

# Information content of comprehensive income when managers manage net income

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It is often said that comprehensive income is superior to net income because of its transparency on the use of fair value and because it excludes earnings management. In addition, net income is criticized because of the opportunity for management manipulation which shifts or adjusts the recognition of cash flows over time.

The purpose of this paper is to examine whether comprehensive income is more value relevant than net income when net income is exposed to earnings management and comprehensive income is relatively transparent.

The results suggest that net income tends to be more value relevant than comprehensive income, although other comprehensive income has incremental

information content over net income. In addition, even when net income is seriously affected by earnings management, its value relevance is statistically stronger than comprehensive income. On our sample and empirical models, net income is more successfully associated with returns than comprehensive income.

The contribution of this paper is to provide findings that Japanese investors may depend more on net income than on comprehensive income, even if net income is influenced by earnings management. Therefore, the results support the view that net income is still an important performance measure for investors, although comprehensive income is regarded as the new bottom line.