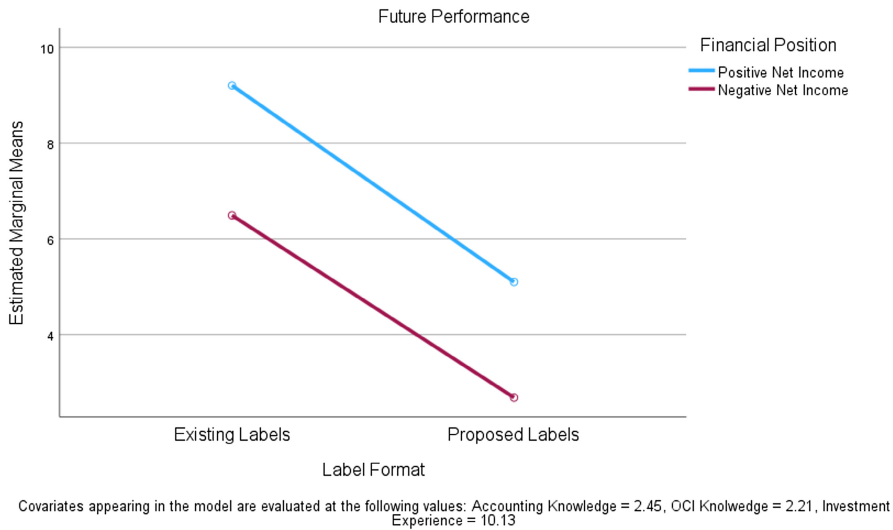


FIGURE 3 Assessed future performance under label and financial position conditions.

Comprehensive income shows a much greater degree of change, though negative as the exchange rate declined significantly in 2020.

There is some concern about exchange rate and actuarial negative valuations.

4.4 | Interaction between OCI labelling and net income

In Hypothesis 3, we posited that in instances where a company discloses a negative net income, investors would likely scrutinise OCI more attentively under the proposed labels than under the existing labels. This heightened scrutiny was anticipated to result in a more pronounced impact of negative OCI on the overall assessment of the company's performance. However, our empirical findings do not support the existence of this interaction effect, leading to the rejection of H3a and H3b.

One plausible explanation for these unexpected results may be rooted in the fact that, despite existing literature suggesting that loss reporting prompts increased investor attention to the components of income statements (Lachmann et al., 2015), this effect may not extend to OCI items. It is conceivable that the labelling of OCI items remains largely unaffected by the financial position. Additionally, our chosen timeframe for analysis may have influenced the observed outcome. Investor focus may vary across different time horizons (e.g., yearly intervals), and the immediate response to negative net income in one fiscal year may not necessarily translate into a sustained emphasis on OCI and its labels, thereby elucidating the absence of an interaction effect.

Moreover, it is plausible that the financial position only interacts with the OCI labels under consideration when the net income exceeds a specific threshold.²² In other words, the

²²From a methodological perspective, the insignificance of the interaction effect between net income and label condition could implicate that the net income manipulation was not strong enough as it did not signal that the company was in financial distress. Future research should explore if a certain threshold of negative net income has to be surpassed to trigger an interaction effect. Moreover, future studies should explore if an interaction effect emerges if the timeframe covers multiple years.

interaction may not follow a linear pattern. This raises the possibility that certain conditions or levels of financial distress trigger a discernible impact on how investors perceive and respond to OCI labels, thereby contributing to the non-confirmation of our hypothesized interaction effect.

5 | CONCLUSIONS

Accounting standard setters continue to deal with conceptual distinctions between components of net income and OCI. The IASB has been seeking feedback on the exposure draft *General presentation and disclosures*, which aims to improve how information is communicated in financial statements, including the statement of profit or loss. Our paper provides evidence on communicating information about financial performance that has been considered by the IASB (and Australian Accounting Standards Board). We focus on providing feedback on these issues from the IASB/AASB and investigate whether the labelling of OCI items impacts the judgements of non-professional investors.

Based on our experimental design, we find that: (i) non-professional investors are more likely to incorporate OCI information into their performance judgements when OCI items are presented with explicit labels; and (ii) non-professional investors place a greater weight on OCI information presented with such labels when evaluating a company's financial performance. The findings from our research can inform the IASB/AASB's standard-setting activities and strategic objectives. Specifically, our results provide strong support for the IASB to consider the labelling and ordering described in the IFRS staff paper (2017). Our results send important messages that standard setters should focus on improving the presentation of OCI items (e.g., labelling and ordering) and exploring other approaches to communicate information about OCI. Our research paves the way towards IASB/AASB initiatives on financial statement presentations and responds to the call from the IASB to establish better ways to communicate OCI information.

Our findings, however, should be interpreted in light of several limitations. First, based on our design, we are unable to capture which of the new labels is driving our results. Instead, we document the overall impact of the OCI label on non-professional investors' judgements. Second, our experiment does not employ multiple financial reporting periods to determine whether investors are able to properly avoid redundancy effects from recycling OCI items. Future research could explore whether investors adjust their decisions appropriately when recycling items are recognised in net income through reclassification adjustments. Third, the income statements in our experiment were simplified and may not contain all the information that investors normally use. For example, the footnote disclosures are not provided. Fourth, our participants recruited from Prolific may not fully represent the sample of non-professional investors worldwide, which could weaken the generalisability of our results. Moreover, future research could utilise technology such as eye-tracking to measure how existing and new OCI labels affect visual searches conducted by non-professional investors.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available on request from the corresponding author.

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APPENDIX 1

Demonstration of manipulations

Version one: Existing labels and positive net income

Statement of comprehensive income Dollars (\$)

Profit and loss	2020 (in thousands)	2019 (in thousands)
Revenue	386,456	338,374
Cost of sales	-335,854	-315,698
Gross profit	50,602	22,676
Other income	20,667	15,253
Distribution costs	-10,954	-9584
Administrative expenses	-20,045	-18,498
Other expenses	-5076	-3956
Operating profit	35,194	5891
Finance costs	-27,504	-23,685
Finance income	3488	2954
Share of profit of associates	30,089	27,345
Profit before tax	41,267	12,505
Income tax expense	-12,380	-3752
Profit for the year from continuing operations	28,887	8754
Loss for the year from discontinued operations	0	0
Net (loss)/income	28,887	8754
Other comprehensive income	2020 (in thousands)	2019 (in thousands)
Items that will not be reclassified subsequent to profit or loss		
Gain (loss) on strategic equity securities, net of tax	-5200	-7544
Gain (loss) on property revaluation, net of tax	-874	0
Actuarial gains (losses) on defined benefit pension plans, net of tax	-10,587	8305
Total items never reclassified to net income	-16,661	761
Items reclassified subsequent to net income upon derecognition		
Exchange differences arising on translating foreign operations, net of tax	-12,467	-2458
Cash flow hedges gains (losses) arising during the period, net of tax	-2065	6055
Reclassification of gains included in net income, net of tax	5500	1406
Share of other comprehensive income of associates	6405	-2699
Total items reclassified to net income upon derecognition	-2627	2304
Other comprehensive (loss)/income, net of tax	-19,288	3065
Total comprehensive (loss)/income	9599	11,819
Attributable to		
Owners of the company	14,683	15,438
Non-controlling interests	-5084	-3620
Total comprehensive (loss)/income	9599	11,819

Version two: Existing labels and negative net income
Statement of comprehensive income Dollars (\$)

Profit and loss	2020 (in thousands)	2019 (in thousands)
Revenue	386,456	338,374
Cost of sales	-375,854	-315,698
Gross profit	10,602	22,676
Other income	10,667	15,253
Distribution costs	-11,954	-9584
Administrative expenses	-21,045	-18,498
Other expenses	-9076	-3956
Operating profit	-20,806	5891
Finance costs	-27,504	-23,685
Finance income	3488	2954
Share of profit of associates	28,089	27,345
Profit before tax	-16,733	12,505
Income tax expense	5020	-3752
Profit for the year from continuing operations	-11,713	8754
Loss for the year from discontinued operations	0	0
Net (loss)/income	-11,713	8754
Other comprehensive income	2020 (in thousands)	2019 (in thousands)
Items that will not be reclassified subsequent to profit or loss		
Gain (loss) on strategic equity securities, net of tax	-5200	-7544
Gain (loss) on property revaluation, net of tax	-874	0
Actuarial gains (losses) on defined benefit pension plans, net of tax	-10,587	8305
Total items never reclassified to net income	-16,661	761
Items reclassified subsequent to net income upon derecognition		
Exchange differences arising on translating foreign operations, net of tax	-12,467	-2458
Cash flow hedges gains (losses) arising during the period, net of tax	-2065	6055
Reclassification of gains included in net income, net of tax	5500	1406
Share of other comprehensive income of associates	6405	-2699
Total items reclassified to net income upon derecognition	-2627	2304
Other comprehensive (loss)/income, net of tax	-19,288	3065
Total comprehensive (loss)/income	-31,001	11,819
Attributable to		
Owners of the company	-26,478	15,438
Non-controlling interests	-4523	-3620
Total comprehensive (loss)/income	-31,001	11,819

Version three: Proposed new labels and positive net income**Statement of comprehensive income Dollars (\$)**

Profit and loss	2020 (in thousands)	2019 (in thousands)
Revenue	386,456	338,374
Cost of sales	-335,854	-315,698
Gross profit	50,602	22,676
Other income	20,667	15,253
Distribution costs	-10,954	-9584
Administrative expenses	-20,045	-18,498
Other expenses	-5076	-3956
Operating profit	35,194	5891
Finance costs	-27,504	-23,685
Finance income	3488	2954
Share of profit of associates	30,089	27,345
Profit before tax	41,267	12,505
Income tax expense	-12,380	-3752
Profit for the year from continuing operations	28,887	8754
Loss for the year from discontinued operations	0	0
Net (loss)/income	28,887	8754
Other comprehensive income	2020 (in thousands)	2019 (in thousands)
Remeasurements reported outside profit or loss		
Gain (loss) on strategic equity securities, net of tax	-5200	-7544
Gain (loss) on property revaluation, net of tax	-874	0
Actuarial gains (losses) on defined benefit pension plans, net of tax	-10,587	8305
Income after remeasurements reported outside profit or loss	12,226	9515
Income and expenses to be included in profit or loss in the future		
Exchange differences arising on translating foreign operations, net of tax	-12,467	-2458
Cash flow hedges gains (losses) arising during the period, net of tax	-2065	6055
Reclassification of gains included in net income, net of tax	5500	1406
Share of other comprehensive income of associates	6405	-2699
Other comprehensive (loss)/income, net of tax	-19,288	3065
Total comprehensive (loss)/income	9599	11,819
Attributable to		
Owners of the company	14,683	15,438
Non-controlling interests	-5084	-3620
Total comprehensive (loss)/income	9599	11,819

Version four: Proposed new labels and negative net income
Statement of comprehensive income Dollars (\$)

Profit and loss	2020 (in thousands)	2019 (in thousands)
Revenue	386,456	338,374
Cost of sales	-375,854	-315,698
Gross profit	10,602	22,676
Other income	10,667	15,253
Distribution costs	-11,954	-9584
Administrative expenses	-21,045	-18,498
Other expenses	-9076	-3956
Operating profit	-20,806	5891
Finance costs	-27,504	-23,685
Finance income	3488	2954
Share of profit of associates	28,089	27,345
Profit before tax	-16,733	12,505
Income tax expense	5020	-3752
Profit for the year from continuing operations	-11,713	8754
Loss for the year from discontinued operations	0	0
Net (loss)/income	-11,713	8754
Other comprehensive income	2020 (in thousands)	2019 (in thousands)
Remeasurements reported outside profit or loss		
Gain (loss) on strategic equity securities, net of tax	-5200	-7544
Gain (loss) on property revaluation, net of tax	-874	0
Actuarial gains (losses) on defined benefit pension plans, net of tax	-10,587	8305
Income after remeasurements reported outside profit or loss	-28,374	9515
Income and expenses to be included in profit or loss in the future		
Exchange differences arising on translating foreign operations, net of tax	-12,467	-2458
Cash flow hedges gains (losses) arising during the period, net of tax	-2065	6055
Reclassification of gains included in net income, net of tax	5500	1406
Share of other comprehensive income of associates	6405	-2699
Other comprehensive (loss)/income, net of tax	-19,288	3065
Total comprehensive (loss)/income	-31,001	11,819
Attributable to		
Owners of the company	-26,478	15,438
Non-controlling interests	-4523	-3620
Total comprehensive (loss)/income	-31,001	11,819