

**Claudia Mihaela RĂPAN<sup>1</sup>***Bucharest University of Economic Studies, Bucharest, Romania***Viorel-Costin BANȚA<sup>2</sup>***Bucharest University of Economic Studies, Bucharest, Romania***Andreea ȘERBAN<sup>3</sup>***Bucharest University of Economic Studies, Bucharest, Romania***Andreia MANEA<sup>4</sup>***Bucharest University of Economic Studies, Bucharest, Romania*

## **Analysis of the Net Result and the Comprehensive Income: An Empirical Study of the Listed Companies on the Bucharest Stock Exchange**

**Abstract.** Stakeholders usually use net profit as an important indicator in assessing the performance of companies. In times of economic instability, there is a need for additional financial information, so the company's net profit and comprehensive income can be important in stakeholder decision-making. The article is devoted to analysing the relationship between earnings per share, comprehensive income per share and equity per share. The object of the study is companies whose shares were listed on the Bucharest Stock Exchange in 2019-2021. For this study, companies were selected that prepared financial statements per International Financial Reporting Standards (IFRS) and disclosed information about their comprehensive income. Financial entities were excluded from the analysis. Data were collected by querying the Thomson Reuters (Refinitiv) database, and comprehensive income data were collected manually from financial statements published by the companies on the Bucharest Stock Exchange website. The purpose of the study is to determine whether there is a significant effect of the share price on earnings per share, comprehensive earnings per share, and equity per share. The authors used the linear regression to identify the relationship between dependent and independent variables. The study results show that all variables significantly affect the share price. In particular, earnings per share have a more significant impact on the share price than comprehensive earnings per share, although this difference is insignificant.

**Keywords:** net profit, comprehensive income, other comprehensive income, share price, Bucharest stock exchange.

### **Suggested Citation**

Răpan, C. M., Banța, V.-C., Șerban, A., Manea, A. (2022). Analysis of the Net Result and the Comprehensive Income: An Empirical Study of the Listed Companies on the Bucharest Stock Exchange. *Oblik i finansii*, 2(96), 76-81. [https://doi.org/10.33146/2307-9878-2022-2\(96\)-76-81](https://doi.org/10.33146/2307-9878-2022-2(96)-76-81)

---

<sup>1</sup> **Claudia Mihaela RĂPAN**, Bucharest University of Economic Studies, Bucharest, Romania.

**ORCID 0000-0002-7502-9487**

<sup>2</sup> **Viorel-Costin BANȚA**, Bucharest University of Economic Studies, Bucharest, Romania.

**ORCID 0000-0003-1337-9374**

E-mail: viorel.banta@cig.ase.ro (*Corresponding author*)

<sup>3</sup> **Andreea ȘERBAN**, Bucharest University of Economic Studies, Bucharest, Romania.

<sup>4</sup> **Andreia MANEA**, Bucharest University of Economic Studies, Bucharest, Romania.

**ORCID 0000-0002-3181-220X**

## Аналіз чистого прибутку та сукупного доходу: емпіричне дослідження компаній, які котируються на Бухарестській фондовій біржі

**Анотація.** Чистий прибуток зазвичай використовується зацікавленими сторонами як важливий показник при оцінці діяльності компанії. У періоди економічної нестабільності виникає потреба в додатковій фінансовій інформації, тому показник чистого прибутку і сукупного доходу компанії може мати важливе значення при прийнятті рішень стейкхолдерами. Стаття присвячена аналізу співвідношення між прибутком на акцію, сукупним доходом на акцію та власним капіталом на акцію. Об'єктом дослідження є компанії, акції яких котирувалися на Бухарестській фондовій біржі в період 2019-2021 рр. Для цього дослідження були відібрані компанії, які склали фінансову звітність відповідно до Міжнародних стандартів фінансової звітності (МСФЗ), а також додатково розкрили інформацію про свій сукупний дохід. Фінансові суб'єкти були виключені з аналізу. Збір даних проводився за допомогою запиту до бази даних Thomson Reuters (Refinitiv), а дані щодо сукупного доходу були зібрані вручну з фінансових звітів, опублікованих компаніями на веб-сайті Бухарестської фондової біржі. Мета дослідження – визначити чи існує значний вплив ціни акції на прибуток на акцію, сукупний прибуток на акцію, а також власний капітал на акцію. Авторами використано метод лінійної регресії, щоб виявити зв'язок між залежною та незалежною змінними. Результати дослідження свідчать, що всі змінні істотно впливають на ціну акцій. Зокрема, прибуток на акцію має більший вплив на ціну акції порівняно зі сукупним доходом на акцію, хоча ця різниця є незначною.

**Ключові слова:** чистий прибуток, сукупний дохід, інший сукупний дохід, ціна акцій, Бухарестська фондова біржа.

### INTRODUCTION

The globalization process has contributed to the need of preparing and disclosing financial information relevant for users of financial statements. Financial information is used by a wide range of users for making decisions. In order to meet their needs, the information must meet certain qualitative characteristics. The characteristics can be divided as follows: fundamentals and amplifiers. The first category (fundamental characteristic) includes the value relevance of the information, a characteristic that highlights the predictive or confirmatory nature of information (IFRScommunity, 2021).

In order to conclude their investment decision on stock exchange, many users found as relevant the information provided by comprehensive income and thus this should be disclosed in an understandable and comparable way for the users in order to allow the assessment of projections on future cash flows (Suprayogi and Barokah, 2019).

The next fundamental characteristic is fair presentation. This highlights the importance of the integrity, neutrality and error-free nature of the financial information. Materiality, part of the fundamental characteristics, is relevant for the disclosures included in the financial statements. Thus, in the financial statements all relevant information should be disclosed in order not

to mislead by omission or incorrect disclosure the users that in other conditions would change their decisions. Comparability is included in the second category (amplifiers), which is the ability of information to be compared from a temporal and spatial perspective.

Another amplifying characteristic is verifiability, which implies the possibility for information to be evaluated by different people who have the necessary skills so as to confirm its fair presentation and correctness. Financial information must also be timely and understandable so that it is available in due course and clearly disclosed (IFRScommunity, 2021).

IAS 1 states that entities shall disclose an analysis of expenses by nature or by function. The presentation of expenditure by nature responds to the information needs for the calculation of macroeconomic indicators, while the presentation of expenditure by function implies professional reasoning for achieving the allocation of costs by functions (production, administrative, marketing, distribution, research).

The scope of the study is to conclude if there is a positive and significant influence of earnings per share, comprehensive income per share and equity per share on the share price on the Romania Stock Exchange for the period 2019-2021.

**LITERATURE REVIEW**

The comprehensive income proved to be more relevant and used by users in their decisions and their projected cash flows (Jaweher, 2013) compared to the net result that does not fully disclose the performance of the company, especially in periods of economic instability. But, on emerging markets, in their study Bataineh and Rababah (2016) highlighted the fact that the net result has a higher forecasting capacity than the other comprehensive income.

Traditionally, the net result was considered the important indicator in terms of performance evaluation, but lately it has proved to be an insufficient indicator to meet the information needs of users (Hodgson and Nechita, 2013). The comprehensive income is becoming a significant indicator for the companies' performance (Gazzola and Ameliob, 2014) and is much relevant in terms of the capital market reality than the net result (Frendzel and Szychta, 2013).

The globalization process has caused companies to be increasingly involved in foreign currency transactions, so gains and losses resulting from conversions of foreign operations are included in the category of other comprehensive income. The accounting treatment of these transactions is determined by IAS 21, which makes them divided into monetary and non-monetary items. Foreign exchange gains and losses related to non-monetary items that are classified in other comprehensive income will be disclosed in other comprehensive income (IASB, 2022). The accounting treatment of these transactions is determined by IAS 21. Also included in this category are gains or losses related to monetary elements which are based on net investment in foreign transactions (Muthupandian, 2009). Another comprehensive income item is related to the increase in the value of an asset (revaluation reserve). Additionally, IFRS 9 requires that financial assets are subsequently measured at amortized cost or those measured at fair value by including gains or losses as other comprehensive income or by disclosure in the profit and loss account.

Also classified as other comprehensive income by IFRS 9 is the impact generated by hedging accounting. Its purpose is to highlight in the financial statements the effect of operations relating to the risk management of a company using financial instruments. They may have an impact on: profit or loss of the period, or other comprehensive income, such as investments in equity instruments for which a company has decided that changes should be presented at fair value through other comprehensive income (IASB, 2022).

Actuarial gains and losses (IAS 19) are recognized directly as other comprehensive income, which may result in a decrease in the volatility of the profit and loss account (IASB, 2022).

The way the companies' annual result is disclosed based on IFRS requirements, has led to many contrary views. Some of the users of the financial statements, are of the opinion that a new, more complex way of disclosing the result was not necessary. Additionally, the comprehensive income was identified as being more volatile than the net result, because the comprehensive

income is related to other comprehensive income which are requiring in certain cases significant professional judgment (Khan and Bradbury, 2014). In other studies, was concluded that the net result is more relevant than the comprehensive income, even if the components of the comprehensive income disclosed additional information besides the accounting elements such as the net result and the book value (Mechelli and Cimini, 2014). On the other hand, Gazzola and Amelio (2014) mentions that the comprehensive income is an important indicator in performing performance evaluation.

The literature included also many studies related to the correlation between the investors' behavior impacting the share price and the correlation with the net result, comprehensive income and other comprehensive income. Similar conclusion was mentioned by Fadlallah (2022) that carried out a study in the case of listed companies in Egypt, concluding that the significant relationship between the disclosure of the comprehensive result and the performance of the stock markets is due to the information provided by the comprehensive income that leads to a better understanding of the performance of companies and increase in investor confidence.

The study conducted by Pășcan (2014) for listed companies in Romania highlights the fact that there is a greater correlation between the share price and the net result compared to the comprehensive income. Instead, the work of Mironiuc et al. (2015) highlighted the importance of both, net result and comprehensive income, in correlation with the share price. Biddle and Choi (2016) concluded that the comprehensive income is more useful in the case of cash flow prediction.

Yao et al. (2022) concluded in the study conducted that non-professional investors considered relevant the information related to other comprehensive income, especially when a company reports loss.

**RESEARCH METHODOLOGY**

The study is based on a sample of companies listed on the Bucharest Stock Exchange (BSE) with the financial statements with the year ended during the period 2019-2021. The sampled companies prepared the financial statements in accordance with International Financial Reporting Standards (IFRS) and additionally disclosed and reported the comprehensive income. Financial entities were excluded from the analysis. This resulted in a sample of 141 company – year observations. The data collection was done through the query of the Thomson Reuters data base (Refinitiv) and for the variable comprehensive income the data was collected manually from the financial statements published by the companies on the BSE website.

Additionally, we used in our research the computed variables:

- Comprehensive income per share: resulted by dividing the comprehensive income per number of shares.
- Equity per share capital: resulted by dividing the equity per number of shares.

In the used data base, the earning per share was already available computed as company's net profit /



Table 3

## Influence of comprehensive income per share and equity per share

Source	SS	Df	MS	Number of obs	=	141
				F(2, 138)	=	4384.98
Pattern	271010.913	2	135505.457	Prob > F	=	0.0000
Residual	4264.50342	138	30.9021987	R-squared	=	0.9845
				Adj R-squared	=	0.9843
Total	275275.417	140	1966.25298	Root MSE	=	5.559
Price	Coefficient	Std. err.	t	P> t	[95% conf. range]	
CIS	6.22383	0.4091172	15.21	0.000	5.414882	7.032779
SE	0.5030073	0.0284244	17.70	0.000	0.4468036	0.559211
_cons	0.140782	0.4840181	0.29	0.772	-0.8162687	1.097833

In Table 3 is the summary of the model from the second hypothesis developed using linear regression. F is 4384.98 that means the independent variables: comprehensive income per share and equity per share explain significant the share price (the dependent variable). The correlation with the variables is positive.

The model developed proves to be significant statistical at all his levels considering the 99% confidence level obtained by having  $Prob > F = 0.0000$ . Thus, the null hypothesis can be rejected that the share price is not dependent to the independent variables mentioned above. The two independent variables together have a significant influence on the share price, with  $R^2$  having a value of 98.45%.

The value of 6.22 of the coefficients relating to comprehensive income per share indicates that that variable influences the evolution of the share price to a greater extent than the equity per share to which a coefficient of only 0.50 corresponds.

### CONCLUSIONS

The disclosure of comprehensive income has given many differing views since its presentation in IAS 1. While some authors argue that the net result is more useful for users, there are also studies that claim that the comprehensive income brings a significant adding value. The results of the analysis carried out, reveal that the earning per share has a greater influence on the share price compared to the comprehensive income per share, but the difference between their percentages is not significant. Thus, it can be concluded that both are important for investors.

The limits of the research are represented by the fact that the sample included companies listed in Romania. The following research could extend the analysis to other companies listed on European Stock Exchange markets or for an extended period of time.

### 4 References

- Bataineh, A., Rababah, A. (2016). Comprehensive income and net result, which is more powerful in predicting future performance. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 6(2), 114-120. <http://dx.doi.org/10.6007/IJARAFMS/v6-i2/2077>
- Biddle, G., Choi, J.-H. (2006). Is Comprehensive Income Useful?. *Journal of Contemporary Accounting & Economics*, 2(1), 1-32. [https://doi.org/10.1016/S1815-5669\(10\)70015-1](https://doi.org/10.1016/S1815-5669(10)70015-1)
- Fadlallah, A. S. (2022). The effect of comprehensive income disclosure on the performance efficiency of the Egyptian stock market – A survey study. *Journal of Financial and Business Studies*, 32(1), 30-53. DOI: 10.21608/mosj.2022.230235
- Frendzel, M., Szychta, A. (2013). Comprehensive Income Reporting: Empirical Evidence from the Warsaw Stock Exchange. *Challenges for finance and accounting*, 82(4). Retrieved from <https://www.socsc.ktu.lt/index.php/Social/article/view/6603>
- Gazzola, P., Amelio, S. (2014). The Impact of Comprehensive Income on the Financial Ratios in a Period of Crises. *Procedia Economics and Finance*, 12, 174-183. [https://doi.org/10.1016/S2212-5671\(14\)00333-5](https://doi.org/10.1016/S2212-5671(14)00333-5)
- Hodgson, A., Nechita, E. (2013). Calculul rezultatului global în conformitate cu IFRS: Risc ridicat de audit pentru auditorii din România. *Audit Financiar*, 11(9), 28-36. <http://www.revista.cafr.ro/ArticolRO?CodArticol=9285>
- IASB (2022). [www://eifrs.ifrs.org](http://www.eifrs.ifrs.org)
- IFRS community (2021). <https://ifrscommunity.com/knowledge-base/ias-1-presentation-of-financial-statements/>
- Jawerher, B. (2013). Quality of Net result vs. Total Comprehensive Income in the Context of IAS/IFRS Regulation. *International Journal of Finance & Accounting Studies*, 1(2), 17-34. 10.7575/aiac.ijfas.v.1n.2p.17
- Khan, S., Bradbury, M. (2014). Volatility and risk relevance of comprehensive income. *Journal of Contemporary Accounting & Economics*, 10(1), 76-85. <https://doi.org/10.1016/j.jcae.2014.01.001>
- Mechelli, A., Cimini, R. (2014). Is Comprehensive Income Value Relevant and Does Location Matter? A European Study. *Accounting in Europe*, 11(1), 59-87. <https://doi.org/10.1080/17449480.2014.890777>

- Mironiuc, M., Carp, M., Chersan, I. C. (2015). The Relevance of Financial Reporting on the Performance of Quoted Romanian Companies in the Context of Adopting the IFRS. *Procedia Economics and Finance*, 20, 404-413. [https://doi.org/10.1016/S2212-5671\(15\)00459-1](https://doi.org/10.1016/S2212-5671(15)00459-1)
- Muthupandian, K. S. (2009). IAS 21 The Effects of Changes in Foreign Exchange Rates – A Closer Look. *The Management Accountant*, 44(10). Retrieved from <https://mp.ra.ub.uni-muenchen.de/id/eprint/33566>
- Ohlson, J. (1995). Earnings, book values, and dividends in security valuation. *Contemporary Accounting Research*, 18(1), 107-120. <https://doi.org/10.1111/j.1911-3846.1995.tb00461.x>
- Pășcan, I. D. (2014). Does Comprehensive Income Tell us more about an Entity's Performance Compared to Net result? Study on Romanian Listed Entities. *Procedia Economics and Finance*, 15, 1077-1082. [https://doi.org/10.1016/S2212-5671\(14\)00559-0](https://doi.org/10.1016/S2212-5671(14)00559-0)
- Suprayogi, B. S., Barokah, Z. (2019). Does Comprehensive Income Predict Future Cash flow Better Than Net result?. *The Indonesian Journal of Accounting research*, 22(2), 287-304. <https://doi:10.33312/ijar.469>
- Yao, D., Qu, X. & Kummer, T. (2022). Presentation prominence: Does it matter to non-professional investors? The case of 'Other Comprehensive Income'. *AASB Research Centre Working*, 22-02. <http://dx.doi.org/10.2139/ssrn.4071431>