

Are Special Items Relevant? A Case of Different Perspectives of GAAP vs. IFRS

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GAAP allows unusual or infrequent items to be reported as special items in order to distinguish transitory earnings from permanent earnings. However, special items have been shown to hide permanent losses. IFRS prohibits special items reporting to promote inter-company comparability. This study examines if special losses contain relevant information by using intra-industry information transfer methodology with a sample of 563 material asset impairment losses reported as special items over the period from 2001 to 2007, we find that such information is relevant but garbled due to the laxative reporting rules of GAAP. The major policy implication of this study is that IFRS and GAAP should be more conciliatory by allowing special item reporting, but at the same time requiring strict reporting and disclosure rules to enhance the relevance and reliability of earnings information.

JEL Code: M41