

# The Intentional Financial Reporting Standards (IFRS) and Value Relevance: A Review of Empirical Evidence

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**Abstract** Value relevance is widely applied as a construct and proxy for accounting quality. It is measured as the statistical association between financial statement figures and stock market values ([63] pg.302). It is inferred that the higher the association the higher the accounting quality [16] and more useful the accounting numbers issued by firms are to the valuation decisions by investors ([41], pg.5). This explanatory study uses desktop and library methodology to explore and present the worldwide extant empirical research evidence on the IFRS value relevance. The paper reveals that existing empirical studies have concentrated in developed capital markets with growing interest in developing countries context and report mixed and incoherent results which are difficult to generalize. It further divulges that IFRS can be equally useful in developed and frontier capital markets when coupled with appropriate enforcement mechanisms. The results from the review imply that IFRS is a critical determinant for quality reporting but not a conclusive determinant. I call for country specific empirically verified studies which assess impact of IFRS on value relevance in developing capital markets where they are especially lacking.

**Keywords:** IFRS, value relevance, quality reporting, empirical evidence

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## 1. Introduction

Quality of accounting information is measured in assorted ways in literature [43]. Preceding researches state main two categories value relevant [1,8,14,26,41] and earnings management magnitude [67,70,71]. In contrast, Prather-Kinsey [58] uses value relevance and timeliness as proxies of reporting quality. However, consistent to Lang et al, [15]; Barth et al., [16]; Paglietti [54] and Outa [48]; Arum [6], consider three dimensions of accounting quality, namely, earnings management, prompt loss recognition and value relevance. They posit that accounting quality is higher when earnings management is less, loss recognition prompter and the value relevance of the amounts entered greater. On the other hand, Ngole [46], point out four dimensions of accounting information quality, namely, value relevance of book value and earnings, asymmetric earnings and timeliness, conditional conservatism and predictive ability of earnings and cash flows.

Notwithstanding of all proxies for quality reporting value relevance is highly appreciated. This is because it provides direct usefulness of accounting information to its end users in the capital market [41]. Indeed, most studies use value relevance as a proxy measure to assess accounting quality ([63], pg.302). Accordingly, Alfaraih [4], pg.36, argue that "even though value relevance is not the only attribute of accounting quality it is one of the most important attribute" and can be used to assess usefulness of accounting information to stockholders ([37],

pg.101). Corroboratively, Clarkson et al., [25] comment that the value relevance of aggregate book value and earnings is a natural place to look for the impact of IFRS adoption on financial reporting quality given its paramount role in equity valuation and in the IFRS conceptual framework. The accounting information is regarded as value relevant when the accounting numbers are statistically related to current market values such as share prices. It is ability of financial statements information such as book value of equity and earnings to capture and summarize information that determines the firm's value [17]. This paper reviews existing empirical works that use value relevance to assess the quality of financial reporting.

However it is noted in literature that the underlying reporting standards on which preparation and presentation of financial statement are based determines the quality of its information content. This follows Benyasrisawat [10]; Blanchette et al., who posit, that quality of accounting information is influenced by the quality of underlying reporting standards in use. Similarly, Ding et al., document that accounting standards are important determinant of accounting quality although not the only determinant. Likewise, Khanaga [37] argue that "high quality standards and its appropriate enforcement are perceived as providing consistent, comparable, relevant and reliable financial information" (pg.101) and in fact the value relevant accounting information for valuation decisions by primary need users.

Consequently, the IFRSs, globally acceptable high quality [16] reporting standards developed in public interest through a rigorous process by IASB are anticipated

to be an important determinant of accounting information quality. In fact, it has overly been argued that (IFRS) have been developed to harmonize corporate accounting practice and to answer the need for high quality standards to be adopted in the world's major capital markets [70] to quench the thirsty for quality reporting. Since, IFRS are generally accepted and considered of higher quality than most domestic accounting standards (e.g., [16,63]); it is thus expected accounting quality to be higher after the adoption of IFRS. As such some authors argue that the IFRSs most commonly accepted global accounting standards and widely adopted are supposed to have positive effect on quality of accounting information and possibly benefit investors and other users of financial reports ([63], pg.302); [67]).

However, it is still a squabble that adopting high quality standards might be a necessary condition for high quality information but not necessarily a sufficient one [13]; this is because other factors persist which are predisposed to impair the reporting quality. Lee et al., for example argue that preparer's incentives and institutional framework affects the quality of accounting information more than accounting standard (pg.5). Other extant researches suggest that strong investor protection, strong legal enforcement, common law legal system and preparers' incentives are fundamental to high quality financial statements [13,14,29] in addition to reporting standards.

Conceptually, different actual implementation of underlying reporting framework affects its usefulness. It is thus difficult to state with confidence whether mandatory IFRS adoption is optimal and leads to improved reporting quality [63] as compared to Local Generally Accepted Accounting Principles (GAAP). In fact no one set of standard can be relevant for all ([58], pg.142) due different legal, cultural, economical and institutional settings. In support of above; Alfaraih [4] contend that "value relevance in accounting information cannot be expected simply because a country (company) adopts high quality accounting standards, domestic or international. Such quality of accounting standards will not effectively produce value relevant unless adequate control measures are in place to ensure the standards are actually implemented and complied with. What does the existing empirical studies has to tell on this?, Does IFRS matter in explaining value relevance of reported figures as proxy for quality information? Are the results indistinguishable between developed and developing economies?

This background and the conflicting arguments on the impact of IFRS on value relevance as a proxy for quality reporting pose an interesting casement to explore the extant pragmatic results. Through this paper I collect and present empirical evidence on the impact of IFRS on the value relevance around the global and document whether the usefulness of information consequent to IFRS application is indistinguishable between developed and developing capital markets. The rest of this paper presents; section 2 methodology; section 3 empirical studies on value relevance; section 4 discussions of results and last section avail conclusion and implication.

## 2. Research Methodology

In order to achieve this end the author conducted a rigorous review of literature and documentary information

germane to the subject matter. The paper is thus purely based on desktop and library research methodology. In this regard articles selected from top accounting journals, research papers, diagnostic study reports have been surveyed in making this study. The review is mainly on high-quality IFRS value relevance researches conducted around the world between 2000 and now.

## 3. Empirical Studies on IFRS Value Relevance

Value relevance studies measure the usefulness of primary accounting variables (mainly equity and earnings) from point of view of equity investors. To be exact the studies explore the relationship between the market value and accounting variables tested through regression analysis models. These studies aim "to extend our knowledge regarding the relevance and reliability of accounting amounts as reflected in equity values". Barth et al argue that value-relevance studies can be used to assess whether particular accounting line items such as earnings and book value reflect the information used by investors in valuing firms' equity. They further provide that since the primary focus of most standard setters is equity investment the other roles of financial statements such as contracting, need not diminish the importance of value-relevance research. As a result, Barth et al, suggest that value-relevance research is of interest to accounting standard setters such as the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB) as well as regulators such as the Security and Exchange Commission (SEC) and the Federal Reserve Board.

Studies of this nature are several but with concentration in developed capital markets, with little attention to emerging countries. A number of studies compare the value relevance of IFRS, US-GAAP and local GAAP in other countries. Most of these studies are country specific and in the developed economies context. The studies are based on the model of Ohlson [49] and subsequent refinements which represents the value of the firm as a linear function of the book value of equity and the current value of any expected abnormal earnings. This model investigates the impact of accounting information on the market valuation (price per share or return) considering all key figures of the primary components of financial statements such as book value of equity, earnings per share and cash flows ([37], pg. 103). The studies are either on relative value relevance which tests and address the question of which GAAP numbers fit price better and incremental value relevance which tests or ask whether, given knowledge of local GAAP numbers, IFRS numbers have incremental explanatory power for price [25].

It is worth noting that value relevance studies adopt a view that investors are the core users of financial statement and indeed they are. These studies, therefore, evaluate association of accounting information and capital market values ([37], pg.102) to measure the accounting information usefulness. In this case, the use of econometric techniques provides evidence on the relationship between accounting numbers and share prices [27]. Accordingly, this relationship is substantially measured through coefficient of determination,  $R^2$  or

Adjusted  $R^2$  called explanatory power provided by the earnings per share (EPS) and book value of equity (BVE) ([47], pg.73) on share price, i.e. the information contribution of earnings and book value of equity to investors through their predictive ability of market values. It is interpreted that the higher the coefficients the higher value relevant is accounting information.

However, the question as to whether IFRS improves value relevance of book value of equity and earnings is still a controversial and an open casement for scrutiny. This section in addition to discussing the value relevance concept it reviews and holds discussion of existing empirical studies on IFRS impact on value relevance across the world. The results are categorically presented as; International studies; developed world studies and developing world/capital market studies.

### 3.1. Value Relevance ‘an Explication and Interpretation’

It is commonly understood that investors are the primary users of company accounts and that informing their decisions is one of the key purposes of financial reporting and related disclosures ([41], pg.3). For that reason if reported accounting figures provide information to investors about the value of the company one would expect such figures to be connected with company's share price. In actual fact publicly reported figures can be viewed as value relevant if it reflects a significant portion of the capitalized equity value or if the information is significantly associated with changes in the capitalized equity shares [18]. Besides, accounting value is defined as “value relevant if it has a predicted significant relation to share prices” ([1], pg.439). As such, the investor's major concern is value relevance of amounts and figures reported on financial statements i.e. the association of companies' accounting figures with its market values.

Accordingly, value relevance as suggested above is defined as the ability of financial statements information to capture and summarize firm's value [17,63]. Barth defines value relevance as the extent to which “...*the accounting amount is associated with some measure of value e.g. share prices*”. It is thus, an evaluation of the relationship between accounting information and capital market values ([37], pg.102) and an instrument which is useful to estimate quality of accounting information. In effect it represents ability of the accounting figures of statement of financial position and statement of profit or loss and other comprehensive income to accurately reflect the firm's economic realities as depicted by market values in a predicted mode. Value relevance analysis hence examines the association between share prices of the firm and the financial reports information, such as net assets and net income.

Value relevance is however, measured as the statistical association<sup>1</sup> between financial statement figures and stock market values, share price or returns ([63], pg.302). It is inferred that the higher the association the higher the accounting quality that is reflected [16] and the more useful the accounting numbers issued by firms are to the valuation decisions of investors who are important group

of end users of financial statement information ([41], pg.5). Value relevance has been widely applied as a construct and proxy of accounting quality thence applied in this study owing to its adaptability and wide applicability.

### 3.2. International Studies on IFRS Value Relevance

These studies include those which analyse the incremental or relative value relevance of IFRS in more than one country. They focus on a multiple countries analysis and make international comparison of value relevance of accounting numbers. Most studies of this nature employ price model by Ohlson [49] to measure the value relevance of accounting figures to the capital market investors. Amongst the earliest international studies on this issue of study include ([15] using a sample of 428 firms in different regions who examined the effect of accounting quality for companies applying IAS from 1990 to 2004. The result found that the accounting quality of IFRS is lower than US GAAP but higher than other domestic GAAP. They measured accounting quality through value relevance among other variables.

An international comparison study by Vafaei [69] using data from six countries examined the impact of IFRS adoption on value relevance of reported accounting for 325 listed companies from six countries, UK, Australia, Hong Kong, Singapore, South Africa and Malaysia. The results indicate that within the year of adoption no difference in value relevance of book value of equity and net income between IFRS and national GAAP in all six countries. The results further suggest post IFRS adoption except for Australia and Malaysia explanatory power of EPS is higher than book value of equity within other four countries. Nonetheless, another cross country analysis by Muharani and Sinegar [44] explored the impact of IFRS convergence on value relevance of accounting information of listed companies in Indonesia, Malaysia and Singapore during 2007-2011. The results of the study indicate that overall accounting information reported during the period towards full convergence of IFRS is value relevant for listed companies in the three countries but no incremental value relevance is observed during that period.

Barth et al., [16] on a study which used the sample of 1896 firm year observations for 327 firms that had adopted IAS between 1994 and 2003 investigates whether application of IFRS is associated with higher accounting quality than application of non-U.S. local accounting standards. They measure accounting quality through less earnings management, more timely loss recognition, and higher value relevance. The result reported empirical evidence that publicly reported accounting information based on IFRS generally exhibit less earnings management, more timely loss recognition and higher value-relevance than publicly reported accounting information prepared in accordance with other Generally Accepted Accounting Principles (the GAAP).

Contradicting the result by Barth et al., [16] is the result by Clarkson et al., [25] which was set to investigate the value relevance of the European and Australian firms from 15 countries post IFRS implementation. They conclude that IFRS adoption don't enhance quality of financial reporting. As such, they found no value relevance of book value of equity and earnings difference between Local

<sup>1</sup> The firms' market values is associated with accounting data by Ohlson [49] which express the value of the firm as a linear function of book value of net assets and earnings and other relevant information.

standards (GAAPs) and IFRSs. They associate the result with capital market orientation of countries involved and that most local standards were presumably close to IFRSs.

The empirical evidences in this section reveal that international value relevance studies report mixed conclusions. Some report that accounting figure reported under IFRS is more value relevant than local GAAP [16] except the US-GAAP [15]; others report otherwise [25]. Another group of studies finds no value relevance between IFRS and Local GAAP [44]. More interestingly, mixed results are observed from the same study using the same methods in different countries during the same period [69]. This nature of results can be associated with the fair value orientation of US-GAAP than other local reporting standards and the fact that the reporting standards across countries are not the only determinant of the reporting quality or the fact most local standards are close to IFRS.

### **3.3. Developed world Studies on IFRS Value Relevance**

This section is bestowed for IFRS value relevance studies conducted in developed world capital markets. The classification is based on the World Bank criteria. These studies are numerous due to market orientation of most developed countries which attract studies of this nature. To start by Knivsfila et al., [38] using restatement samples of 145 firms listed in Oslo Stock Exchange (OSE) tested whether IFRSs accounting figures correlate more strongly with stock market values than corresponding NGAAP figures. They find little evidence of increased value relevance after adoption of IFRSs when compared to national GAAP regime unconditionally.

Moreover, an empirical study by Hung and Subramanyam [29] compare the financial statements prepared under the German Accounting rules (HGB) with those of International Accounting Standards (IAS) during 1998-2002 by regressing stock prices on book values of equity and net income. They find that the book values of equity have higher coefficients under IFRS and net incomes have higher coefficients under the German GAAP. They conclude that the total assets and book value of equity as well as variability of book value and net income are significantly higher under IAS than under HGB. Corroborating the results of Hung and Subramanyam [29] is the study by Paglietti [54] which examined the quality of accounting information post mandatory IFRS adoption for Italian non-financial listed companies between 2002 and 2007. The study reports among others that accounting quality inferred by value relevance tests highlights an improvement of the ability of accounting numbers to provide investors with useful information for decision making purpose.

Surprisingly, two studies report contradicting results in an interval of one year and in the same reporting environment, Greece. A study by Kousemidis and Ladas [35] examine the initial effect of IFRS on value relevance for 159 firms during 2003-2006. While, the results of the study indicate that value relevance of book value of equity and earnings decreased in the post IFRS period. Another study, one year before, by Tsalavoutas [66] using a sample of Greek listed companies, pre and post IFRS adoption, found no change in the value relevance of accounting information between 2004(pre) and 2005(post) IFRS

adoption periods. However, the results, further reports incremental value relevance for reconciliation adjustment and that level of mandatory disclosures do have valuation effects. Moreover, a study by Tsalavoutas et al., [65] using a sample of Greek listed companies, examined IFRS value relevance relative to Greece GAAP. Their findings suggest that there was no change in the combined value relevance of book value of equity and earnings, thus accounting quality did not improve after IFRS adoption contrary to its longstanding preposition.

Notwithstanding, the study by Callao et al., [19] evidence that no improvement on the value relevance of financial reporting to local market operators observed for IBEX-35 companies examined to see the effects of the new standards on comparability and relevance of financial reporting in Spain. However, they anticipate improved usefulness of IFRs in the medium to long term. With regard to comparability it was found that local comparability is adversely affected if both IFRS and local accounting standards are used in the same country at the same financial period, hence suggested an urgent transformation of local rules according to the international accounting standards. Similarly using the data of Swedish listed companies Paananen [52] examine whether financial reporting quality had increased after adoption of IFRS. The study, documents no increase in financial reporting quality over two first years after adoption. He actually observed some indication of decrease in financial reporting quality measured as smoothing of earnings, timely loss recognition and value relevance. The result of Paananen [52] is supported by empirical evidence from the study of Lin and Paananen [52] which suggests that the value relevance of equity and earnings decreased after the IFRS adoption.

The conclusions by Lin and Paananen [52] faults a result from a scrutiny by Paananen et al., [51] who found that the accounting quality increased in Sweden after the adoption of IFRS since the association of book values and share prices increased significantly after the switch. In addition, they find an increase in the incremental value relevance of both measures. Notwithstanding, Bagaera [9] in a Russian circumstance using both listed and unlisted Russian firms evidence that the quality of accounting information published in Russia depends on many factors, the most influential one being, the IFRS.

Another study by Ashbaugh and Olsson [8] which examined non-US firms listed on London's SEAQ found that IFRS and US GAAP earnings and book values of equity are equally value-relevant, but that the degree of value relevance depends on the valuation model used. The results by Ashbaugh and Olsson [8] is corroborative to a result of study in European context by Agostino et al., [1] investigating the market valuation of accounting in baking industry before and after adoption of IFRS using a panel method. The study evidences that the IFRS introduction enhanced the information content of both earnings and book value for more transparent banks. By contrast less transparent entities didn't experience significant increase in the value relevance of book value. Contrary to above studies, using the sample of 145 restatements from NGAAP to IFRS for firms listed on the Oslo Stock Exchange in Norway to test whether the IFRS accounting figures correlate more strongly with stock market values than the corresponding NGAAP figure, Oystein et al., [50]

found little evidence of increased value-relevance after adopting IFRS when comparing and evaluating the two regimes unconditionally.

Inconsistent to study by Oystein et al., [50]; Karampinis and Hevas [32] report that the adoption of IFRS positively affected value relevant of consolidated net income and book value of accounting numbers and highly pronounced after IFRS adoption for firms listed on Athens Stock Exchange (ASE) in Greece. It further noted that IFRS may be beneficial even in an unfavorable context. Notwithstanding, Dimos [27] using a sample of European Commercial banks ,explored whether fair value estimates for loans and advances held to maturity investments deposits and other debts and recognized at fair value are value relevant. The results show that they are value relevant. The result further indicate that fair value of loans and derivatives is contingent on bank`s financial health and earnings variability respectively and on ability to enforce IFRS.

Moreover, a recent study by Cormier [21] examined in Canada whether moving from Canadian GAAP to IFRS has reduced information gap between managers and investors. The results suggests that compared to Canadian GAAP, under IFRS regime, the value relevance of earnings is enhanced and that financial statements notes has greater impact on value relevance of earnings. In general it is inferred in the study, that IFRS financial statements provide relevant information to Canadian investors beyond Canadian GAAP. The result is consistent to IASB`s self proclaimed goal of providing investors with relevant information for viable economic decisions.

Larson coauthored Bongstrand [18] to examine whether IFRS contributes to increased accounting quality, using a sample of 431 companies listed at NASDAQ OMX Nordic and Oslo Stock Exchange (OSE) between 2001 and 2010. The results show significant empirical signs of increased value relevance in both Scandinavian earnings information and book value. Henceforth, conclusively, IFRS improves value relevance of earnings and book value of equity for information disclosed in the Scandinavian region. In Finish reporting environment, Soderlund [62] examined whether IFRS is more value relevant than Finish Accounting Standard (FAS). The results indicate that, value relevance increased for balance sheet under IFRS and decreased for Income statement. Ibid, associate the results with the fact that IFRS is more balance sheet oriented and FAS income statement focused. Even though the value relevance figures under IFRS was expected to increase for both balance sheet and income statement.

Yet another study in a Canadian context, Nulla [45] assessed the impact of IFRS on quality of information for large Canadian banks, using quantitative methods. The results, suggest that, the quality of reporting improves witnessed by increased value relevance of earnings, increase in persistence and predictability in earnings and cash flows, decreased income smoothing, but decrease in accounting valuation usefulness. Nulla [45] also posit that loose standards can lead to a decline in accounting quality even in strong enforcement countries like Canada and United States of America.

Albeit, Saaydah [60] using a sample of 11 banks and 34 industrial companies for the period of four years (2006-2009) examined impact of applying IFRS by Jordanian

listed companies. Using a cross sectional OLS regression model, ibid, concludes that in the era of IFRS , operating cash flows and discretionary accruals are better predictors of banks` market values, while book value and earnings are better predictors of industrial firm`s market value. Finally Trabelsi et al., [67] using the sample of companies listed in European Stock markets, examined the impact of IFRS on accounting quality through value relevance of earnings. The results indicated that accounting information quality improved by increased association of earnings and firm`s market value. They thus conclude that earnings, measured using IFRS are more useful for firm`s valuation. It further document that value relevance of earnings using IFRS is not higher for large companies hence not sensitive to firm size.

The studies presented in this section are from developed countries where we would expect IFRS to improve accounting figures value relevant due to presumed strong enforcement mechanisms and capital market maturity and orientation. However, it is observed that the results are mixed and incoherent and it is difficult to have a general conclusion whether the IFRS improves the quality of reported figures in developed capital markets. The mixed result support the annotation by Nulla [45] who document that loose standards can lead to a decline in accounting quality even in strong enforcement countries like Canada and United States of America. As such we learn that for quality reporting we need more than just a change in accounting standards. Correspondingly; Bagaera [9] argue that the quality of accounting information depends on many factors although reporting standard (IFRS) is the most influential factor.

### 3.4. Developing world Studies on IFRS Value Relevance

This section puts forward the studies that assess the impact of IFRSs on value relevance in developing countries context. The studies are numerous but limited in African context and based on Ohlson valuation model. An empirical research on a Chinese reporting scene, Zeng et al., [72] using data of all A-share listed Chinese companies in non financial industries between 2004-2009 examined the value relevance of financial assets under IFRS converged China Accounting Standards (CAS). The findings and results suggest that value relevance of financial assets improved after implementation of fair value oriented standards IFRS based CAS in China for A-listed firms. They specifically document that financial assets recognized at fair value on balance sheet under new IFRS based CAS are more value relevant than those reported at historical costs under old China Accounting Standards (Old-CAS). In a two emerging counties study; Prather-Kinsey [58] examined the usefulness of accounting information under IFRS, Johannesburg Stock Exchange (South Africa) and Bolsa Mexicana de Valores Stock Exchange (Mexico) listed companies for the period 1998-2000. She finds that JSE`s and BMV's reported earnings and book value of equity are value relevant in explaining the stock prices. She further suggests close interaction of national standard regulators and IASB.

A research report by Lee et al., [41] assessed the value relevance of IFRS convergence in China post 2007 period. The findings suggests that introduction of IFRS converged

CAS (China Accounting Standards) has benefited the Chinese economy by making reported earnings more informative and useful to investors. It further, documents that there has been significant increase in value relevance of reported earnings to treatment group than control group following mandatory adoption of IFRS converged CAS. China's improved value relevance however, was partly associated with the firm's incentives. Similar to Lee et al., [41]; a study by Suadiye [63] using the equity valuation method by Ohlson [49] investigated whether the accounting information produced under IASB standards are more relevant than the ones produced under Turkish Accounting Standards (TAS) using firms listed on Istanbul Stock Exchange (ISE). The result evidence that the value relevance of accounting information for Turkish listed companies improved with adoption of IFRS.

Correspondingly, Alfaraih [4] examined the value relevance of earnings and book value for Companies listed in Kuwait Stock Exchange (KSE) during the 1995-2006 periods. The study reveal that earnings and book value were significant factors in Kuwait Stock Exchange (KSE) listed firms during that period. This result, corroborate findings of a study by Khanaga [37] in United Arabs Emirates(UAE) Abu Dhabi Stock Exchange (2001-2008) and Bahrain Stock exchange (1996-2008) which found evidence that accounting information is value relevant post IFRS adoption period and that value relevance increase after adoption compared to pre-adoption period.

In yet another study, Lin et al., [43] assessed the impact of US GAAPs during IFRS convergence period and post IFRS adoption on quality of accounting information of Taiwan listed companies, via value relevance and earnings management. The main findings indicate that financial reporting quality improved under convergence period towards adoption. Further, the study document that convergence (amendments towards IFRS) leads to financial statements packed with more useful information. However, an empirical study in African environment by Outa [48] show that three out of eight metrics indicated that quality of reporting had marginally improved while five out of eight metrics indicated that it had marginally declined. This is a mixed result and adds contradictions on the debate of accounting quality since it is not consistent with IFRS promises, since the quality of reporting didn't improve because of IFRS.

The results by Outa [48]; though in different reporting environment differ with results by Filip [28] who investigated the impact of the mandatory IFRS adoption on the value relevance of accounting in Romania. Findings suggest that the implementation of IFRS increased the value relevance of earnings and not book value of equity, which is contrary to the balance sheet orientation of IFRSs. Correspondingly, Arum [6]; finds in a sample of 117 companies listed in Indonesian Stock Exchange (ISE) reports that the IFRS implementation decreased earnings management and increased value relevance of accounting information, henceforth improved quality of financial information, but had no effect to increase the timely loss recognition.

The only study known by author so far in Tanzania context is that by Salala using relatively small sample of three manufacturing listed companies to examine the relative and incremental value relevance of BV of equity and net income, pre and post mandatory IFRS adoption

periods between 1997-2004 and 2005-2012 respectively. The findings, evidence that the value relevance of earnings and book value of equity has increased significantly after adopting IFRS. It further report incremental value relevance of earnings between TFAS and IFRS in the two periods. This study suffers from small sample and restraints towards manufacturing companies. Similarly, Swartz and Negash estimate the effects of IAS on the Johannesburg Securities Exchange and find some evidence that accrual information prepared under IAS was more value-relevant than under local standards, notwithstanding the considerable similarity between the two accounting regimes.

Reporting result in Chinese scene, by Chamisa, Mangena and Ye [22] investigated the value relevance of accounting measures based on Chinese Accounting Standards (CAS) and IFRS for 86 listed companies on both A-share and B-share. Applying a price model the findings suggest that for both listed companies both CAS and IFRS based accounting information is value relevant but IFRS based information is more value relevant than CAS based information. The results match the result from another study in Chinese context, Qu et al., [59] investigated the quality of information of 309 A-share listed companies consequent to IFRS convergence. They compared pre (2004-2007) and post (2008-2010) IFRS convergence periods. The results suggest that, earnings per share relative to book value of equity are stronger explanatory factor for market return in both pre and post IFRS convergence periods. It further, point out that investors rely much upon earnings realized by listed companies in China Stock market.

A recent study by Pascan [55] in Romanian context analyses the effect of mandatory IFRS introduction on quality of accounting information for entities listed on Bucharest Stock Exchange for 2010-2013. The results suggest that the IFRS adoption in Romania enhanced accounting quality over the period of analysis. Supporting the conclusions by Pascan [55] is Benyasrisawat [10] who evidences that the accounting quality, including earning persistence and value relevance improved after IFRS adoption in Thailand. He so concludes that the adoption and consequent application of IFRS generally improves accounting quality. The study by Benyasrisawat [10] concur with a extant result by Barth et al., [13] which evidence that adjustment to net income resulting from mandatory 2005 adoption of IFRS in Europe are relevant to investors for financial and non-financial firms.

Besides, another presently study in African scene by Umoren and Enag [68] using sample of 12 banks listed in Nigeria empirically examine whether the mandatory IFRS adoption improved the value relevance of financial information using data in 2011(pre) and 2012(post IFRS). The results indicate that the equity value and earnings of banks are relatively value relevant to share prices under IFRS than under previous Nigerian SAS. The results further imply that the accounting information is more informative to investors under IFRS regime. Notwithstanding, a study by Kwong [39] in Malaysia reporting environment examine value relevance of accounting information and financial reporting among firms across three reporting periods with IFRS adoption levels. The results provide evidence that IFRS is value relevant for decision making among investors as reflected

in the market values. As such, the study finds that book value of equity and earnings do significantly jointly explain variation in their association with market values for three periods but becomes more increasingly important post mandatory IFRS adoption.

Correspondingly, to result reported in Bongstrand and Larson [18] a study by Truel [64] in Turkey examined the relative and incremental value relevance of earnings and book value of equity under capital markets Board (CMB standards (2001-2002 and under IFRS (2005-2006) for Turkish listed companies. The findings reveal that the value relevance of earnings and book value of equity has increased significantly after adopting IFRS. He further, indicate that incremental value relevance of earnings increased between the CMB standards period and the IFRS period in contrast to book value of equity which decreased in the same period.

In another recent value relevance study, Mousa coauthored Desoky [26] to examine value relevance of IFRS in Gulf Cooperation Council (GCC) country using a sample of 40 companies listed on Bahrain Bourse (BHB) using OLS regression analysis. The study report that no obvious differences in value relevance of accounting information after the adoption of IFRS by listed companies under stock return model. However, with price earning model the improvement of value relevance post-IFRS adoption is slightly noticed. Consistent to Mousa and Desoky [26]; Peng and Chen [57] using a sample of Taiwanese listed companies lately compare the value relevance impact of IFRS and Taiwanese GAAP. The findings indicate that even though the financial reporting under IFRS doesn't dominate in value relevance than Taiwanese GAAP the information of other comprehensive income items under IFRS do have additional information content after controlling Taiwanese GAAP book value and earning information.

Another, lately study by Kargin [33] investigates the value relevance of accounting information for Turkey listed Companies pre and post IFRS adoption between 1998-2011 periods. The result, similar to Soderlund [62] find that value relevance of accounting information had improved in the post IFRS period (2005-2011) considering book value of equity while improvements had not been observed in value relevance of earnings. Kargin, so concluded that fair value presentation of financial reports would lead to a closer book and market value. Correspondingly, latest study by Othman and Chebaane [47] finds that accounting information was value relevant post IFRS adoption period. It further, suggest that the increase of value relevance level are positively influenced by a common law legal system; a high level of external economic openness; a strong investors protection; a full protection of minority shareholders and by sophisticated capital markets. However, their observation is challengeable, since we have seen negative impact of IFRS on quality of reporting in some countries with mentioned characteristics.

Using South African sample of 3950 listed companies by Ames [5] during 2000-2011 assessed the impact of IFRS adopting on accounting quality, measured in two broad ways, earnings quality and value relevance. The results finds that the earnings quality is not improved among the firms post-IFRS adoption. Still, the value relevance of some specifics balance sheet components

changes post- IFRS adoption. Producing nearly similar results with Ames [5] another study in African context by Ngole [46] using a large sample of 347 listed companies from five African Countries excluding Tanzania, examined whether, IFRS improves usefulness of accounting information. The results report that IFRS increases the valuation role of book value of equity and overall value relevance but not earnings. He further, argues that results are in line with IASB Conceptual framework (2010) focus on the statement of financial Position rather than statement of financial performance in financial reporting.

Despite, the argument that IFRSs are not 'fit for all' standards and that they may supposedly lack relevance to some countries especially with no or few listed companies [58]; Nobes such as developing countries. Quite a number of empirical studies presented in this section show that IFRS based accounting figure are value relevant [4,6,37,41,63,72]; while few finds otherwise (e.g. [48]). This is supportive of Karampinis and Hevas [32] comment that IFRS can be beneficial even in unfavorable context. All in all the studies still report mixed results in this context.

#### 4. Discussion of Results from the Review

The literature review in this paper explores the impact of IFRS on the improvement of quality of accounting information after IFRS adoption or relative to other reporting regimes through analysis of value relevance<sup>2</sup>. This follows the assertion that most studies asses the usefulness of IFRS on quality reporting vide value relevance analysis (Benyarrisawat ([10], pg.20); Suadiye ([63], pg.302)). Nevertheless, the literature surveyed indicate that accounting studies provides mixed and inconclusive evidence on the increase of value relevance of accounting information post IFRS and relatively to national GAAP. This affirmation is supported by quite number of studies (e.g., [16,26,58,54]).

It is discernible and presented in previous section, that some studies find that IFRS is more value relevant than Local GAAP (See e.g., [6,16,37,45,54,63,64,67]); Others find to be otherwise (e.g., [5,15,35,48]). Furthermore, some studies finds there is no significant differences on value relevance between IFRS and Local GAAPs (see, for example, [25,38,48,57,65,66,70]). The nature of results reported above, support, the connotation by Kao and Wei [30] that no consistent empirical findings whether the adoption of IFRS produces information quality superior to other accounting standards (pg.227).

Further, it is evident from literature that countries' institutional and market setting can significantly shape its financial reporting ([72], pg.4445). It is apparently provided that IFRS convergence is considered more useful in countries with more developed stock markets and better institutional framework than in countries without these attributes. It is then expected less benefit from IFRS to emerging countries with seemingly, weak and questionable

<sup>2</sup> Most studies determine the value relevance using the equity valuation model developed by Ohlson [49] and subsequent refinements. It is a measurement approach which regress market value on earnings and book values of equity i.e.  $MV_{i,t} = \alpha_{0,t} + \alpha_{1,t}BV_{i,t} + \alpha_{2,t}NI_{i,t} + \varepsilon_{i,t}$ .

enforcement mechanisms [4,41] and where IFRS relevance and applicability is doubtful. But in contrast, from reviewed literature, some studies, such as by [41,58,72] to mention a few, found IFRS to be value relevant in developing countries and rebuff the assertion by Lee et al., while emphasizing on annotation by Karampinis and Hevas [32] that IFRS can benefit even unfavorable reporting context. Generally, this result makes a clear wake-up call for empirical verification of IFRSs value relevance post-adoption and subsequent application on a country by country basis. This is because so far no general conclusion can be drawn from existing empirical works neither in developed countries nor emerging capital markets.

## 5. Conclusion and Implications

This study is limited to desktop and library review to investigate the worldwide extant empirical research evidence on the IFRS value relevance of accounting information. The literature survey indicates that accounting studies have concentrated in developed capital markets with growing interest in emerging capital markets. The review further reveal that the results from existing empirical crams (in both developed and developing reporting contexts) provide mixed, incoherent and inconclusive evidence on the impact of IFRS on value relevance post adoption; and relative to national GAAP. In such situation it is convoluted to directly associate the improved value relevance of accounting figures with adoption and subsequent application of the IFRS hence need for carrying out more empirical researches on this study issue. This result imply an urgent need and makes a clear wake-up call for empirical verification of IFRSs value relevance post-adoption on a country by country basis with a particular emphasis to developing capital markets especially Africa where little attention is noticeable.

Given the nature of reported results from the empirical scrutiny on the theme of the study the paper concludes that the IFRS quality standards can benefit either developed or developing country capital markets when supported with appropriate enforcement mechanisms. It presents that any dissimilarity of usefulness and impact of IFRS on value relevance in these countries can only be explained by disparity of other determinants of quality reporting, such as effectiveness of financial reporting regulatory frameworks, legal origin and quality of existing enforcement mechanisms among others. The results from this empirical review infer that IFRS is a critical determinant for quality reporting but not a conclusive determinant.

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