

THE IMPORTANCE OF THE IFRS IN INDIA

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Abstract

In this article the authors study the impact of the mandatory International Financial Reporting Standard (IFRS) adoption has on the value relevance of accounting numbers based on a sample of 440 listed firms. The aim is to identify the effects of the mandatory IFRS adoption by relying on panel data gathered over the period 2002 to 2012 resulting in more than 4,840 firm-year observations. Two models of Panel regression (stock returns and price models) were employed. The main finding shows that the adoption of IFRS across the studied period results to some improvement in the value relevance of accounting information with the stock return model. With respect to the price models, our result shows that there was slight difference in the value relevance of accounting information after the mandatory IFR adoption across India listed firms.

Keywords: IFRS, Stock Returns, Share Price, Value Relevance, Earnings

1. INTRODUCTION

Globalization of commerce has made financial reporting of large multinational companies essential due to the effect of diversity in accounting rules. Thus, in 1973, professional accountancy bodies of nine countries launched the official recognition of the International Accounting Standards Committee (IASC) with the objective to set up rules of reference for financial accounting debate excluding tax measurement (IASC 2001), which recently approximately more than 120 countries and reporting jurisdiction permit or require IFRS for domestic listed firms. However, based on the AICPA, (2013) accounted that out of the 120 countries; only 90 countries have fully conformed to International Financial Reporting Standard (IFRS) as promulgated by the IASB and include a statement of acknowledgement in their audit report.

Further, to ensure acceptance and recommendation of the IFRS across stock market around the globe, the International Organization of Securities Commissions (IOSCO) have been working alongside with IASC using a single, uniform set of disclosures (IASC 2001). Consequently, the first-time adoption of the International Financial Reporting Standards which became effective on January 1, 2004 (IASB, 2003), which provides the framework applicable to entities adopting IFRS for the first time as their basis of accounting. In general the standard explains 4 principal steps needed in process of transition to IFRS: 1) selection of accounting policies that comply with IFRS; 2) preparation of an opening IFRS balance sheet at the date of transition to IFRS as the starting point for subsequent accounting under IFRS. 3) determination of estimates under IFRS for both the opening IFRS balance sheet and other periods presented in an entity's first IFRS financial statements; 4) presentation and disclosure in an entity's first IFRS financial statements and interim financial reports (ISAB, 2003).

A recent publication by the IASB justifies relevance as one of the fundamental qualitative characteristics that determine the usefulness of accounting information for making economic decisions. According to the British Accounting Standard Board - ASB and IASB frameworks, information has quality of relevance when it influence the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations (ASB, 1999; IASB, 2013).

As it has been acknowledged by several authors (e.g., El-Sayed Ebaid, 2012; Alali & Foote, 2012; Dobija and Klimczak, 2010; Horton et al., 2008; Atwood et al., 2011), the value relevance of accounting information have increased after the mandatory IFRS adoption. That is the value relevance of the accounting data, using, as dependent variables, relative measure (the market return of stock), respectively absolute value (Price of shares) have increased under the adoption of the IFRS norms. However, other studies (such as Lin and Chen, 2005; Meulen et al., 2007; Gordon et al., 2010) have provided contradicting argument that there is no obvious differences before and after the IFRS across specific stock market.

In the United Kingdom context, starting with the fiscal year 2005, the trading companies whose securities were admitted to trade on the regulated market (London Stock Exchange) must prepare financial statements in accordance with IFRS. The Financial Reporting Advisory Board (FRAB) identified several areas where it expects that financial reporting by companies under IFRS will be materially different to that under India GAAP: (1) To prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities ; 2) To require the provision of information about the historical changes in cash and cash

equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities and 3) To prescribe principles for the determination and presentation of earnings per share, so as to improve performance comparisons between different entities in the same reporting period and between different reporting periods for the same entity (ISAB, 2003).

All these changes represented in the ISA 1, enable research in the field of financial reporting to develop research topics with direct relevance on the information communicated to the financial market. Thus, the aim of the present study is to follow the same tendency. Our study contributes to the literature in several ways. First, it broadens our knowledge about the area of value relevance of accounting number reported according to the IFRS for India listed firms. In addition, we contribute to the literature by using longitudinal analysis, which better allows identifying the direct consequences of the IFRS norms. Moreover, by focusing on investors and regulators, the study justifies that value relevance research is of potential interest to a broad constituency comprising not only academics, but also standard setters and investors.

The remainder of this article is structured as follows. In the next section we review analysis of theoretical framework of the study, through the review of specialized literature concerning the investigated subject and formulate some testable hypothesis. The third section provides information on the simple and discusses the methodology used in this article. In the fourth section the empirical results are presented. In the last section a discussion and conclusion is made and some limitation are formulated.

2. LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Since the uniformity in accounting standards used by businesses and other organizations for financial reporting around the world, many literatures have examined the impact of the IFRS on accounting numbers. Many studies report that the benefits of the adoption of IFRS help investors to make informed financial decision and more efficient allocation of saving worldwide (De Franco et al., 2009; Bradshaw et al., 2009; Barth et al., 2009; Kim and Li, 2010; Li, 2009; DeFond, 2009). Especially, prior studies such as Kim and Li (2010), Wu and Zhang (2009), Daske et al. (2008), Ntoug et al, 2015, Landsman et al. (2009), Hail et al. (2009) and Meeks and Swann (2008), report that the adoption of high quality standards like IFRS is associated with high financial reporting quality, therefore, the high financial reporting are sufficient to override manager's incentives to engage in earnings manipulation or to temporarily boost cash flow through delaying payment to suppliers (extending payables) and reversing charges made in prior quarters (such as restructuring reserves). For instance, under GAAP, management are allows to a range of choice to record transactions. This flexibility creates an environment for managers to generally report business in a way that help them earn their bonus and thereby increasing the

likelihood that the income statement will overstate profits, whereas, in the IFRS, such option is absence.

Kim and Li (2010) report that investors tend to depend on earnings information of industry peer for valuation and how financial reporting quality and information comparability improve after switching to IFRS. Hail et al. (2009), add that investors can evaluate other firms' managerial efficiency or potential agency conflicts using the disclosure of operating performance and governance arrangements as benchmarks. Landsman et al. (2009) support that switching to the IFRS adoption resulted to an increase in market liquidity and in the formation content of earning announcements and a decrease in cost of capital.

Nevertheless, compelling literatures find that without harmonized implementation and greater enforcements after the IFRS, strategic managerial discretion and lower financial reporting quality is inevitable (Nobes, 2002; Leuz and Verrechia, 2000; Barthe et al., 2000; Ball et al., 2009). Tendeloo and Vanstraelen (2005) use cross-sectional Jones model to investigate earning management under German GAAP versus IFRS. They argue that there is no different in earnings management when firms are reporting under German GAAP than under the IFRS. They disagree with the association of low earnings management and voluntary IFRS firms in Germany, however, high quality standards are sufficient and effective in countries with weak investor protection rights.

Moreover, Sunder (2007) report that there are still variations in economies since harmonization of the world's accounting standards such as IFRS cannot adequately accommodate political and economic differences across countries. Following Sunder's view, the mandatory IFRS adoption will eventually reduce comparability and increase opportunistic managerial discretion. This is the reason for non-IFRS adopter reluctant of adopting the standards.

2.1. IFRS and value-relevance of accounting number

Many studies in the area of value relevance of accounting information take into account the efficient market capitalization theory (Barth et al., (2001). The value relevance perspective was introduced Ball and Brown (1968) and attested that newly released usefully accounting information is the primary driver of efficient capital market. They further argued that accounting information presented in financial reports reflect various transactions of the Company over the accounting period for which the financial reports have been prepared.

Muelen et al (2007) affirmed that the increase in the quality of accounting earnings is due to the strong relationships that exist between earnings and market returns. Although several studies pointed that IFRS are clearly more value-relevant that local or national standards for most countries (Ball, 2006; Deske et al 2007; Niskanen 2000), this is due to the fact that in most weak countries with tradition of disclosing information useful for investor, there is a need for a regulatory disclosure policy which ensure that earnings for all listed firms are disclose to avoid manipulation of financial information.

For instance, using US listed companies, Gordon et al., (2000) provided evidence that the value relevance of earning is significantly higher under US GAAP than under the IFRS. Niskanen et al. (2000) analyzed 18 finish firms that disclose earnings under the finish accounting standards versus the IFRS from 1984 to 1992 using an earnings model. The results showed that change in local GAAP earnings, as well as the level and change in aggregate reconciliation to IFRS, are value irrelevant.

As shown by several authors (e.g., Gordon et al., 2007; Aharony et al., 2010; Humphrey et al., 2009; Callao et al., 2007), the value relevance of accounting information has been tested extensively in the accounting literature including accounting information prepare by IFRS. Related to this view, Dobija and Klimczak (2010) regressed the relevance of earnings on corporate value and corporate governance after the IFRS norms across 372 consolidated financial report of Poland listed firms. Using a total of 856 firms-observations, the authors characterized on the unexpected earnings model and the earnings yield model with statistically significant and positive coefficients. A similar result was found by Filip and Raffournier (2010). Using Romania listed firms; the authors report that the value relevance of earnings becomes increasingly significant under IFRS, consistent with evidence provided by Hellstrom (2006) on the Czech stock Exchange market. To what follows, Alali and Foote (2012) used 1934 firm-monthly observation comprising of 56 firms across the Abu Dhabi Stock Exchange (ADX) to examined the value relevance of accounting information under IFRS applying Ohlson (1995) and Easton and Harris (1991) models. According to Alali & Foote, evidence accounted for a positive association between accounting information and market values.

In addition, research findings contrasting the value-relevance of accounting information under the Norwegian Generally Accepted Accounting Principles (NGAAP) to the IFRS for all listed firms in Oslo Stock market reveal that the reconciliation adjustments to the IFRS are marginally value-relevant. However, little evidence of an increased value-relevance after the mandatory IFRS when comparing and evaluating the two regimes unconditionally was accounted (Gjerde et al 2008). The above literature overview clearly shows that one can expect to find a significant value-relevance of accounting information after the mandatory IFRS adoption. Although the effect of the IFRS norms on the value relevance can be either more or less, the idea of the adoption seems to prevail, implying that the IFRS will generally increase the quality of accounting

information. Based on these insights, we therefore hypothesize,

Hypothesis 1: The mandatory IFRS adoption has a significant impact on the value relevance of accounting numbers provided by listed firms in India.

3. METHODOLOGY

According Klimczak (2010) and Harris et al. (1994), accounting information is relevant when it has the capacity to predict the association with equity market values. Thus, the statistical association between financial information and returns proof the existence of value relevance (Alali and Foote 2012). In the spirit, value relevance methodology examines the relationship between accounting numbers and stock prices, adhering that, accounting numbers must be correlated with stock return for it provides useful financial insight for investors (Dobija and Klimczak 2010). Also, Ohlson (1995) used the clean surplus based valuation examines that book value provides an anchor role in valuation by measuring the net assets of the firm that generate future "normal" earnings. He reformulated the dividend discount model by expressing price as the sum of book value and the present value of expected future abnormal earnings. Easton and Harris (1992) indicated the importance of the changes in earnings in their model. They supported that in multiple regressions of security returns, both coefficients of the current earnings levels and earnings change variables are generally significantly different from zero. Recent studies such as (Mlonzi et al 2011, Tao et al 2007, Supattarakul 2012, Muelen et al 2007, Clarkson et al 2011) identify the quality of accounting numbers as common measure using value-relevance models, based on the relationship between stock prices and accounting numbers.

3.1. Value Relevance Models

Firstly, this study recognizes the relationship between stock returns and accounting earnings as illustrated in previous studies (such as Collins et al., 1997; Bartov et al., 2005; Dechow, 1994; Habib, 2010), where the annual market-adjusted return (RET_{it}) is express as a function of the ratio of earnings per share and stock price at the beginning of period (EPS_{it}/P_{it-1}) and as a dummy variable (DEPS) equal to one if the earnings are negative or zero otherwise. This is due to the fact that market prices may react differently base on the positive and negative component of earnings. Meanwhile, we separately estimated the degree of association (the R^2 model) for both the GAAP and IFRS.

$$RET_{it} = \beta_0 + \beta_1 EPS_{it}/P_{it-1} + \beta_2 DEPS + \beta_3 \Delta EPS_{it}/P_{it-1} * DEPS + \epsilon_{it}$$

Secondly, the study basically uses the theoretical framework applied in studies (such as Ohlson, 1995; Feltham and Ohlson, 1995), where the value relevance of the price model has increased while the value relevance of return model have

declined. This declined in the return model could be due to increases in the volatility of the market returns. Thus, the Ohlson model expresses the value of firm's equity as a function of its earnings and book values as follows:

$$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 DEPS + \beta_3 \Delta EPS_{it} * DEPS + \beta_4 BVPS_{it-1} + \epsilon_{it}$$

Where $P_{i,t}$ is the stock price three months after fiscal year end t , $EPS_{i,t}$ is the earnings per share, $BVPS_{i,t-1}$ is the book value per share of equity at the beginning of the period t . The coefficient of earnings β_1 indicates the pricing effect of current earnings meanwhile the coefficient of book value of equity at the beginning of the year captures the effect of expected future normal earnings to control for growth opportunities (Ohlson 1995; Feltham and Ohlson, 1995).

3.2. Data

As has been outlined in the beginning of this article, a longitudinal approach is followed for studying the impact of the mandatory IFRS on the value relevance of accounting numbers. For this reason, publicly available archival data were gathered from 2002 to 2012 (a period of eleven years) in the form of balance sheets and profit and loss account figures from the Global Vantage Research Database (Standar & Poor's), respectively. Firms with mandatory IFRS adoption were assigned code DI while firms without were assigned code not DI.

All accounting data were scanned for missing data, and then if missing data were found in any item of the observation, the observation was immediately eliminated from the entire population. For every country, we identified missing accounting data across industries such as the manufacturing, retailing and service industry. Firms with less than 12 months of annual report ending within their respective financial report period and less than eleven yearly annual reports were eliminated. We further employ the sampling criteria as used in Neuman, (2006), which stated that if the population is less than 1000, the sample ratio, which is the number of samples as a percentage of the population, therefore, should exceed 30%. According to our sample population across countries, all the countries used in this study exceed the leading criteria as due by the Neuman, (2006).

Table 1. Profile of Companies in the Sample

| Characteristics | n | Firm-observations | % |
|-----------------|-----|-------------------|-------|
| Sectors: | | | |
| Manufacturing | 248 | 2728 | 56.36 |
| Retailing | 66 | 728 | 15 |
| Service | 126 | 1386 | 28.6 |
| Number of firms | 440 | 4840 | |

By the end of 2012, a total number of 440 firms were identified with complete data from among the listed firm in India. Next, we eliminate firms in regulated industries (SIC codes between 4400 and 4999) for banks and financial institutions (SIC codes between 6000 and 65000). And in order to avoid the misrepresentation of our result through the concept of extraordinary items, we use earnings before extraordinary and exceptional items. It should be noted that the perceived lack of value relevance earnings can be attributed to the concept of extraordinary items; therefore using earnings before extraordinary items is best for this study. This study limit is scope to only the manufacturing, retailing and service industries since these industries are less influence by regulations, with 56.36% for manufacturing industry, 15% for retail industry and 28.6 for service industry (see Table 1). From the total

number of firms-observations covering the period of 11 years, 1320 firms-observations are before applying IFRS while 3520 firms-observations after applying IFRS for India.

4. EMPIRICAL ANALYSIS

4.1. Descriptive Statistics

The sample is derived from 440 different listed firms in India covering the period 2002 - 2012 with total of 4840 firms-observations. The number of observation per accounting period is equally distributed with the 440 observations per year. Table 2 shows the descriptive statistics of listed firms with completed accounting numbers over the period of eleven years, 2002-2012, related to accounting and India market. On average, share price three months after the fiscal year end increased from 5.034 euros (the mean share price for the period of the three years from 2002 to 2004) to 6.347 euros (the mean share price for the period of the eight years from 2005 to 2012). This is not surprising as the second period (2005-2012), witnessed the adoption of the IFRSs which caused most India listed firms to be more efficient in their financial reporting and the fact that most India companies were on recovering from the global financial crisis.

For instance, maximum share price 1005.000 euros (during the period of three years 2002-2004) increased to 2257,500 euros (during the period of eight years 2005-2012). Meanwhile, the minimum share price melted from 0.002 euros (during the period of three years 2002-2004) to 0.001 euros (during the period of eight years 2005-2012). Further, on average, the annual return of sampled firms have a mean of 0.648 for period 2002-2004 with a standard deviation of 5.373 indicating that during that period the average share price moved up by 0.64%. The minimum of the annual return was a negative of -0.934 for the period 2002-2004, while the maximum was 136.500.

Similarly, the second period, 2005-2012, the annual return was considerably dropped to show a mean of 0.131 as an average of eight-year period. This result shows the general down trend of listed firms in India during the period from 2005 to 2012 showing the effects of the global financial crises on the London stock markets. No significance difference revealed between the two periods concerning minimum annual return, meanwhile, an important difference was revealed between the two periods for the maximum annual return as it was moved down from 136.500 euros in the first period to be only 12.692 euros in the second period. The average EPS increased from -0.165 euros (the mean EPS for the first period from 2002-2004) with a standard deviation of 8.901 euros to -0.007 euros (the mean EPS for the first period from 2005-2012) with a standard deviation of 21.204 euros.

Regarding the book value per share, Table 2 reveals that the average for the two periods, before (2002-2004) and after (2005-2012), is nearly the same. This means there is no big difference between the two values of the book value per share. Again, the clear difference between the two periods in earnings and book value can be justified because of the global financial crisis.

Table 2. Descriptive statistics of listed firms in INDIA

| Variable | GAAP- Period before (2002-2004) | | | | | IFRS - Period after (2005-2012) | | | | |
|----------|---------------------------------|----------|----------|--------|--------|---------------------------------|-----------|----------|--------|--------|
| | N | Min | Max | Mean | SD | N | Min | Max | Mean | SD |
| P | 1320 | 0,002 | 1005,000 | 5,034 | 42,199 | 3521 | 0,001 | 2257,500 | 6,347 | 62,027 |
| EPS | 1320 | -299,890 | 57,294 | -0,165 | 8,901 | 3521 | -1239,085 | 139,717 | -0,007 | 21,204 |
| BVPS | 1320 | -51,346 | 621,638 | 2,778 | 26,357 | 3521 | -160,788 | 1168,796 | 3,079 | 31,459 |
| Return | 1320 | -0,934 | 136,500 | 0,648 | 5,373 | 3521 | -0,973 | 12,692 | 0,131 | 0,697 |

4.2. Correlation Analysis

Table 2 below illustrates the Pearson correlation analysis. As expected, the Pearson correlation analysis revealed some correlation between security price and book value (0.157) and earnings performance (0.139), significant at 0.05. It further shows a higher correlation between earnings

performance and book value (0.241), statistically significant at 0.01 level. However, very low correlation was identified among other variable such as return and share price (-0.001). Even though the inter-correlation among return and share price was low, negative and non-significant, it does not appear problematic and the multicollinearity should not be a serious concern (Tabachnick and Fidell, 1996).

Table 3: Pearson correlation

| | RET | P | EPS | BVPS |
|------|-------|--------------------|---------------------|------|
| RET | 1 | | | |
| P | -.001 | 1 | | |
| EPS | .007 | .139 ^{**} | 1 | |
| BVPS | -.004 | .157 ^{**} | .241 ^{***} | 1 |

^{*}, ^{**} Pearson Correlation is significant at the 0.05, 0.01 levels; N= 4840 observations.

4.3. Regression Analysis

In this section we discuss the results of the regression analysis explaining how the International Financial Reporting Standards (IFRS) have increased the value relevance of accounting information for all listed firms in India from 2002 to 2012. Thus, it employs two Panel regression model (return-earning and price-earnings models) using two sample periods, before the IFRS mandatory IFRS adoption

(2002-2004) and after the IFRS mandatory IFRS adoption (2005-2012).

Principally, a regression equation was performed across all the sample period from 2002-2012, as shown in Table 4 below. Regarding the R² and adjusted R² higher value were found in the price model (model 2; 0.386 and 0.267, respectively) than in the stock return model (Model1; 0.228 and 0.127, respectively). This result reveal that the price model provide better explanation of value relevance of accounting numbers than the stock return model for all listed firms in India.

Table 4: Regression Analysis Stock return & price-earning models covering the period (2002-2012)

| Independent Variables | Model 1 | | Model 2 | |
|--|---------------------|----------------------|------------------------|-----------------------|
| | Coeff. | t-stat | Coeff. | t-stat |
| Constant (β_0) | 7.9112 | 5.214 ^{***} | -0.012 | -0.036 |
| Earnings per share (β_1) | -2.206 | -3.150 ^{**} | 2.009 | 5.530 ^{***} |
| Dummy if earnings are negative (β_2) | 8.746 | 0.388 | 0.459 | 0.767 ^{***} |
| Interaction of earnings (β_3) | -6.167 | -2.648 ^{**} | -2.285 | -6.362 ^{***} |
| Book value per share (β_4) | | | 1.421 | 40.862 |
| R ² | 0.228 | | 0.386 | |
| Adjusted R ² | 0.127 | | 0.267 | |
| F | 4.327 ^{**} | | 14204.8 ^{***} | |
| Number of Observations | 4840 | | | |
| Number of firms | 440 | | | |

Coefficients significant at ^{*}p < 0.10, ^{**}p < 0.05, ^{***}p < 0.01

Furthermore, the difference between the two periods selected in the current study to test for the value relevance of accounting numbers, before (2002-2004) and after (2005-2012) the mandatory IFRS adoption with reference to the stock return and price models, are reflected in differences (if any) in the R² models between the two periods, before and after the adoption of IFRS. Results from all four models can be found in Table 4. Concerning the stock return model (mode 1), Table 5 (Panel 1) show

all values for the periods (before and after the application of IFRS). For the first periods, it provides results of both R² and adjusted R² models which are 15.5% and 9.8%, respectively. However, a higher value of R² and adjusted R² of 46.3% and 35.1%, respectively, indicating that there is a big difference in the value relevance of accounting numbers after the mandatory adoption of the IFRS across listed firms in India.

Table 5. Regression Analysis Returns-earnings & Price-earnings models

| Panel 1: INDIAGAAP (Period before IFRS: 2002-2004) | | | | |
|---|----------|-----------|------------|-----------|
| Independent Variables | Model 1 | | Model 2 | |
| | Coeff. | t-stat | Coeff. | t-stat |
| Constant (β_0) | 364.165 | 15.992*** | -183.918 | 4.999*** |
| Earnings per share (β_1) | 0.128 | 3.435*** | 0.970 | 16.366*** |
| Dummy if earnings are negative (β_2) | -0.252 | -1.828* | 21.697 | 9.482*** |
| Interaction of earnings (β_3) | 0.081 | 3.272** | 0.393 | 0.004* |
| Book value per share (β_4) | | | 0.300 | 18.300*** |
| R ² | 0.155 | | 0.605 | |
| Adjusted R ² | 0.098 | | 0.523 | |
| F | 6.899*** | | 502.738*** | |
| Number of Observations | 1320 | | | |
| Number of firms | 440 | | | |

| Panel 2. IFRS (Period before IFRS: 2005-2012) | | | | |
|--|----------|-----------|----------|-----------|
| Independent Variables | Model 1 | | Model 2 | |
| | Coeff. | t-stat | Coeff. | t-stat |
| Constant (β_0) | 0.973 | 2.634** | -192.044 | -3.566*** |
| Earnings per share (β_1) | -0.001 | -3.627*** | 0.659 | 15.675*** |
| Dummy if earnings are negative (β_2) | 0.005 | 3.159** | 16.694 | 3.744*** |
| Interaction of earnings (β_3) | 0.000 | 1.188 | 0.294 | 29.253*** |
| Book value per share (β_4) | | | 0.300 | 18.300*** |
| R ² | 0.463 | | 0.530 | |
| Adjusted R ² | 0.351 | | 0.509 | |
| F | 5.447*** | | 990.7*** | |
| Number of Observations | 3520 | | | |
| Number of firms | 440 | | | |

Coefficients significant at * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Secondly, the above result fully supports the research hypotheses, H₁, which was stated earlier that “the mandatory IFRS adoption has significant effect on the value relevance of accounting numbers provided by the India listed firms”. Thus, we reject the alternative hypotheses because there were significant increase in both R² and adjusted R² after the mandatory IFRS adoption. This result is consistent with prior studies (such as Barth et al., 2008; Muelen et al., 2007). Also, the current study employs the Cramer test statistic (Cramer 1987), which is based on the estimation of R² standard deviation, to assess whether a difference in the R² is statistic for the stock return model, model 1, reveal slight evidence (t = 2.167) after the mandatory IFRS adoption than before the adoption of IFRS.

Possible reason for the slight difference in the value relevance of accounting numbers before and after the mandatory IFRS for all listed firms is due to the fact that accounting information the major factors that can be considered by user of such information, thus this number are after by standard whether it is prepared according to the IFRS or the GAAP. Also, another reason for the above result might be after the IFRS became the main standards for financial reporting system in the market, most listed companies were force to adoption fully the standards. Thus, the above result does support the argument that the mandatory IFRS adoption provides more value relevance than local standards. The above result maintains the argument that the mandatory IFRSs are clearly more value-relevant than India GAAP. Thus, it maintain it consistency with prior studies (such as Hellstrom, 2006; Filip and Raffournier 2010; Dobjija and Klimczak, 2010). These studies concluded that the value relevance of earnings becomes increasingly significant under the IFRS.

Thirdly, regarding the price model, Table 4 (Panel 2) provides values of the two periods and shows that there was no improvement in the value relevance from the first to second period. For the

first period, it provides result of both R² and adjusted R² which are 60.5% and 52.3%, respectively. No slight difference was noticed in the second period as both R² and adjusted R² declined to 53.0% and 50.9%, respectively. This results indicates that mandatory IFRS adoption have no significant impact on the value relevance of accounting numbers, price-earning information. This suggests that an earnings reported according to the IFRS is less relevance than the earning according to the local standards. Thus, this finding does not support our research hypothesis. Consistent with prior study such as Niskanen (2000), reported that the transformation from the GAAP earnings to IFRS has irrelevance value. Also, Goodwin et al (2008) concluded that no evidence is found that the mandatory IFRS accounting number is value relevant. Lin and Chen (2005) reported a similar result using China listed firms. They concluded that earnings identified by Chinese GAAP provide more value relevant accounting information than IFRS. Further, in Germany, Bartov et al., (2005) found no significant difference in earnings quality when measured by the price-earnings relationship.

5. DISCUSSION AND CONCLUSION

The idea that the mandatory International Financial Reporting Standards can have an impact on the value relevance of accounting information should be no surprise given that standards used for financial reporting is one of the most important and critical instrument in annual report generation. In fact, the movement toward the global accepted IFRS has provoked significant attention and debate. It is therefore important to study the attributes of financial reports prepared under IFRS by examining its value relevance, as doing so can lead to more insights into best practices regarding how investors based their investment decision on either annual market-adjusted return model or price-earnings

model. Although past research has already investigated the important of IFRS on accounting information, the research usually lacks a theoretical underpinning, mainly restricted to the study of large corporation listed in US and Germany or based on cross-sectional analysis. The current research seek to overcome these limitations by offering potential for better understanding the impact of mandatory IFRS adoption in India starting from a panel data setting. The result of the study should be of interest to the association involved in putting and improving accounting standards, as well as for the investors planning business activities in India.

As shown by our analysis, findings relating to market-adjusted return showed higher value of both R^2 and adjusted R^2 from the first period to the second (after the adoption of IFRS) indicating that there is significant difference in the value relevance of accounting number after the mandatory IFRS adoption by listed firms in India. However, the price-earnings model was found no in favor of the IFRS since we recorded no significant different before and after the mandatory IFRS adoption. That is, our findings showed that there was no improvement in the value relevance of accounting information first period to the second period as no considerable changes were noticed in the second period for both R^2 and adjusted R^2 were increased, which remain consistent with previous research stated above.

Despite the interesting results that could be derived from our analyses, we nevertheless have to mention a few shortcomings comprised in this study. Given the great complexity that usually goes together with sample size and sufficient period, it can be expected that the interplay of several factors will determine to what extent the mandatory IFRS adoption will have an impact on accounting information. In this respect we could refer to several issues such as investor response function on the IFRS adoption as an opportunity for further studies.

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