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Research Article

THE ASYMMETRIC MARKET VALUATION OF NONRECURRING ITEMS AND ACCOUNTING CONSERVATISM

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ABSTRACT
The present study, the information content of different components of nonrecurring items as the important component of accounting earnings, the effect of conservatism on the information content of nonrecurring items and the asymmetric market valuation of nonrecurring items of gains and losses in Tehran Stock Exchange have been investigated. To measure the conservatism, Khan and Watts regression model has been used. For this purpose, a sample including 122companies listed at Tehran's stock exchange during the 2007 and 2011 has been studied. In order to analyze and examine the relationship between the variables in our study, the approaches of balanced panel data was used.
Research findings indicate that the earnings response coefficient for negative nonrecurring items is significantly more than that for positive ones. Results of regression analysis suggest that the extent the conservatism variable influences the earning response coefficient in separated samples is significantly different based on the positive and negative nonrecurring items. Although the influence of conservatism on both groups is significant and positive, but these coefficients are different in value. Finally, results indicate a stronger positive relation between conservatism and earnings response coefficients for companies with negative nonrecurring items.

Keywords: *Nonrecurring Items, Earning Response Coefficient, Accounting Conservatism, C-Scor*

INTRODUCTION
Financial reports are the most important product of accounting information systems. Among financial reports, income statement as reflector of company's financial performance has special importance. Earnings for the purpose of usefulness in investor's decision- making, has features including timeliness. Always this feature has been affected by other feature, named conservatism. Conservatism is accountant's tendency to existence of higher degree of confirmation for recognizing good news towards bad news in financial statements. It means companies' tendency to quicker report of economic losses towards earnings. On the other hand, accounting conservatism provides necessities, so that reported earnings (losses) have high confirmation threshold. Since confirmation threshold for earnings compared with losses is higher, so accounting system will able to identify losses quicker than earnings and investors and financial analyzers enjoy more relevant information in their decision- making and thus it is predicted that abnormal loss has high earnings reaction coefficient and while high confirmation threshold for earning, postpones their recognition to periods that they enjoy high certainty and this results in dissimilarity of economic event's occurrence time and it's report time in financial statements, as a result of conservatism, economic news indicate earnings that has been occurred partly ago, but as a result of lack of necessary confirmation threshold, it is reported in financial statements with delay. On the other hand, investors and financial analyzers try to acquire information from other information resources, such as analysis presented by management and even personnel of commercial unit. Thus it causes information content of obtained earnings to decrease and it is predicted that abnormal earnings has low reaction coefficient. In contrast with conservatism, it obligates accountants to identify bad news in income statements quicker. Therefore time interval between event occurrence and its report in financial statements will be short. Thus investors have not a lot opportunity for acquiring necessary information from other information resources. Therefore it is expected that negative numbers of income statements about nature and extent of economic losses has more information content for investors. Recent research studies information content of special

item's different elements as important element of accounting earnings and intends to find evidences about conservatism effects on information content of special item's different components in relation to prediction and valuation goals.

Theoretical Basis and Research Background

Conservatism is one of the notable features of financial reporting that in recent years has attracted much attraction. Downward support of capital's book value towards its market value and tendency to delaying the recognition profits and accelerating recognition losses can be considered as two important features of conservatism. Many of the conservatism critics believe that conservatism instead of realistic valuation, causes systematic orientation in financial reports, that this matter is in contrast with some of the important qualitative features, such as faithful representation, objectivity and comparableness (including procedure stability) (Mojtahedzadeh, 2001). On the other hand, conservatism supporters believe that this concept is useful and cautious convention in ambiguous environment. They believe that if standards compilers and legislator critics try to eliminate it without comprehending conservatism benefits, possibly resultant standards seriously will be injurious for financial reporting (Watts, 2003). Khan and Watts (2009) explained relation of some variables with conservatism in their research. These variables include: size, market value ratio to book value of stockholders' equity, financial leverage, company life, investment cycle duration and company's special uncertainty. Companies with high book value ratio to market ratio have more opportunity for investment in front of themselves. Existence of different choices of growth has a positive relation with agency costs and companies that their book value ratio to market value is high, have more legal demand for conservatism (Khan and Watts, 2009). It is expected that bigger companies are more developed and enjoy more rich informative environments. Thus uncertainty and information asymmetry related with future earnings realized ability generally decrease (Easley *et al.*, 2002). Companies with high financial leverage have agency conflict among stockholders and creditors. This matter is indicative of higher contractual demand for conservatism from these companies (Watts and Zimmerman, 1986). Inexperienced companies compared with experienced companies have more opportunities for growth. Information asymmetry among stockholders and management is increased through existence of growth opportunities, because typically future cash flows are not confirmatory and this causes creation of agency expenses and subsequently more conservatism (LaFond and Watts, 2008). Conservatism is increased with increase of company uncertainty and investment cycle duration, because it is expected that companies with high uncertainty and long investment cycle, firstly have future earnings that are not confirmable beforehand. These earnings are very sensitive towards conditions change, so a contractual and supervisory demand is created for conservatism; secondly in compare with companies having lower uncertainty, it is expected that they face with unfavorable returns from their investment place. High uncertainty and long investment cycle make difficult the prediction of extent and timing of future cash flows that may causes future huge losses; thirdly it have potential losses for stockholders and this matter increases lawsuit and lawsuit demand for conservatism (Khan and Watts, 2009). At least for three reasons, it is expected that there is a relation between company size and conservatism: 1) Political costs hypothesis, 2) hypothesis of events (news) aggregate effect, 3) Disclosure hypothesis (information asymmetry).First hypothesis predicts that bigger companies report more conservative earnings, while aggregate effect hypothesizes and information asymmetry state that less conservatism has been considered in reported earnings by bigger companies.

Earnings Reaction Coefficient and Information Content of Special Items

Earnings reaction coefficient measures unexpected return in reaction to unexpected elements of reported earnings (Scott, 2003). Some of the most effective factors in earnings reaction coefficient consist of: Extent of companies' risk, structure of companies' capital, earnings persistent, earnings quality, growth opportunity, default risk, existence of other information resources, price informativeness, investors' expectation from accounting earnings quality and extent of its relevance to valuation and prediction goals depend upon extent of stability and repeatability of its constituent elements. In fact, the most important part of net earnings is a part that compared with other categories have high repeatability capability. Also there are gains and losses against incomes and costs that are created due to basic and side activities and

operations of companies, but have less stability and repeatability. Always nature of these items causes formation of many questions and ambiguities about features of these items, such as their stability, their relevance to future earnings and also their relevance to companies market value. These unstable components are defined as "special items" (such nonrecurring gains and losses due to assets sales, gains and losses results from bond redemption, inventory write-downs, interest on tax settlements, annual adjustments, loss due to flood, fire and other natural disasters, results of discontinued operation and any nonrecurring items. For many business units, special items are considered a suitable place for recognizing earnings components with less stability. Some of the researchers stated that mainly special items have less stability compared with other earnings components (Fairfield *et al.*, 2009). Frankel and Roychowdhury (2009), Reidl and Shrinivasan (2007), Burgstahler *et al.*, (2002), McVay (2006) find that special items are tool for overstate of main earnings. It is not clear that why use of special items is increasing day to day (Elliot and Hanna, 1996 and Collins *et al.*, 1997). Researchers stated that earnings is related to special items stability, because managers use from special items for earnings management. Business units with high profitability have much tendency for changing classification of normal operational expenses as special items. Such companies are under pressure to maintain high main profitability (Fairfield *et al.*, 2009), but some of the researchers (McVay, 2006 and Riedl, 2004) do not confirm this argument. The results of research of Artur and Volkan (2010) showed Sell-side analysts, on balance, have incentives to emphasize good company news and downplay the bad, resulting in inefficient forecasts. They conjecture that this behavior generates a demand for forecasts from conservative analysts who unwind this pattern, at least in part, resulting in more efficient forecasts. To investigate, they introduce a measure of analyst conservatism and assess the market reaction to analysts' forecast revisions conditioned on their past levels of conservatism. They find a stronger market reaction to forecast revisions by more conservative analysts, and that this result is heightened for companies with greater institutional investor following. Today, analyzers are attempting to adjust net earnings through items such as discontinued operation and restructuring and other special items more than past, but discussion about relevance of such items in evaluating company operation is ever useless.

Eizadinia and Darisadeh (2009) accomplished a research with subject" information content of nonoperational part of accounting earnings in relation to earnings prediction and stockholders' equity valuation". Findings of this research show that nonoperational part of accounting earnings in relation to predicting future abnormal earnings and also in relation to market value of company stockholders' equity, have information increasing content. Additionally, nonoperational part of accounting earnings enjoys from features "relation with prediction", "relation with value" and "predictability"

Rezazadeh and Azad (2008) accomplished a research with subject "relation between information asymmetry and conservatism in financial reporting". Results of their research indicate existence of positive and meaningful relationship between information asymmetry among investors and level of conservatism exerted in financial statements. Basu (1997) investigated effect of accounting conservatism on earnings time asymmetry. He concluded through companies share return that earnings sensitivity to negative return is twice or six times earnings sensitivity to positive return. Also earnings negative changes as compared with its positive changes have less persistent. Earnings reaction coefficient for earnings positive changes is larger than reaction coefficient for earnings negative changes that conforms with asymmetric persistent. Ahmad *et al.*, (2008) showed that bigger companies as compared with other companies, use more conservative accounting methods. Also their research result showed that if there is conflict of interest among lenders and stockholders in earnings division, probably in that case, managers of borrower companies have much eagerness for applying accounting conservative procedures. Yoshie (2012) accomplished a research in relation to special items and discontinued operations and nonrecurring items in terms of conservatism accounting and find that the value relevant components of special items and discontinued operations at the industry-level provide useful information to assess the performance of intangibles. Special items send noisy signals about future growth opportunities for firms within an industry, while discontinued operation send clear signals about the values of intangibles in the sector. he also find a significant positive (negative) link between CEO market-based compensation and the signals

sent by discontinued operations (special items). his results suggest that compensation committees in firms across an industry consider the information about intangibles relayed by discontinued operations and special items, and selectively alter the level of incentives to encourage managers to send informative signals when reporting these items. But he does not find any significant valuation role for extraordinarily items. Results of Hutton *et al.*, (2009) and Jin and Myers (2006) research indicate that if managers able to hide bad news for a long time, it seems that negative information will be saved within a company. Nevertheless there is a restriction for managers in respect of extent of bad news that they can absorb and hide successfully. Reason of this restriction is that if special time extent of collected bad news reaches to a threshold or certain extent, after that continuing to hide bad news will be very costly or generally impossible. When collection of bad news reaches last point (declivity point), suddenly all of them diffuse and cause high negative returns for share that market has been conformed to them and this is the same price recession. Kim and Zang research (2010) showed that conservatism decreases risk of share price recession for two reasons:

1) When manager hide bad news about company and with aggregation of bad news in company and sudden diffusion, risk of company's share value recession is increased. Conservatism causes that manager cannot hide bad news

2) Conservatism is alarm mechanism and by timely record of losses, helps stockholders and board of directors in timely recognition and stop of disadvantageous projects. Thus it is expected that as much as accounting procedures of a company is more conservative, also possibility of collecting and hiding bad news related to that company is equally descends. Also companies that their accounting activities are conservative, as compared with companies that their accounting activities are dynamic, there is less possibility that they are affected by sudden diffusion of bad news. LaFond and Watts (2008) investigated information role of conservatism. They believe in their study that conservative accounting eliminates information asymmetry among managers through two potential mechanisms: First, conservative accounting can provide the best possible summary of certain information except share price, about companies' current operation for investors. On the other hand, existence of standards based on obligation to less confirmation for recognizing losses, can causes disclosure of information that managers do not tend to disclose them. Wang *et al.*, (2011) investigated role of conservatism on market asymmetric valuation of negative and positive special items. Their findings indicate that negative nonrecurring items have higher reaction coefficient compared with positive nonrecurring items. In fact, with increasing extent of conservatism and earlier recognition of bad news compared with good news, information content of negative nonrecurring items is increased and positive nonrecurring items have very low information content.

Research Methodology

Type of current research is post- event, because it is done on basis of analysis of observed data. Additionally, this research in terms of purpose is descriptive, because it intends to describe relations between two more variables and it is comparative, because we follow to determine affective factors on a phenomenon. Spatial domain of research fulfillment is Tehran's securities exchange and temporal domain of research is five years period (2007-2011). Statistical sample of research includes companies that: Their financial year is end of each year's 20 Mars and before 2007 they should have been accepted in exchange. Also they should not have changed their financial year during investigated period. They should not be part of financial mediation, investment and holding companies, monetary, banking and insurance institutions. Information of investigated variables in all tested years should exist. Their share should be dealt regularly in securities exchange (it should not has more than five months pause).With considering all of these cases, numbers of 122 active companies in Tehran's securities exchange were chosen for testing hypothesizes. Also needed data for fulfilling research were collected from information banks, Rah Avard Novin Softwares. Related internet sites and DVD issued by securities and exchange organization.

Research Hypotheses

H1: The earnings response coefficient (ERC) for negative nonrecurring items is significantly greater than the earnings response coefficient (ERC) for positive nonrecurring items.

H2a: The earnings response coefficient (ERC) for negative nonrecurring items is increasing in the degree of accounting conservatism.
H2b: The asymmetry between the earnings response coefficient (ERC) for negative and positive nonrecurring items is increasing in the degree of accounting conservatism.

Research Variables and their Operational Definition

Standardized Unexpected Earnings (SUE): difference between earnings in year (*t*) less nonrecurring items and earnings in year (t-1) less nonrecurring items scaled by the quarterly book value of equity in year (t-1).
SIZE: size of the firm calculated by the natural log of the market value of equity.
MTB: the market-to-book ratio.
LEV: firm leverage calculated by the sum of long-term and short-term debt scaled by the market value of Equity.
DUMMY: a dummy variable that is set to zero if SI>0 or SI=0; and is set to 1 is SI<0.
Special Items (SI): With respect to way of classifying income and loss statement items of Iranian companies according to financial statements sample form of auditing organization publications, mainly special items in income and loss statement are reported as other nonoperational earnings and expenses exceptional items (including operational exceptional items and nonoperational exceptional items, nonrecurring items) and discontinued operations' income and lost. And also they include annual adjustments that are reported in comprehensive income statement. So these items are extracted from companies' annual financial reports and are considered as special items.
Abnormal Returns: Abnormal return is calculated from difference of actual return and share expected return in time period of 28 days around earning announcement. The most common way to calculate expected return is to use market model. In this way, we make a linear (regression) relation between companies' actual return and market return and is calculated by α, β past information's for each company.

$R_{jt}= \alpha_j+\beta_j R_{mt}+e_{it}$

α, β are regression coefficients that are estimated by ordinary least squares (OLS) way. e_{it} shows effect of unconsidered variables in pattern. Then companies' future expected return relative to market return in special days around earning announcement has been calculated by estimated α, β.

$$R^*_{it} = \alpha_{it}+\beta_{it}R_{mt}$$

AR_{it}: Companies abnormal return is calculable from actual return difference and estimated return for same company.

$$= AR_{it} \quad R_{it} - R^*_{it}$$

or

$$AR_{it}=R_{it}-(\alpha_{it}+\beta_{it}R_{mt})$$

For increasing regression accuracy, companies daily return informations and market were used. And since abnormal return of time period of 28 days around earning announcement was need, so daily abnormal returns were accumulated by the following formula.

$CAR_{it} = \pi_n (1+AR_{it})$

R_i is abnormal return (difference between actual and expected return) in first day of considered time period, $R_{i,n}$ is abnormal return in last day of considered time period.

Conservatism (C_SCORE): In this survey, C_SCORE method is used for measuring conservatism. That we can calculate companies conservatism for each year separately. This method has been presented by Khan and Watts. In fact, Khan and Watts completed a relation that was presented by Basu in 1997. Basu model is as follows:

$X_{it} = \beta+\beta_1 D_{it}+\beta_3 R_{it}+\beta_4 D_{it} R_{it} + e_{it}$

X is net income; R is share return (news criterion, positive return is criterion of good news and negative return is criterion of bad news); D is virtual variable (for positive return equals 0 and for negative return equals 1);ε_{it} is models remainder or residue. B_3 is criterion of good news timeliness and β_4 is criterion of good news differential timeliness as regards bad news of the (same) conservatism. Khan and Watts found that conservatism has relation with company size, market-to-book ratio and company financial leverage.

So in Basu model, he extended coefficients β_3,β_4 and wrote each as linear function from said three characteristics.

$G\_SCORE= \beta_3= \mu_0 +\mu_1 SIZE_i +\mu_2 MTB_i+ \mu_3 LEV_i$

$C\_SCORE= \beta_4=\lambda_0+ \lambda_1 SIZE_i + \lambda_2 FMTB_i+ \lambda_3 LEV_i$

Khan and Watts brought two above relation in Basu model and designed the following model.

$$X_i =\beta_0 +\beta_1 D_i + R_i (\mu_0 + \mu_1 SIZE_i + \mu_2 MTB_i + \mu_3 LEV_i) + D_i R_i (\lambda_0 + \lambda_1 SIZE_i + \lambda_2 MTB_i+ \lambda_3 LEV_i) + \varepsilon_{it}$$

Descriptive Statistics

Table 1 shows the descriptive statistics for a total of 615 firm-years ranging from 2007 to 2011.

Table1: Descriptive Statistics

	SIZE	MTB	LEV	SI	C_SCORE	CAR	SUE
mean	5.66	2.637	2.0352	0.07490	0.6633	0.0160	0.2791
Median	5.60	1.648	1.636	-0.0119	0.1587	0.0083	0.0260
Max	7.92	335.86	19.70	33.151	2.9329	0.8700	102.192
Min	4.101	-49.60	-30.86	-233.46	-20.926	-0.8607	-7.8970
Std.Dev	0.674	14.34	3.504	9.6790	1.4251	0.1526	4.8183

Method of Data Analysis

Given the considered pattern, Limer F Test and its meaningful level, we find that for estimating samples, we should take advantage of pooled data method. About patterns that common effects test was not confirmed, Hausman Test was done for determining fixed and random effects. Given probability level of Housman statistic, zero hypothesis based on applying accidental effects method was rejected and pattern estimation by using fixed effects method is done. Durbin - Watson extent is about 1.5, 2.5 in all patterns, that is representative of lack of autocorrelation problem. F statistic amount in all patterns is representative of that zero hypothesis based on that all coefficients are zero was rejected in %1 statistical level and the whole pattern is meaningful.

Table 2: The results from implementation of F test and Hausman test

Study's Models		**F test P-value**	**Hausman test P-value**
Model (1) for test of hypothesis 1	$\boldsymbol{CAR_{it} = \beta_0 + \beta_1 SUE_{it} + \beta_2 SI_{it} + \beta_3 DUMMY_{it} + \beta_4 SI_{it}DUMMY_{it} + \varepsilon_{it}}$	0.0013	0.0000
Model (2) for calculate conservatism	$\boldsymbol{X_i =\beta_0 +\beta_1 D_i + R_i (\mu_0 + \mu_1 SIZE_i + \mu_2 MTB_i + \mu_3 LEV_i) + D_i R_i (\lambda_0 + \lambda_1 SIZE_i + \lambda_2 MTB_i+ \lambda_3 LEV_i) + \varepsilon_i}$	0.0055	0.000
Model (3) for test of hypothesis 1(negative nonrecurring items)	$\boldsymbol{CAR_{it} = \beta_0 + \beta_1 SUEit + \beta_2 SIit + \beta_3 C\_SCOREit + \beta SIitC\_SCOREit + \varepsilon_{it}}$	0.8728	-
Model (3) for test of hypothesis 1(positive nonrecurring items)	$\boldsymbol{CAR_{it} = \beta_0 + \beta_1 SUEit + \beta_2 SIit + \beta_3 C\_SCOREit + \beta SIitC\_SCOREit + \varepsilon_{it}}$	0.9749	-

Results of hypothesizes Test

First Hypothesis Test

Table 3 shows results of estimating model related to research first hypothesis. SI variable coefficient is representative of earning reaction coefficient for positive special items. Reaction coefficient of negative special items is determined that the sum SI and DUMMYSI coefficients.

Table 3: Regressing abnormal returns on SUE and SI

Model1: $CAR_{it} = \beta_0 + \beta_1 SUE_{it} + \beta_2 SI_{it} + \beta_3 DUMMY_{it} + \beta_4 SI_{it}DUMMY_{it} + \varepsilon_{it}$

Explanation	Coefficient	t statistic	P-value
C	0.4847	4.7039	0.0000
SUE	0.0030	10.9508	0.0000
SI	-0.02176	-3.9429	0.0001
DUMMY	-0.0075	-0.7077	0.4796
DUMMYSI	0.0662	9.6192	0.0000
adjusted coefficient of determination	0.39		
DW	2.39		
F statistic (P_value)	3.429 (0.000)		

Thus DUMMYSI variable coefficient will difference of reaction coefficient of positive and negative special items. Results indicate that earning reaction coefficient for positive special items is -0.022.Above negative coefficient means its negative effect on earning reaction coefficient. Given Student' t statistic and confidence level, this effect is significant in 99% confidence level. Also earning reaction coefficient for negative special item is (-0.022) + (0.066) = 0.044(sum SI and DUMMYSI coefficients).According to prediction, earning reaction coefficient for negative special items is more than positive special items. DUMMYSI variable coefficient (0.066) is representative of difference of earning reaction coefficient for positive and negative special items. This difference is significant at %99 confidence level. On the other hand, adjusted determination coefficient statistic shows that pattern could reflect 39% of empirical facts about effect of explanatory variables on dependent variables.

Second Hypothesis Test

Table 4: C score regression using Khan and Watts (2009) procedure

$X_i = \beta_0 + \beta_1 D_i + R_i (\mu_0 + \mu_1 SIZE_i + \mu_2 MTB_i + \mu_3 LEV_i) + D_i R_i (\lambda_0 + \lambda_1 SIZE_i + \lambda_2 MTB_i + \lambda_3 LEV_i) + \varepsilon_i$

Explanation	c	d	R	RSIZE	RMTB	RLEV	DR	DRSIZE	DRMTB	DRLEV
Coefficient	-0.575	0.020	0.102	-0.009	0.004	0.017	-3.051	0.621	-0.122	-0.020
P-value	0.000	0.602	0.554	0.763	0.206	0.000	0.000	0.000	0.031	0.251

Acquired coefficients in table 4 were used for measuring conservatism as follows:

$C\_SCORE = \lambda_0 + \lambda_1 SIZE_i + \lambda_2 MTB_i + \lambda_3 LEV_i$

$C\_SCORE = -3.051 + 0.622 SIZE_i + (-0.122) MTB_i + (-0.020) LEV_i$

Regression model (3) was applied for positive and negative special items separately.

Table 5 shows results of estimating pattern related to second hypothesis for positive and negative specia items. SIC_SCORE variable coefficient shows interaction effect of conservatism and negative special items on abnormal return. SIC_SCORE variable coefficient is 0.877. Above positive coefficient means that with increasing conservatism earning reaction coefficient for negative special items is increased. This effect is significant in 99% confidence level. Results of pattern estimation in divided samples according to positive special items indicate that SIC_SCORE variable coefficient is 0.174.

Table 5: Regressing abnormal returns on SUE and C-Score
$CAR_{it} = \beta_0 + \beta_1$ SUEit + β_2 SIit + β_3 C_SCOREit + β SItC_SCOREit + ε_{it}

Explanation	***Negative Nonrecurring Items (SI<0)***			***Positive Nonrecurring Items (SI>0)***		
	Coefficient	**t statistic**	**P-value**	**Coefficient**	**t statistic**	**P-value**
C	1.861	0.667	0.508	0.103	2.348	0.021
SUE	-0.051	-5.419	0.000	-0.052	-9.753	0.000
SI	4.934	5.756	0.000	0.074	4.7580	0.000
C_SCORE	0.421	0.468	0.642	-0.035	-9.323	0.000
SIC_SCORE	0.877	7.146	0.000	0.174	9.269	0.000
adjusted coefficient of determination	0.96			0.92		
DW	1.447					2.15
Fstatistic (P_value)	157.548 (0.000)					103.45(0.000)
Result of Mann –Whitney test						
87723	Wilcoxon statistic		41970		Mann –Whitney statistic	
.037			P_value			

Positive coefficient of above variable shows that interaction effect of conservatism and positive special items on abnormal return (earning reaction coefficient) is positive and with increasing conservatism earning reaction coefficient for positive special items is increased. This effect is significant in 99% confidence level. Regression analysis results in divided samples according to special items indicate that extent of relatedness of conservatism variable on earning reaction coefficient have significant difference with each others. Although coefficient in divided samples is positive and significant, but these coefficients are different in value (that indicate extent of relatedness), so that SIC_SCORE variable coefficient in companies having positive and negative special items is 0.17 and 0.87 respectively. Difference coefficients are 0.70. Given confidence level of Mann –Whitney (U), this effect is significant (earning reaction coefficient variable was grouped according to negative and positive special items). Finally results indicate stronger and positive relation between conservatism and earning reaction coefficient for companies with negative special items.

RESULTS AND DISCUSSION

Results and Suggestions of Research

Importance and value of earnings in an investment decision – making necessitates that in course of accounting training to topic of information quality features and financial reporting are more considered. Financial analyzers, investors and all financial information users can take advantage of potential capacity of this information. Business units should facilitate access to financial information. Current research investigates information content of different components of special items as important part of accounting earnings. Results of prior researches indicate different views about special items, for example research of Fairfield *et al.,* (2009) showed that mainly special items have less stability compared with other earnings components and have less economic content. Some of the other analysts emphasize that special items are temporary and unfrequented and believe that these items do not help to earnings prediction. Landsman *et al.,* (2007) fulfilled a research about claim of financial analysts based on irrelevance of some of nonoperational components of accounting earnings (including special items) with purposes of earnings prediction and companies' valuation. Results of Landsman *et al.,* (2007) ' research showed parts that usually through financial analysts are deducted from accounting earnings, have stability and are applicable in predicting future earnings and also companies valuation. These unstable components are defined as "special items". Special items are logical estimation of earnings inconstant components. results of research of Yoshie (2012) suggest that compensation committees in firms across an industry consider the information about intangibles relayed by discontinued operations and special items, and selectively

alter the level of incentives to encourage managers to send informative signals when reporting these items. But he do not find any significant valuation role for extraordinarily items. Results of this research indicate that positive and negative nonrecurring items have information content. Also in this research, market reaction towards positive and negative nonrecurring items of gains and losses and conservatism effect on market asymmetric valuation of nonrecurring items of gains and losses (special items) were investigated. That in this area, research done by Wang *et al.*, (2011) showed conservatism effect on market asymmetric valuation of positive and negative special items, and earnings reaction coefficient of negative nonrecurring items is more than positive nonrecurring items. Also these results conform to results of current research and also they found that with increase of conservatism, earnings reaction coefficient for positive nonrecurring items is negative number and very close to zero, and for negative nonrecurring items is high and positive number. And they have concluded that with increase of conservatism and earlier recognition of bad news towards good news, negative nonrecurring items have information content and positive nonrecurring items have very low information content. But according to results of this research, with increase of conservatism, earnings reaction coefficient for nonrecurring items of each two groups (positive and negative nonrecurring items) is positive, but this coefficient for negative nonrecurring items is larger. In other words, research results indicate that with increase of conservatism, information content of positive and negative special items of each two groups is increases, but extent of increase for negative special items is more. So it is suggested to analysts that in investigating companies 'financial statements, consider conservatism effect on quality and timing of accounting gains and losses, especially nonrecurring items (special items).As if extent of company conservatism is high, possibly company reports loss very earlier than gains and losses provides useful information about company's position in past and also in future (future possible economic losses).Additionally, under conservative accounting system, there is accounting earnings that have been occurred in prior periods and have been confirmed and reported in this period that in this condition, delay in earnings report will lack main predictions for investors and may it is not useful for predicting company future operation. One of the reasons of criticism of conservatism phenomenon in financial reporting is less emphasis on information relevance and decrease of information content. Especially about good economic news. Results of research showed that with increase of conservatism information content of positive special items is increased and this indicate that with increase of conservatism and increase of confidence capability of financial reports issued by companies, although recognition of good economic news is done with delay, yet it has information content for investors, even with increase of conservatism earnings reaction coefficient is increased.

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