

The Relevance of IFRS Accounting Information: Evidence from a Pure IFRS Environment

ملاءمة المعلومات المحاسبية: دليل من بيئة نقية للمعايير الدولية لإعداد التقارير المالية

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Abstract

The International Financial Reporting Standards (IFRS) are supposed to raise the value relevance of accounting information and thus ensure its usefulness for users. Most of the studies on the relevance of IFRS-based accounting information were conducted in countries that had previous accounting standards before the adoption of IFRS. However, the relevance of accounting information is influenced by the accounting traditions inherited from previous practices. This study provides distinctive evidence on the relevance of IFRS accounting information by examining the association between accounting information prepared by Palestinian companies and share prices. Palestine represents a pure IFRS environment since IFRS is its first financial reporting framework. The study estimates the impact of accounting information, including book value of equity per share, earnings per share, and operating cash flow per

share, on the market value of the share. Totally, the results show that the accounting numbers prepared by Palestinian companies are relevant. Precisely, earnings per share and book value of equity per share are the important variables in determining the share market value. Notwithstanding, no significant impact of operating cash flow per share has been observed. Moreover, evidence supporting the existence of conformity and predictive relevance is obtained, but the overall predictive relevance is higher. To enhance the relevance of IFRS information, this paper recommends local regulators and policymakers to work on improving the readiness of the Palestinian environment to fully benefit from the adoption of IFRS. On the other hand, the International Accounting Standards Board should adequately consider the circumstances prevailing in underdeveloped countries when issuing its standards. For future research, larger samples from several countries with different prevailing factors should provide insights into the mechanisms of the relationship between book and market values.

Keywords: Value Relevance, IFRS, Conformity Value, Predictive Value, The Palestine Exchange.

ملخص

تعتبر الملاءمة احدى الخصائص النوعية التي يفترض أن تتوفر في المعلومات المحاسبية المعدة وفقا للمعايير الدولية لإعداد التقارير المالية (IFRS). معظم الدراسات التي فحصت ملاءمة المعلومات الناتجة عن استخدام هذه المعايير طبقت في دول كانت تطبق معايير مختلفة قبل تبني IFRS، الأمر الذي قد يؤدي الى تأثير ملاءمة المعلومات المحاسبية بالمعالجات الموروثة من المعايير السابقة. هذه الدراسة تسعى الى فحص ملاءمة المعلومات التي تعدها الشركات المدرجة في بورصة فلسطين وفق IFRS من خلال فحص العلاقة بين المعلومات المحاسبية (ربحية السهم، القيمة الدفترية للسهم، ونصيب السهم من التدفقات النقدية التشغيلية) وسعر السهم. تعتبر فلسطين بيئة نقية لاختبار ملاءمة المعلومات المحاسبية الناتجة عن تطبيق ال IFRS، حيث لم يكن هناك معايير محاسبية سبق أن تم تطبيقها. بشكل عام، أشارت نتائج الدراسة الى أن المعلومات المحاسبية التي تعدها الشركات المدرجة في بورصة فلسطين تتصف بالملاءمة. حيث بينت النتائج أهمية كل من ربحية السهم والقيمة الدفترية للسهم في تحديد القيمة السوقية للسهم. بالمقابل لم يكن هناك تأثير كبير لنصيب السهم من التدفقات النقدية التشغيلية على سعر السهم. كذلك أثبتت النتائج وجود قيمة تنبؤية وأخرى تأكيدية في المعلومات المحاسبية للشركات المدرجة في بورصة فلسطين. أوصت الدراسة بضرورة قيام الجهات التنظيمية بالعمل

على تحسين جاهزية البيئة الفلسطينية لتطبيق هذه المعايير وبالتالي الاستفادة الكاملة من تبنيها. كذلك أوصت الدراسة بأن يتم أخذ الظروف السائدة في جميع دول العالم بعين الاعتبار من قبل مجلس معايير المحاسبة الدولية عند اصدار معايير IFRS. بالنسبة للدراسات المستقبلية، يفترض فحص ملاءمة المعلومات المحاسبية بالتطبيق على عينات أكبر ومن بيانات مختلفة لكي يتم الوقوف على العلاقة بين المعلومات المحاسبية والقيمة السوقية للسهم بشكل دقيق.

الكلمات المفتاحية: الملاءمة، المعايير الدولية لإعداد التقارير المالية، القيمة التأكيدية، القيمة التنبؤية، بورصة فلسطين

Introduction

International accounting convergence has become a necessity following the globalization of economic activities. Extensive efforts have been exerted to harmonize accounting practices in a way that ensures the usefulness of financial information internationally. These efforts culminated in the issuance of the International Financial Reporting Standards (IFRS) by the International Accounting Standards Board (IASB). IFRS-based financial reporting aims at preparing high-quality information useful in decision-making on local and international levels (Khanagha, 2011). According to the IASB framework, information usefulness is realized if several qualitative characteristics, including relevance to decision-making, are attained (IASB, 2010). Thus, IFRS are supposed to raise the quality of information in a manner that makes the accounting-based performance a reflection of the market-based performance, or value relevance (VR) (Devalle, Onali, & Magarini, 2010).

To be relevant, financial information must have predictive value, conformity value, or both (IASB, 2010). Predictive value represents the information's ability to predict future results, while conformity value implies its ability to deliver feedback related to prior estimates. Conformity value is measured by connecting accounting information with the market price of the firm's share during the months preceding year-end, while predictive value is measured by the association between accounting numbers and the share price during the months following year-end (Holthausen & Watts, 2001).

The IASB has achieved notable success as the majority of jurisdictions around the world require or permit IFRS use. Furthermore, many studies, such as Aharony, Barniv and Falk (2010), have confirmed an improvement in the quality of IFRS-based financial information. Notwithstanding, the quality of the information produced is still questionable, especially in underdeveloped countries (Gaston, *et al.* 2010). As many studies (e.g., Ampofo & Sellani, 2005; Bowrin, 2007; Dahawy, 2009; Abdeljawad & Alia, 2022; Alia & Barham, 2022; Alia & Awwad, 2022) indicate, these countries are unable to provide the setting needed to produce high-quality accounting information.

We address the quality of the IFRS-based information in Palestine. As a first step, the study examines the association between accounting numbers, represented by earnings per share (EPS), book value of equity per share (BV), and operating cash flow per share (OCF), and the share price at the reporting date. Next, this association is examined for the months preceding the reporting date (conformity value) and the months subsequent to the reporting date (predictive value). In other words, our study demonstrates how Ohlson's model parameters vary when the share price is considered in different months around the reporting date.

Our study extends the existing literature to an underdeveloped country with a unique context. Addressing the extent to which IFRS information is relevant in Palestine provides a distinctive evidence on IFRS quality. Unlike the vast majority of IFRS adopters, there was no financial reporting framework before the adoption of IFRS in Palestine. Given the Israeli occupation, there were no real businesses, corporations, investments, or institutional management until the mid-1990s. Many companies began their operations following the creation of the Palestinian Authority (PA) subsequent to the Oslo agreement in 1993. The Palestine Exchange (PEX), which was established later in 1997, required listed firms to adopt IFRS as a financial reporting framework (Alia, Abdeljawad, & Yaaqbeh, 2020; Alia & Mardawi, 2021; Abdeljawad & Alia, 2023). The distinctiveness of the expected evidence is enhanced given the lack of political stability and rule of law (Abu Alia, *et al.* 2024; Alia, Abdeljawad, Jallad, & Rashid, 2022; Alia & Abu

Sarees, 2023). Furthermore, considering this issue in Palestine would provide evidence relevant for a wide set of countries that have similar settings. As established by Gray (1988) and confirmed by many studies, including Paglietti (2009), Alia (2010), Alia and Branson (2011a), Garanina and Kormiltseva (2013), Cormier (2013), and Pascan (2015), the institutional environment, which is a product of cultural dimensions, is the determinant of the accounting system's characteristics. Country characteristics may still have a considerable influence on the VR of accounting data despite the common use of IFRS (Sahut, Boulerne, & Frédéric, 2011; Chebaane & Othman, 2014). Soderstrom and Sun (2007) added that quality diversity in financial reporting is likely to continue despite IFRS adoption since it is a function of the prevailing institutional setting of the country. Thus, the study's importance is enhanced, and the reliability of its results would be strengthened because Palestine has many features in common with other Arab, Islamic, and developing countries in which a lack of adequate studies that address VR exists. So, the recommendations of the study may be of special usefulness for policymakers in such countries in a way that increases the benefits of IFRS adoption. Furthermore, the results may enhance the possibility of attaining the IASB objectives related to increasing the quality of financial reporting internationally.

Literature review, theoretical background and hypotheses development

A value relevance study examines if accounting numbers are related to market values (Khanagha, 2011; Trabelsi & Trabelsi, 2014). Accounting literature has addressed VR as the ability of financial information to reflect the firm's value and explain the determinants of its share price (Kargin, 2013; Hail, 2013; Elbakry, Nwachukwu, Abdou & Elshandidy, 2017; Erin, Olojede, & Ogundele, 2017). Pascan (2015) attributed the wide use of the association between financial information and firm value in measuring VR to the emphasis on investors as the principal users of financial statement information.

Many studies have been conducted to estimate the VR of accounting outputs for decision makers, especially in European Union (EU)

obtained by Gjerde, Knivsfla and Saettan (2008) in Norway, Paglietti (2009) and Azzali, Fornaciari and Pesci (2010) in Italy, Tsoligkas and Tsalavoutas (2011) in the UK, Pascan (2014), and Mironiuc, Carp and Chersan (2015) in Romania, indicating an enhancement in the relevance of the financial information after the adoption of IFRS.

On the other hand, other studies reported a decline in the VR of the information after moving to IFRS. Results from Abu Ghazaleh, A-Hares and Haddad (2012) and Elbakry, *et al.* (2017) demonstrated that VR has decreased after German and UK firms adopted IFRS. Consistently, Gaston, *et al.* (2010) indicated that the first-time adoption of IFRS reduced the relevance of financial information in the UK and Spain. Similarly, Schiebel (2007) showed that German GAAP produces more relevant information than IFRS. In turn, Lin, *et al.* (2012) found that the accounting numbers prepared by German firms under IFRS exhibit less VR compared to those under U.S. GAAP. Paananen (2008) showed that the quality of financial reporting (including VR) has declined after the implementation of IFRS in Sweden. Likewise, Clarkson, *et al.* (2011) and Ji and Lu (2014) indicated that the VR of Australian companies has declined during the period of IFRS adoption. In Italy, Morricone, Oriani and Sobrero (2010) reported a reduction in the VR of intangible assets following the application of IFRS.

Notwithstanding, many studies failed to reach conclusive evidence showing an effect on VR after the introduction of IFRS. For example, Chalmers, *et al.* (2011) found no significant change in the VR of the Australian firms' book value as a result of using IFRS. Kouki (2018) noticed that the VR of accounting information has not improved after requiring IFRS use in Germany, France, and Belgium. Although Agostino, Drago and Silipo (2011) showed that IFRS adoption improved the information content of earnings per share and book value per share for highly transparent European banks, the VR of book value has not increased in less transparent banks. Depending on the data belonging to a sample of companies listed on the main European exchanges, Devalle, *et al.* (2010) provided little evidence on VR's increase. Likewise, no change in the relevance of the information was identified by Kousenidis, Ladas,

sufficient evidence to support the VR excess of IFRS over Nigerian GAAP. Notwithstanding, Alkali and Lode (2016) showed an improvement in the VR of assets and liabilities after adopting IFRS. As well, Erin, *et al.* (2017) suggested that the VR of information prepared by Nigerian firms is more pronounced in the IFRS era. To benefit from the advantages of IFRS adoption in Nigeria, Odia and Ogiedu (2013) called for learning the lessons from already-adopted IFRS.

Focusing on several emerging countries, including Arab countries, Chebaane and Othman (2014) reported an improvement in the level of VR of EPS and the book value of equity per share. Although few, other studies have addressed the VR of IFRS-based accounting information in Arab countries. While Mousa and Desoky (2014) suggested that the adoption of IFRS improved the VR of financial reporting in Bahrain, no change was observed in Oman. The same results for Bahrain were observed by Khanagha (2011); however, no improvement was observed in the UAE. The study concluded that conducting reforms in accounting standards does not necessarily improve the relevance of financial reporting information. Notwithstanding, Trabelsi and Trabelsi (2014) reported an improvement in VR for the accounting information of the UAE banks. Likewise, Alfaraih (2009) noticed a significant association between the compliance level of Kuwaiti companies with IFRS requirements and the VR of earnings and BV to market participants.

As we established earlier, this study examines the relevance of IFRS-based accounting information at the reporting date as a first stage. When doing so, we follow many studies, such as Paglietti (2009), Kim (2013), Garanina and Kormiltseva (2013), and Trabelsi and Trabelsi (2014), which consider the share price at the reporting date. Therefore, the following hypothesis was investigated:

H1: *Accounting numbers are associated with market value at the reporting date.*

Suadiye, 2012; Kargn, 2013; Ji & Lu, 2014; Mousa & Desoky, 2014; Kouki, 2018) or cross-country (Aharony, *et al.* 2010; Devalle, *et al.* 2010; Escaffre & Sefsaf, 2011; Clarkson, *et al.* 2011; Liao, Sellhorn and Skaife, 2012; Elbakry, *et al.* 2017).

In addition, several studies (e.g., Khanagha, 2011; Larsson & Bogstrand, 2012; Pouraghajan, Emamgholipour, Niazi, & Samakosh, 2012; Bepari, Rahman, & Mollik, 2013; Erin, *et al.* 2017) used cash flows and/or operating cash flows to examine the relevance of accounting numbers in different areas. Therefore, EPS, BV, and cash flows are used in this study to represent accounting information.

As shown in Table 1, 48 companies classified into five sectors are listed on the PEX. The 15 most active trading companies from all sectors are included in the PEX index (AL-Quds Index). All the index companies are considered in our study, which covers the period from 2006 to 2016. The annual reports of the companies and the PEX publication available on their websites are the sources of the study data.

Table (1): The Sample of the study (AL-Quds Index companies).

Sector	No. of companies of each sector	No. of companies of AL-Quds Index	Percentage of entire sector
Investment	10	4	40%
Banking & finance	7	5	71%
Insurance	7	1	14%
Services	11	3	27%
Manufacturing	13	2	15%

Source: the PEX (2019)

Research Model and Variables

While several approaches have been used in previous studies to examine the relevance of accounting information, the measurement approach is the most common (Francis & Schipper, 1999). According to Devalle, *et al.* (2010), it assesses the strength the of relationship between

Hypotheses were tested using a panel regression analysis to examine the association between the market value of the share and accounting numbers at the reporting date and to investigate the conformity and predictive values of accounting numbers during months before or after the year end. The coefficients of accounting numbers at the reporting date and for each month of the year are compared to identify the impact of the sampling month on the results. We follow the extant literature (e.g., Klimczak & Szafranski, 2013) method by using the first 6 months of the year to measure predictive relevance and the last 6 months to measure conformity relevance. This setting allows the market value to vary with the sampling month, while the independent variables vary only from year to year. Later, the two periods regression results are compared to identify the impact of accounting numbers on the year-end share value in the two periods. Regression coefficients embody the strength of each variable's effect on the market price of the share. The coefficients of each independent variable are compared in standardized terms, where the variables with a higher standardized coefficient value have a greater impact on share price.

In other words, this study uses the price model, which measures the impact of accounting data on market valuation (Khanagha, 2011; Lestari & Takada, 2015). According to Paananen (2008), the model implicitly assumes that the usefulness of accounting numbers for investors increases when a stronger association exists between them and the share price. Using this model is significant and based on a proven accounting theory (Ji & Lu, 2014).

... continue table (2)

Variables	Abbreviation	Definition	Reference
Moderating variable			
Timing	t_m	Six months before reporting date (July to December) and six months after reporting date (January to June)	Klimczak & Szafranski (2013), Kouki (2018)
Error term	u_{it}		

Results

Table 3 represents the panel data regression results with robust standard errors. The model has an R^2 of 84% and a highly significant F-statistic, meaning that the model is fitting well and the independent variables (EPS, BV, and OCF) explain 84% of the market value variation. This meets the results obtained by Collins, *et al.* (1997), Escaffre and Sefsaf (2011), and Klimczak and Szafranski (2013). Moreover, the results revealed that market value is significantly affected by BV and EPS, as their coefficients are almost 0.44 and 5.47, respectively, indicating that they are value relevant at the year end. The influence of EPS on MV is stronger than that of BV, as its standardized coefficient of 0.689 is higher compared with 0.284 for BV. The results meet the findings observed by many prior studies (e.g., Shamy & Kayed, 2005; Prevan & Vasilj, 2009; Jamaluddin, *et al.* 2009; Gamerschlag, 2013). However, OCF per share has an insignificant influence on VR. This result supports the results of Daraghma (2010), Qu, *et al.* (2012), and Pouraghajan, *et al.* (2012).

While the results of EPS and BV suggest high usefulness for these two accounting numbers, OCF is of low usefulness to investors in the Palestinian context. Overall, our results reported that accounting information prepared by the Palestinian companies is associated with the share's market value, indicating that IFRS-based information is value-relevant.

the January to June period. These results indicate that the predictive relevance of accounting data is higher than its conformity relevance.

As shown in Tables (4) and (5), in agreement with Klimczak and Szafranski (2013), the coefficients of the independent variables for subsequent and preceding months, respectively, indicate that the VR of the independent variables vary across months; however, variations are not significant. Obviously, EPS affects the share price for the whole period, as coefficient amounts range from 4 in July to 5.79 in March. Additionally, the predictive value of EPS is higher than its conformity value, implying that the share price is highly influenced by EPS in the period following the reporting date. On the contrary, the conformity value of BV exceeds its predictive value, as its coefficients during the January–June period range from 0.36 to 0.48, while they vary between 0.49 and 0.57 in the July–December period. The third accounting information, OCF, explains the share price significantly only in December. However, the OCF's ability to explain changes in share price is weak.

When comparing the accounting numbers (BV, EPS, and OCF) in terms of their ability to influence MV, coefficients reveal that EPS vary from 42% to 67%, BV ranges from 22% to 34%, and OCF vary from 0.7% to 9% over the months. These results imply that EPS has the strongest influence on MV, followed by BV, and then OCF with an insignificant influence. According to Paglietti (2009), the above results would mean that EBS is more informative, compared with BV and OCF, for investors. OCF is the least informative accounting number for Palestinian investors since it shows weaker explanation power for share price variation. This result signals that the Palestinian investors base their decisions mainly on the company's profitability.

Table (4): Regression results for subsequent months.

Dependent variable: MV at each month												
Variable	Month											
	1	standardized coefficient	2	standardized coefficient	3	standardized coefficient	4	standardized coefficient	5	standardized coefficient	6	standardized coefficient
EPS	5.151	0.624	5.484	0.642	5.798	0.676	5.277	0.641	5.353	0.671	5.23	0.659
t-Statistic	7.7905***		7.4203***		7.0278***		8.6665***		9.4881***		9.6975***	
BVPS	0.487	0.315	0.468	0.292	0.361	0.225	0.469	0.304	0.438	0.293	0.445	0.299
t-Statistic	5.0228***		4.8820***		4.4682***		4.0879***		4.3116***		4.6748***	
OCFPS	0.199	0.087	0.218	0.092	0.224	0.095	0.093	0.040	0.033	0.015	0.077	0.035
t-Statistic	1.9346		1.0983		0.5517		0.9178		0.3906		0.8393	
C	0.2966	0.087	0.3064	0.092	0.4253	0.095	0.3326	0.040	0.3064	0.015	0.366	0.035
t-Statistic	1.918**		1.967***		2.190***		2.149***		2.171***		1.859***	
NO. of observations	128	0.087	129	0.092	128	0.095	128	0.040	129	0.015	127	0.035
R-square	0.806		0.807		0.770		0.792		0.814		0.814	
F-statistic	173.23***	0.087	173.84***	0.092	139.84***	0.095	157.12***	0.040	182.35***	0.015	179.24***	0.035

Notes: T-Statistic is based on robust standard errors. ***, **, and * with T-statistic and F- Statistic indicate significance at 0.01, 0.05, and 0.10, respectively.

Table (5): Regression results for preceding months.

Dependent variable: MV at each month												
Variable	Month											
	7	standardized coefficient	8	standardized coefficient	9	standardized coefficient	10	standardized coefficient	11	standardized coefficient	12	standardized coefficient
EPS	4.001	0.421	4.697	0.524	4.734	0.531	4.823	0.552	4.654	0.532	4.640	0.5233
t-Statistic	5.6644***		7.2597***		7.3808***		8.8782***		9.231***		9.7308***	
BVPS	0.572	0.346	0.516	0.333	0.504	0.330	0.495	0.329	0.520	0.345	0.526	0.3488
t-Statistic	4.5519***		4.2116***		4.2637***		4.3359***		4.7752***		4.9350***	
OCFPS	0.1313	0.0362	0.1133	0.0317	0.0928	0.0243	0.0538	0.0076	0.0951	0.0253	0.168	0.0569
t-Statistic	1.0227		1.1031		0.9207		0.6043		1.16808		2.0250***	
C	0.354	0.0362	0.290	0.0317	0.305	0.0243	0.311	0.0076	0.274	0.0253	0.268	0.0569
t-Statistic	1.755**		1.798**		1.954**		2.084***		1.894**		1.861**	
NO. of observations	129	0.0362	127	0.0317	128	0.0243	129	0.0076	129	0.0253	129	0.0569
R-square	0.599		0.755		0.758		0.789		0.803		0.814	
F-statistic	62.35	0.0362	126.20	0.0317	129.30	0.0243	154.86	0.0076	170.28	0.0253	180.949	0.0569

Notes: T-Statistic is based on robust standard errors. ***, **, and * with T-statistic and F- Statistic indicate significance at 0.01, 0.05, and 0.10, respectively.

Conclusions and recommendations

Since Palestine is under occupation, no real economic or business environment existed before the establishment of the Palestinian Authority in 1994. Thus, no prior financial reporting system existed before the adoption of IFRS by the Palestine Exchange in 1997. Accordingly,

Palestine represents a pure IFRS environment with no previous financial reporting traditions.

In this study, we investigate whether IFRS-based information prepared by Palestinian companies is relevant. Our aim is to estimate the impact of accounting information, including book value of equity per share (BV), earnings per share (EPS), and operating cash flow per share (OCF), on the market value of the share.

Our results report that the relevance of IFRS information is evident in Palestine. However, local setting factors may hinder the perfect relevance of all used accounting numbers to some extent. In the details, the results show that EPS and BV are the important variables in determining market value. These accounting numbers are included in Ohlson's (1995) model as cornerstones. No obvious evidence showing the relevance of OCF is obtained. Furthermore, it is observed that EPS is the dominant determinant of the share price in the PEX.

Moreover, the effect of accounting information is investigated for a six-month period preceding the yearend and a six-month period following the yearend. In general, results indicate that the VR of the accounting numbers varies from month to month. This variation can be attributed to predictive and conformity values. The findings provide evidence supporting the existence of conformity and predictive relevance, but the overall predictive relevance is higher.

The study findings are useful for all parties related to accounting practice, including companies, investors, local regulators, and international organizations involved in the process of accounting harmonization. The importance of our results is not restricted to Palestine; it also extends to other countries that have similar cultural, economic, political, and institutional conditions. These factors help to determine the characteristics of accounting systems, as Alia (2010) and Alia and Branson (2011b) have shown. Also, Ball, *et al.* (2003) argued that the properties and quality of the financial statements are driven by the institutional setting rather than the financial reporting standards. In turn, Pascan (2015) indicated that the quality of accounting information

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