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Would comprehensive income provide investors with a better vision than net income? -

An empirical analysis based on China's public IT service companies

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ABSTRACT

This paper compares the value-relevance of net income and comprehensive income of the Chinese IT service industry after a major accounting standard revision in 2014. Financial information of model companies at Shanghai and Shenzhen A-share market during the period of 2014-2016 is adopted as sample data. Ohlson's price model and return model are used to test the empirical result of the correlation of net income and comprehensive income with stock price and stock return. It is found that both net income and comprehensive income are value-relevant during the dedicated period; The explanatory power of the return model is greater than the price model in terms of the change in stock price and stock return. The value-relevance of comprehensive income in the income statement doesn't significantly distinguish itself from that of net income.

Key words: *Comprehensive Income, Net Income, China, IT Service Industry*

JEL Classification: *M40*

I: INTRODUCTION

Financial reporting standards should attempt to enhance the usefulness and value-relevance of financial information provided to investors and other users (Nejad et al., 2018). The usefulness and value-relevance of financial information are enhanced when it is comparable, verifiable, timely and understandable (Conceptual Framework for Financial Reporting 2011). Value-relevant financial information helps investors evaluate the operational performance and prospect of the business and hence improve their decision-making capacity in the ever-changing financial market. As a result of its importance, how certain financial information would provide investors with a better vision has been sparking various ideas among scholars all around the world. According to Ohlson (1995), financial information is viewed as useful and value-relevant to financial market investors if it proves a significant correlation with market values such as stock prices and stock returns. Upon that, investors' reaction to buying or selling the company's stock highly depend on the usefulness and value-relevance of the provided financial information. Therefore, it's of crucial importance for investors to have a better and deeper understanding of the usefulness and value-relevance of some financial indicators.

One of the most important financial indicators lies in the income statement, Net Income, which is commonly used by investors to evaluate a company's performance. Net income presents the consequences of the ordinary and regular business activities for the current period while non-operating or non-recurring items are excluded from it. However, as Pascan (1997) points out that the exclusion of these items from the net income would sometimes influence the evaluation of the business performance significantly, especially when those non-operating

or non-recurring items are more accountable for a larger portion of business events than the business has been through in a certain fiscal year. These non-operating or non-recurring items include unrealized gains and losses from available-for-sale securities held as investments and revenues and expenses yet to be realized. Those items will be placed into the income statement only when they finally are perceived as realized gain or loss, which implies that even though the unrealized gain or loss fluctuate or vary greatly due to some market activities, as a matter of fact, they still won't appear in the income statement even though it may indicate an evident value change of the business way before its occurrence. As a result, this loophole could be taken advantage of when managers of the business want to commit a financial statement fraud and innocent investors could suffer a huge loss from this kind of manipulative activity on the income statement. To protect themselves from their vulnerable position in the financial market, investors must take all value-relevant activities and circumstances into consideration before they make any investment decisions. Therefore, the needs for a new financial indicator become popular among the mass investors back to the 1980s. Accordingly, having a more healthy and sound financial market environment would help regain the trust of the mass investors, and thus a contemplation of comprehensive income begins to germinate in the mind of accounting standards setters when the accounting profession and the users of financial information have realized that there are certain flaws in the income statement and net income when the effect of exclusion or unreported items in the income statement are entirely ignored. The omission of these items in the income statement could sabotage the transparency of the financial information and consequently blur the investors' vision when they need to make an important decision in the financial market but have a full dependence on a possibly irrelevant source.

(Nejad et al., 2018; Devalle & Magarini 2012; Kanagaretnam et al 2009).

The above arguments finally lead to the birth of the statement of comprehensive income, it is born greatly due to the doubt aroused on the sufficiency of net income as the primary financial indicator. Statement of Financial Accounting Standards No. 130 (SFAS 130) issued by the Financial Accounting Standards Board (FASB), which details a new reporting statement called the statement of comprehensive income, requiring that business not only need to disclose its net income but also need to report a more 'comprehensive' measure of income (NI13) after fiscal year 1997. According to Biddle and Choi (2006), Under the statement of comprehensive income there are four specified items: changes to unrealized gains and losses on available-for-sale securities which is specified in SFAS I 15, changes to foreign currency translation which is specified in SFAS 52, changes to minimum required pension liability which is specified in SFAS 87 and changes to the fair value of certain futures contracts qualifying as hedges which is specified in SFAS 80. Though the practice of "reporting comprehensive income" has become mandated by the Financial Accounting Standards Board (FASB). The usefulness and value-relevance of comprehensive income compared with other financial indicators still face drawn-out debates. Among these debates, the contention about which one is more value-relevant between comprehensive income and net income have concerned the accounting standards setters and scholars for a long period of time. Since 1980, the Financial Accounting Standards Board (FASB) first proposed the concept of Comprehensive Income in the Statement of Financial Accounting Concepts No.3 (SFAC No.3), Western accounting scholars have started to carry out plenty of related studies on the comprehensive income, many of them have compared the value-relevance of comprehensive income and net income, and they have not yet

reached a congruous conclusion so far. Proponents of 'comprehensive income' have argued that a comprehensive amount reflects all relevant activities of the business, so it's less vulnerable to manipulation and more in accordance with valuation. Opponents, however, have argued that income should only reflect the current operating performance because managers think those excluded items are beyond their control so that they should not be taken into consideration when it's used to value a business (Biddle & Choi, 2006). In addition to debates, a considerable number of researches regarding "All-inclusive" income (comprehensive income) and "current operating performance" (net income) also come into existence, which will be discussed in the literature review part in detail later.

In China, as there is a popular tendency for China's accounting standards (CAS) to gradually comply with the international standards, China's accounting standards setters also begin to introduce the concept of comprehensive income to the formal presentation of financial statements. The Ministry of Finance in February 2006 issued "Accounting Standards for Business Enterprises", which introduced the concept of gains and losses. The owner's equity gains and losses were then first required to be independently listed as "other comprehensive income" item. By this time, the presentation of comprehensive income was under the "statement of changes in owner's equity". In 2009, the Accounting Standards for Business Enterprises NO.3 (CAS NO.3) required enterprises to list "other comprehensive income" items and "total comprehensive income" items under the income statement. From then on, the presentation of comprehensive income has begun to step into the "one table method" mode. "One table method" mode here means to extend the traditional income statement with comprehensive income and other comprehensive income information in the financial

statements. In December 2009, the Ministry of Finance issued document NO.16 (CAS NO.16), which further detailed the content and format of the disclosure of comprehensive income in the financial statements. In 2014, the Ministry of Finance issued a new Accounting Standards for Business Enterprises NO.30 (CAS NO.30), which stipulated that the presentation of comprehensive income should be relocated in the income statement and should be taken out from the statement of changes in owners' equity which used to include the comprehensive income under the item of owner's equity gains and losses. This revision symbolizes the final transformation step from the traditional income statement method to the “one table method” mode.

Along with the transformation of the accounting reporting standard is the stupendous transformation of China's economy. According to the World Bank, China's Gross Domestic Product (GDP) has increased almost fivefold from 2.75 trillion dollars in 2006 to 11.19 trillion dollars in 2016. During this “golden decade”, the IT service industry in China has also embraced its rising period. According to China Academy of Information and Communications Technology (CAICT), the total market value of IT service industry companies has risen sixfold from 2006 to 2016, its growing speed exceeds the pace of other industries. In 2016, the IT service industry, which is already the main component of China's digital economy and its driving force, reached 22.6 trillion yuan. Its total size exceeds the sum of Japan and the United Kingdom, ranking second only to the United States, and its growth rate is higher than the United States. Moreover, its contribution to China's GDP growth has reached 69.9%. The performance of IT service companies in the stock market is very different from that of traditional industries. In traditional industries, financial indicators such as net income and ROA often has a great

impact on the market value of companies. However, the impact of net income on the market value of IT service companies is weak. Taking Chinese and US-listed IT service companies, the growth rate of market value is disproportionate to the growth rate of net income. (CAICT, 2017) Therefore, financial investors need to take more factors into account as they make an investment decision in the IT service industry.

To sum up, the presentation of comprehensive income in China's accounting standards has undergone a huge transformation from the mode of "statement of changes in owner's equity" to the mode of "statement of comprehensive income" namely, the "one table method". The "one table method" is at a preliminary stage between 2009 and 2013, and it only starts to take its real shape in 2014. Before this paper, some domestic scholars have studied the value-relevance of the comprehensive income, but the dataset adopted by most samples is relatively too broad, which cannot shed light on the relatively small and specific industry as the large industry plays a dominant counterbalance effect in the result. Besides, some scholars have crossed over some important time frames, such as 2009 and 2014, which could lead to a crooked result as the accounting standards are different before and after these time frames. In order to avoid the previously mentioned limitations, this paper specifies focus on a relatively small and specific industry, which is the booming IT service industry in China. Further, this paper adopts data from the period between 2014 and 2016 in which statement of comprehensive income plays a virtually solid role under the financial statements. Based on this dedicated time duration, the empirical result of this paper for these three consecutive years can provide a certain reference value for the research on the comparison of the value relevance between comprehensive income and net income in IT service industry in China, and it can also provide supportive evidence for

the effects of the implementation of international standards in China.

The rest of this paper consists of the following parts. Section 2 provides an informative background of related prior literature and discusses their conclusions and limitations; Section 3 explains the methodology and research design used in this paper; Section 4 presents the data selection and empirical analysis result; Section 5 draws a conclusion and further suggestions and limitations of this paper will be given in the end.

II: LITERATURE REVIEW

Previous studies have largely contributed to the study field of value relevance of comprehensive income. Their main focuses are whether the comprehensive income has value relevance and whether other comprehensive income is more associated with market value than traditional income (net income) (Dhaliwal, 1999; Kanagaretnam et al., 2009; Ai-Ping & Lun, 2010; Devalle & Magarini, 2012; He & Lin, 2015; Xu & Qi, 2017).

Ohlson (1995) discovers a simple yet easily overlooked point that dividends can be possibly manipulated to alter the earning "via" a change of current book value. Further, his model development highlights the meaningful combination of abnormal earning dynamics and owner's equity accounting constructs. With the advent of Ohlson's model, many following researchers adopt it to study the value-relevance and predictive capability of comprehensive income and net income. Dhaliwal et al. (1999) study US-listed companies ranging from 1994 to 1995 to compare traditional net profits with comprehensive income. His outcome doesn't prove that comprehensive income can provide more information on the company's stock return on investment than net income, nor did it provide a vision for future cash flow accurate

information. Afterward, Kanagaretnam et al. (2009) adopt the same Ohlson's model (Ohlson, 1995) and collect data from Canadian companies that are all listed in the United States in two periods. One is from 1994 to 1997 (before SFAS130 is effective), another period is from 1998 to 2003 (after SFAS130 is effective) and their results show that comprehensive income in the latter period appears better predictive ability than the former one in relation to share price and future earnings, which prove that comprehensive income's predictive ability is improving. In the latest researches, Khan et al. (2018) provide non-US evidence on the value relevance of comprehensive income. They investigate 92 New Zealand (NZ) firms for a period from 2003 to 2010. Their results show that comprehensive income has a stronger correlation with stock prices and returns relative to net income. Based on their observation, asset revaluation reserves (REV) and the available-for-sale securities (AFS) are the two most evident factors that affect the association of comprehensive income with prices and returns. Nejad et al. (2018) reveal that total comprehensive income is positively associated with share price in Malaysia, which proves that total comprehensive income is value relevant. They also assert that available-for-sale financial instruments (AFS) and revaluation surplus of property, plant, and equipment (REV), can increase the explanatory power of comprehensive income.

In China, researchers also share some different points of view in terms of the value-relevance comparison between net income and comprehensive income. Ou-Yang and Liu (2010) carry out empirical research based on the listed companies from Shanghai A share to study the value-relevance of comprehensive income in China and they draw a different conclusion from the conclusion previously drawn by Kanagaretnam (2009). They discover that comprehensive income doesn't appear stronger value relevance than net income among listed companies in the

Shanghai A-share market in China despite the new comprehensive income reporting standard proclaimed in 2009. Based on their findings, they recommend that necessary steps are needed for improving the value-relevance of comprehensive income so as to make the disclosure of comprehensive income more valuable and useful to investors. 5 years later, Cao et al. (2015) use their research results to prove that comprehensive income is having an incremental value-relevance after the new amendment of accounting reporting standards in 2014. Still, their result lacks substantial evidence to support that comprehensive income can better predict future performance than net income.

In addition to the above studies, researchers also examine some other possible factors that could have sway over the value-relevance of comprehensive income

He and Lin (2015) find that comprehensive income will have a higher degree of value relevance in the Chinese capital market at present due to an ill-developed information asymmetry environment. Correspondingly, CI and OCI information can therefore incrementally account for stock prices only for companies with a low information asymmetry environment. Yin and Zheng (2017) find that the listed companies with surplus management intention in China tend to transfer more other comprehensive income to the current profit and loss, which could partly shed light on the reason why China's finance ministry urges more detailed reporting of other comprehensive benefits in 2014. Based on their result, they advocate that investors and comprehensive income accounting information users should pay greater heed to the use of comprehensive income to improve their decision-making. Lin et al. (2018) further point out that most of the investors lack the proper concern of comprehensive income information and only turn to it when they must do so.

Taken above together, prior researches draw varied conclusions concerning the value-relevance of comprehensive income and net income and provide several accounts for the variation. Different model adoption mode is one of them. A detailed discussion of model adaptation follows next.

Many previous domestic researchers adopt Ohlson's model for their empirical analysis. Some researchers choose to use only a single one of them while some choose to integrate the two models in their paper. Jing (2012) only adopts price model in his paper and mainly choose the financial information of listed companies after 2009, the result shows that comprehensive income does not provide more incremental information than net income. Liu et al. (2012) select the financial information of listed companies from 2007 to 2009 and later as sample data, and the research result shows that the value-relevance of comprehensive income is lower than that of net income. Ou-Yang and Liu (2010) adopt only the return model in their paper. They select the financial information of listed companies before 2009 as samples, and the results showed that the value correlation of comprehensive income is lower than that of net profit.

Xie and Guo (2014) use the price model and return model at the same time and their main sample data selection is financial information of listed companies before 2009. They discover that the total amounts of comprehensive income do not have value-relevance. Kang (2011) otherwise mainly selects the financial information of listed companies after 2009 and finds that net income and comprehensive income both have value-relevance. Gai and Gao (2012) select the financial information of listed companies from 2007 to 2009 and the research result shows that the value-relevance of comprehensive income is lower than that of net income. Wang (2013) however uses the data after 2009 and finds that comprehensive income has higher value-

relevance than net profit.

When the price model and return model are used separately, its results show that comprehensive income does not have value-relevance before 2009 and net income is still more value-relevant than comprehensive income after 2009. When they are used concurrently, their results produce a similar conclusion to the ones when they are used separately before 2009, but some researchers provide evidence that comprehensive income is more value-relevant than net income after 2009 by using two models together.

Apart from model adoption, previous literature shows a tendency that few researchers would spare a look into the newly-growth industry such IT service industry (Nejad et al., 2018) instead they frequently adopt comprehensive data from listed companies at all business sectors, which however may lead to a bias toward a specific industry. To provide additional evidence, I decide to investigate the value-relevance of comprehensive income and net income in China's IT service industry based on the latest reporting standard in 2014 (Yin & Zheng, 2017). Also, to make the result consistent and comparable with the previous researches, the same Ohlson's price and return model will be adopted as well.

At last, based on the information above in the literature review section, this paper proposes two hypotheses:

H1: Comprehensive income has greater value relevance than net income in determining the stock price in China's IT industry.

H2: Comprehensive income can better account for stock return change than net income in China's IT service industry.

III: METHODOLOGY AND RESEARCH DESIGN

In order to testify the two hypotheses of this paper, two Ohlson's models (1995) are used for the measurement of the value-relevance of net income and comprehensive income: price model and return model. According to the research of Kothari Zimmeman (1995), the slope coefficient (earnings response coefficient) in the price model has a small deviation, but it is easy to generate the heteroscedasticity of the model in terms of measurement. The return model is less affected by size and heteroscedasticity, but the slope coefficient deviation is larger. The two models have their advantages and disadvantages. Therefore, in the empirical test, this paper proposes to use both the price model and the return model, which can produce a more reliable result.

The price model adopted to test the hypothesis I is as follows:

$$PRICE_{it} = \alpha_0 + \alpha_1 NI_{it} + \alpha_2 BVES_{it} + \alpha_3 SIZE_{it} + \alpha_4 TSP_{it} + \varepsilon_{it} \quad (a1)$$

$$PRICE_{it} = \alpha_0 + \alpha_1 CI_{it} + \alpha_2 BVES_{it} + \alpha_3 SIZE_{it} + \alpha_4 TSP_{it} + \varepsilon_{it} \quad (a2)$$

where PRICE represents the price of each company's stock on April 30th each fiscal year, NI represents the annual net income scaled down by total outstanding stock, CI represents the annual total other comprehensive income amounts in the income statement scaled down by total outstanding stock, BVE represents the book value of company's annual net assets scaled down by total outstanding stock, SIZE represents the firm size measured based on natural logarithm of the total assets of company, TSP represents the proportion of tradeable stock in all outstanding stock.

The return model adopted to test the hypothesis II is as follows:

$$RET_{it} = \beta_0 + \beta_1 NI_{it} + \beta_2 SIZE_{it} + \varepsilon_{it} \quad (b1)$$

$$RET_{it} = \beta_0 + \beta_1 CI_{it} + \beta_2 SIZE_{it} + \varepsilon_{it} \quad (b2)$$

RET represents the annual stock return for the reporting period and is calculated based on the monthly return rate, SIZE follows the same criteria as above.

IV: EMPIRICAL DATA AND ANALYSIS

4.1 Data Selection

In 2014, the Ministry of Finance issued a new "Accounting Standards for Business Enterprises" NO.30-presentation of financial statements (CAS30) which requires all listed companies should report the sum amount of comprehensive income in the income statement and no longer lists it in the owner's equity gains and losses. Meanwhile, other comprehensive income subsidiary accounts are also required to be listed in the income statement. The revision imposes a stricter provision in the financial reporting of other comprehensive income items and the total amount of comprehensive income part. Upon the reform, data after 2014 will be more valuable in terms of timeliness and completeness. This paper adopts its data from the information technology service listed companies between 2014 and 2016 according to CSRC industry classification 2012 edition in Shanghai and Shenzhen main board in China A-share market (including A shares and B shares listed companies at the same time but excluding B shares listed company). Moreover, in order to ensure the data sample quality, the following criteria are implemented to screen the data:(1) all ST, *ST and SST companies in the samples are excluded, whose stock prices fluctuate greatly and are thus unreliable; (2) Companies with missing variable values are excluded for the absence of value would lead to unreliable regression results. (3) Companies with noncomprehensive income are excluded from the model

data for other companies with 0 comprehensive income would have no significance.

To have the result comparable with the previous literature under the same China's accounting standards and statistics. This paper mainly draws its data from the CSMAR database. Model data are from the income statement and stock market index section in the database.

After screening the dataset. 20 ST, *ST, and SST companies are eliminated, leaves 280 available listed IT service companies. The sample size of the price model is 565 between 2014 and 2016. The sample size of the price model is 536 between 2014 and 2016. The software used for data processing and regression analysis are Microsoft Excel 2019 and Stata16.0.

4.2 Data Analysis

Table I presents the paired t-test result of NI and CI. It tests if the means of net income (M = 0.576, Std = 0.756) and the means of comprehensive income (M = 0.594, Std = 0.814) are equal. The null hypothesis of equal resilience means is rejected, t-value = -2.2, p-value < 0.001. It infers that the means of comprehensive income is statistically higher than the means of net income. A graphical representation of the means and adjusted 95% confidence intervals (Cousineau, 2005) is displayed in Table I.

Table I

Paired t test: NI CI

	Obs	Mean1	Mean2	Dif	Std	T_value	P_value
NI - CI	565	.576	.594	-.017	.008	-2.2	.029

Note: NI represents the annual net income scaled down by total outstanding stock, CI represents the annual total other comprehensive income amounts in the income statement scaled down by total outstanding stock.

Table II presents the summary statistics for all variables used in this study. Observations vary from several variables. Observations for PRICE and SIZE are the highest, which are 594.

Observations for NI, CI, BVES, and TSP are 565. Observations for RET are the lowest, which are 536. Stock prices vary greatly among the selected model companies, ranging from 0.553 yuan per share to 191 yuan per share with a mean of 33.353 and a standard deviation of 27.219. These variations could be explained by business performance, financial policy, and other circumstantial factors. The average RET is a positive 55.2 percent which correspondently indicates that the overall positive profitability of China's IT service industry during the period from 2014 to 2016. However, a huge discrepancy still exists even in the same industry. The maximum of RET among selected model companies is 5.525, which means a fivefold stock return rate for some IT service companies in these three years. The minimum of RET among selected model companies is -.646, which means some IT service companies in China still experience over half of the investment losses in spite of overall prosperous industry. Both NI and CI display a positive mean and median which further proves the previous inference of the overall profitability of selected model companies. Comparing CI with NI, CI has a larger mean and standard deviation, which indicates that NI is more stable while CI is more prone to be affected by environmental issues despite the main business performance. The average firm size of IT service industry listed companies is 21.544 and has a standard deviation of 0.987, it indicates that the natural logarithm of the total assets of selected model companies is within a comparatively non-polarized range compared to the natural logarithm of the total assets of manufacturing industry (Gu, 2016), which also attests to the fact that IT service industry in China is a relatively new industry from another angle. Unlike SIZE, the standard deviation of BVES is 7.274 with a maximum value of 78.137 and a minimum value of 0.994, it infers that stockholder's equity per share fluctuates massively among the selected model companies

during this period. The average ratio of tradable shares to total stock which denoted by TSP in IT service industry companies is 59.5 percent, it is lower than the manufacturing industry public companies' ratio between 2009 to 2014 but is quite near to the ratio in 2008 appears in Gu's research (Gu, 2016). Therefore, the TSP ratio is deemed to have the same explanation as the SIZE value has before.

Table II
Summary Statistics

	N	Mean	Std	Median	Min	Max
PRICE	594	33.353	27.219	24.355	.553	191
RET	536	55.2%	1.005	.268	-.646	5.525
NI	565	.576	.756	.438	-3.732	7.122
CI	565	.594	.814	.449	-3.732	7.3
BVES	565	10.181	7.274	8.673	.994	78.137
SIZE	594	21.544	.987	21.468	18.881	27.147
TSP	565	59.5%	.259	.577	.064	1

Note: PRICE represents the price of each company's stock on April 30th each fiscal year t, RET represents the annual stock return for the reporting period and is calculated based on the monthly return rate, NI represents the annual net income scaled down by total outstanding stock, CI represents the annual total other comprehensive income amounts in the income statement scaled down by total outstanding stock, BVE represents the book value of company's annual net assets scaled down by total outstanding stock, SIZE represents the firm size measured based on natural logarithm of the total assets of company, TSP represents the proportion of tradeable stock in all outstanding stock.

Table III presents the correlation matrix in which displays the inter-correlation of all variables used in the study. As the correlation matrix shows, PRICE, RET, NI, CI, and BVES are all positively correlated with each other. It can infer that any positive changes in NI and CI will surely boost up the value of PRICE, RET, and BVES for the selected model companies. NI and CI present the highest inter-correlation compared to others, which proves that CI is still massively affected by NI in the IT service industry in China. Size however only shows a

positive correlation with four variables and it shows a negative correlation with PRICE and RET, which implies that larger firm size doesn't always accompany higher stock price and stock return rate. At last, TSP is only positively correlated with SIZE, which implies that a higher proportion of tradeable stock to total outstanding stock doesn't come with higher value stock price and stock return rates, but it does represent a larger firm size. Besides, the table also shows that except for the control variables, the correlation coefficients between most of the explanatory variables do not exceed 0.8. Therefore, it can be inferred that the model does not have a serious multicollinearity issue.

Table III
Matrix of Correlations

Variables	PRICE	RET	NI	CI	BVES	SIZE	TSP
PRICE	1.000						
RET	0.456	1.000					
NI	0.351	0.178	1.000				
CI	0.368	0.186	0.973	1.000			
BVES	0.416	0.187	0.572	0.607	1.000		
SIZE	-0.133	-0.223	0.180	0.176	0.324	1.000	
TSP	-0.330	-0.132	-0.218	-0.194	-0.201	0.205	1.000

Note: PRICE represents the price of each company's stock on April 30th each fiscal year t, RET represents the annual stock return for the reporting period and is calculated based on the monthly return rate, NI represents the annual net income scaled down by total outstanding stock, CI represents the annual total other comprehensive income amounts in the income statement scaled down by total outstanding stock, BVE represents the book value of company's annual net assets scaled down by total outstanding stock, SIZE represents the firm size measured based on natural logarithm of the total assets of company, TSP represents the proportion of tradeable stock in all outstanding stock.

Table IV presents the regression result of this study. The F-statistics for the two models is all significant at the 1% level, indicating that the model variables have overall significance. Furthermore, NI, CI, and BVES have a significantly positive impact on the stock price within

a 1% significance level while SIZE and TSP have a significantly negative impact on stock price within a 1% significance level. In return model, both NI and CI have a significantly positive impact on annual stock return rate with a 1% significance level while SIZE has a significantly positive impact on annual stock return rate within a 1% significance level. Both NI and CI have value-relevance as regard to stock price and annual stock return rate as their adjusted r square is greater than 0.3 but the difference between them are hardly distinguishable. Also, the table results indicate that the explanatory effect of the return model is stronger than the price model due to a higher adjusted r square value, which means NI and CI can provide a better vision for stock return rate than for stock price.

Table IV
Regression Analysis

VARIABLES	(a1) PRICE	(a2) PRICE	(b1) RET	(b2) RET
NI	4.646*** (2.455)		0.146*** (3.264)	
CI		4.543*** (2.541)		0.132*** (2.697)
BVES	1.113*** (4.965)	1.075*** (4.486)		
SIZE	-9.203*** (-8.369)	-9.111*** (-8.172)	-0.184*** (-4.835)	-0.183*** (-4.833)
TSP	-26.991*** (-7.229)	-27.479*** (-7.315)		
Constant	227.417*** (9.970)	226.045*** (9.826)	4.412*** (5.449)	4.404*** (5.456)
Observations	565	565	507	507
R-squared	0.393	0.394	0.514	0.514
Year FE	YES	YES	YES	YES
Adjusted R-squared	0.387	0.387	0.511	0.510

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Note: PRICE represents the price of each company's stock on April 30th each fiscal year t , RET represents the annual stock return for the reporting period and is calculated based on the monthly return rate, NI represents the annual net income scaled down by total outstanding stock, CI represents the annual total other comprehensive income amounts in the income statement scaled down by total outstanding stock, BVE represents the book value of company's annual net assets scaled down by total outstanding stock, SIZE represents the firm size measured based on natural logarithm of the total assets of company, TSP represents the proportion of tradeable stock in all outstanding stock.

V: SUMMARY AND CONCLUDING REMARKS

5.1 Conclusion

In this paper, the period of 2014-2016 is taken as the dedicated research time duration, and the financial statements of listed IT service companies in China are taken as the research model data. Besides, the price model and return model are both adopted to conduct the empirical analysis based on the selected sample data. After empirical analysis, this paper has come to its following fruitions: first, both net income and comprehensive income have a significant correlation with stock price and stock return rate, namely they both have explanatory power on stock price and stock return rate. As a result, they are all considered as value relevant financial indicators for listed IT service companies in China. Second, in comparison with net income, comprehensive income presents a slightly stronger correlation with the stock price which means it can account for more stock price changes and thus is more value relevant. Therefore, H1 is true. Next, though comprehensive income has a slight edge over net income in explaining for stock price change, it appears slightly lower explanatory power on stock return rate than net income due to its lower adjusted r square value. This result doesn't support the argument of hypothesis 2 and thus H2 is not true. The result may account for the reason why Chinese investors are still used to using net income as the primary indicator for them to evaluate a

company's operating performance and business prospects, and why they seldom notice and pay any attention to the comprehensive income.

5.2 Suggestion

Taken above together, the conclusion of this paper is consistent with most of previous China's literature however is incongruous with the ones drawn by some foreign scholars. The causal reason may still be in that China's capital market is not as mature as that of the United States and other countries with westernized capital markets. Moreover, the development of a statement of comprehensive income concepts in China is only in practice for a fairly short period of time which may result in uncertainty and instability in its role as a financial indicator. However, it is also clear that the disclosure of comprehensive income in the "one table form" has made its move forward in its explanatory power on the stock price for IT service companies, which indicates that comprehensive income has certain value-relevance edge over net income for a relatively fresh industry such as IT service industry. To some extent, it does provide a better vision than net income to the investors of the IT service industry to a certain degree.

Based on the above research conclusion, this paper puts forward the following suggestions: first, the accounting standard committee in China should continue to highlight and strengthen the significance of comprehensive income information, so that both accounting information providers and accounting information users can better understand the concept of comprehensive income. Second, the accounting standard committee in China should continue to refine the understandability of other comprehensive income and its reclassification, so that the producers can correctly define the categories and items of other comprehensive income and also help users interpret other comprehensive income information accurately and correctly.

Third, the concept of specific items of other comprehensive income and recognition measurement should be specified in detail along with the earlier stipulation, which can provide an enhancement of internal management level control of a company. Therefore, this paper highly suggests that China's accounting standard setters should still issue more specific comprehensive income criteria as quickly as possible to clarify the various components of comprehensive income. Only in this way can accounting information providers disclose more accurate and informative comprehensive income information to meet the needs of investors and other information users. Also, Investors should pay more attention to the impact of this new income concept and try to accept and employ it on their investment decision-making process.

5.3 Limitation

This paper is subject to several common limitations, some of them are worth noting. First, due to the focus of this paper is solely on the IT service industry, the selection of model data is limited which causes the number of observations of this paper is less than most of the prior researches. Therefore, it's advisable that future studies should adopt a larger sample size to avoid the possible deviance caused by small observations. Second, following prior research, this paper also only focuses on the three-year after the major renewal of China's accounting standards (CAS) in 2014. The findings may differ if a longer time frame and an update-to-date dataset are adopted. Therefore, it's recommended for future research to select the model dataset for a longer period. Third, this paper mainly compares the value-relevance of net income and comprehensive income during a specific period of time. It doesn't provide evidence to support that the value-relevance of comprehensive income has increased after 2014 when comparing

to before 2014. Therefore, it's also advisable that future research should compare the change of value-relevance of comprehensive income during the pre-phase and post-phase of the major renewal in 2014. Last, to be in line with prior researches, the stock price of companies on April 30th of each fiscal year is used. However, a certain amount of the company's financial information is missing on that date. Therefore, specific caution should also be taken with that.

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