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The value relevance of accounting information based on IFRS in the Netherlands and the UK

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Abstract

International Financial Reporting Standards (IFRS) were initially adopted by the European Union in 2005 in order to share the benefits provided by globalization following 2005 and 2006. Various criteria were first implemented on a voluntary basis in these countries before becoming required. Therefore, this paper studied the influence of applying IFRS on the importance of the value of accounting information to Dutch and UK companies. The study was conducted before (2005) and after (2005) analyzing IFRS for 54 Dutch companies-years and 84 UK companies-years listed on the two countries' exchanges.

The study obtained data on stock prices, dividends and book value of shares from published annual reports of companies from both countries that cite and manage cash assets. Using a regression model, specifically, the study concluded that EPS before and after the implementation of IFRS had a positive impact on the stock price and thus could be the basis for market decisions. Post-IFRS financial information is relevant to a greater value than the pre-IFRS information. Moreover, the study indicated that there is an increase in the relevance of value after the implementation of IFRS in the Netherlands, although this increase is modest for the United Kingdom.

Keywords: IFRS, Value Relevance, Accounting Information, Dutch and UK companies

Introduction

Accounting's major job is to provide information required for evaluating past company decisions, which includes present operational profit and realizable cost savings (Ball and Shavikumer, 2008). The value of accounting information is indicated by how well it fits the demands of users, which is determined by a variety of variables. Accounting's importance in an organization cannot be overstated because it involves the measurement and distribution of accurate financial information to managers, investors, tax authorities, and other stakeholders to assist them in making educated choices about how to allocate the company's assets. (Kontopoulos, 2009).

1. Literature Review and Hypotheses development

Numerous studies in the current literature investigate the impact of IFRS adoption on accounting quality; for example, (Barth, Landsman, and Lang (2008), (Wali et al. 2020) find evidence that firms from 21 countries applying IFRS generally provide higher accounting quality, i.e., more value relevance of IFRS-based accounting information, earlier loss recognition, and greater value relevance of accounting quantities than a matter. Gassen and Sellhorn (2006) demonstrate that companies which volunteered to implement IFRS between 1998 and 2004 are having a more persistent, less predictable, and more conditional income. Paananen and Lin (2008), on the other hand, did a research for German firms reporting under IFRS and discovered a reduction in accounting quality following the required EU-adoption in 2005. They demonstrate that the shift in IFRS standards is driving this decline over time. Van Tendeloo and Vanstraelen (2005) also find identical levels of earnings management under German GAAP and IAS, indicating that accounting rules have little influence on the attributes of reported results. However, Bartov et al. (2005) argue that profits are more relevant to an international context as opposed to the German GAAP (IAS or US GAAP), and that US GAAP earnings have a similar significance to IAS earnings after selection control. According to Richardson and Thompson (2011) and Kousernidis and Ladas (2010), IFRS financial information is not value relevant. Giving to Kaaya (2015), the topic of whether IFRS increases the importance of stock book value and earnings remains a controversial topic open for analysis. [(Li, 2010), (Wali, 2017), (Wali and Darwish 2021).

The research problem of this study aims to provide evidence about the value relevance of IFRSbased accounting information in the Netherlands and the United Kingdom.

As a consequence of the discrepancies in the preceding philosophies and outcomes, the study hypotheses might be phrased as follows:

H1: In the Netherlands, the value relevance of accounting information based on IFRS.

H2: The IFRS-based accounting information's value relevance in the United Kingdom.

The remainder of the paper is organized as follows. Section 3 presents the methodology and the model that used and the approach used to test it. Section 4 deals with empirical tasks: the data base will be described first and the findings will be shown subsequently. Section 5 presents the discussion. In Section 6, the key conclusions are finally presented.

2. Method

2.1 Model

The method that used in this study is quantitative method. The model of Olhson (1995) was used in the study to reach conclusions regarding the value relevance of IFRS adoption for companies listed in the Netherlands and the United Kingdom before and after IFRS adoption. The independent variables for the study are earnings per share (EPS) and book value per share (BVPS) while the dependent variable is stock price. This set of factors was examined for both pre- and post-IFRS standards in the research. Multiple regression analyzes have been done to examine panel data using the social science statistics package (SPSS). Additional supporting analysis was performed, such as a descriptive statistic that provides information about the mean, standard deviation, minimum and maximum values in the studied data set.

The model is based on the relationship of "clean surplus accounting" in which the company's intrinsic value is to be reflected as initial investment in addition to its current value of unlimited abnormal earnings.

The Ohlson model (1995) was used to carry out regression analyzes:

SPit= 0 + β1EPSitpre + β2BVPSitpre + eit ………………….(1)

SPit= 0 + β1EPSitpost + β2BVPSitpost + eit …………………(2)

Where:

SP_{it} = the stock price

EPS_{it} = earnings per share of firm i at time t.

$BVPS_{it}$ = book value per share

2.2 Data collecting

The study gathers accounting data by selecting 54 firm-years at random in the Netherlands and 84 firm-years in the United Kingdom. SPSS's histogram, scattershot, and box plot can be used to identify outliers. When outliers were discovered and eliminated from the regression findings, the data was also compared to the same samples. To compare r-squares from various sample sizes. The additional explanatory power of book values and profits is examined across the two nations. The sampling approach employed the Thomson ONE Banker database. Registered companies were recognized in the Netherlands and the United Kingdom.

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3. Empirical analysis

3.1 Descriptive analysis

With respect to the Netherlands statistics, Tables 1and 2 show the greatest differences in the book value, values are indicated. What is notable is that the skewness of income is positive in 2004, 2005, and 2006, and has since grouped towards right at high levels, demonstrating fluctuation in income throughout the transition and earnings during the early adoption phase. The kurtosis in 2004, 2005, and 2006 is favorable to stock prices. The standard deviation for independent variables in the Netherlands is low, while the standard deviation for dependent variables is between 1-4, thus the average is rather reflective of the model.

Table 1 Descriptive statistics -Netherlands companies

	N	Range	Min	Max	Mean	Median	Std. Deviate	Skewness	Kurtosis
	Static	Static	Static	Static	Static	Static	Static	Static	Static
Panel A: Dependent variable									
SP 2004	54	12.61	-0.283	18.23	7.03	0.161	1.0750	0.110	1.871
SP 2005	54	6.95	1.42	12.50	4.12	2.11	1.180	1.651	0.012
SP 2006	54	14.70	0.67	20.61	8.24	3.21	4.16	2.70	2.010
Panel B: Independent Variables									
EPS 2004	54	2.322	-0.778	1.558	0.0251	0.096	0.3377	1.321	1.511
EPS 2005	54	1.282	-1.45	3.41	0.256	1.911	0.131	0/012	3.334
EPS 2006	54	0.890	-1.81	7.56	0.342	0.041	0.532	1.423	4.091
BVPS 2004	54	0.793	-0.291	4.620	0.0287	0.025	0.0586	1.032	1.109
BVPS 2005	54	1.210	0.019	12.90	0.912	0.205	0.281	1.124	5.013
BVPS 2006	54	1.290	-1.230	16.71	1.012	1.922	0.578	1.076	4.812
Valid	54								

Other stock market information may be seen as significant to financial reports by UK businesses and analysts. It is often assumed that certain events within a company, such as a potential merger or buy-out, might also communicate new information to the market. Technical analysis, a method of appraising companies that differs from fundamental research, or a mix of the two, may also be used by certain analysts and investors.

Table 2 Descriptive statistics -UK companies

	N	Range	Min	Max	Mean	Median Kurtosis	Deviate	Std.	Skewness
	Static	Static	Static	Static	Static	Static	Static	Static	Static
Panel A: Dependent variable									
SP 2004	84	6.71	-0.37	1.337	10.038	-0.061	0.0750	1.532	1.213
SP 2005	84	45.66	-1.86	131.231	13.762	0.817	1.5410	1.032	0.871
SP 2006	84	60.00	-2.62	1.621	14.461	0.912	1.0210	1.421	2.610
Panel B: Independent Variables									
EPS 2004	84	2.423	0.688	1.467	0.0330	0.085	0.4262	1.071	4.710
EPS 2005	84	1.351	0.151	1.812	0.2311	0.512	0.0260	1.512	5.432
EPS 2006	84	4.710	-0.141	2.812	0.2910	0.612	0.3210	1.331	4.123
BVPS 2004	84	0.885	-0.282	0.521	0.0396	0.034	0.0475	1.891	3.123
BVSP 2005	84	6.101	-0.231	5.980	0.2410	0.043	0.2910	2.121	4.101
BVSP 2006	84	1.430	0.171	2.001	0.1214	0.110	1.0910	1.890	5.321
Valid N	84								

3.2 Results

Table 3 demonstrates that the Netherlands' total r-square is increasing, rising from 0.46 in 2004 to 0.744 in 2006 and 2007. As a result, both investor-oriented accounting systems show a rise in value relevance following IFRS implementation, with the UK showing a modest gain. Since the advent of IFRS, the Netherlands has experienced the most substantial shift in the value relevance of accounting information.

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Table 3 Value Relevancy in the Netherlands

0.021

Models Coef. N Mean Median St.d F-Test Adj. R^2 D. Watson P.value

Multivariate Model*

Constant b0= 3.540

**0.000

M1 0.10912 0.1280

**0.000

EPS 2004 b1= -3.088 54 0.19512 322.400

0.7120

BVPS2004 b2= 2.345 54 1.0210

0.2131 216.00

**0.000

-0.2307

**0.000

M2

0.0141

0.0419 30.55

EPS 2005 b1= 2.312 54 - 42.60 % 1.383

0.2171 *0. 030

0.0280

0.401 16.34 41.24% 1.072

**0.000

0.1092

BVPS 2005 b2= -2.756 54

0.2141

0.621 0.421 44. 40 % 1.207

M3 0. 1163 274. 45.43% 1.312

305

EPS 2006 b2= 2.756 54 0.9110

73.021% 2.021

BVPS 2006 b3=- 2.463 54 -

0.0096 74. 40% 1. 400

Source: Author work * 0.001

and ** 0.005

Ordinary least squares are used to calculate the regression models. To make relevant comparisons, "adjusted R-square and standardized beta coefficients" were used. Earnings Per Share (EPS) and Book Values Per Share (BVPS) are both acronyms for the same item.

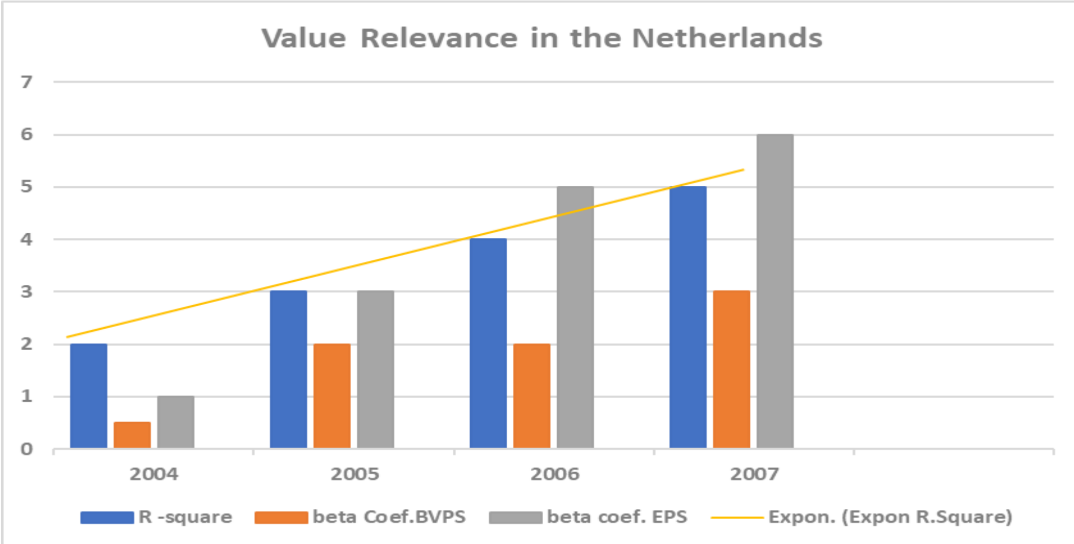

Figure 1 Value relevance in the Netherlands

Comparable to the United Kingdom, in the Netherlands, the beta coefficient of earnings regularly outperforms that of book values, with an average value of 3.540 between 2004 and 2006. As is characteristic of an investor-oriented accounting system, the incremental explanatory power of book values remained lower than that of earnings.

Earnings per share increased in significance more than book values per share in the Netherlands, showing that earnings in the Netherlands have a bigger role in overall r-square growth.

According to the researchers, earnings appeared to have a larger explanatory power over book values in the Netherlands and the United Kingdom. They discovered that in Continental nations, the balance sheet is more important in valuing than the income statement, although earnings transmit more information to value shares in investor-oriented accounting systems.

Finally, the first hypothesis H1: that IFRS implementation supports the value relevance of accounting information in the Netherlands is verified because this country displayed the greatest divergence in value relevance data (10 percent increase).

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Table 4 Value Relevance in the UK

Models	Coef.	N	Mean	Median	St.d	F-Test	Adj. R^2	D. Watson	P.value
Multivariate Model									
Constant	b0= 4.575								
M1									
EPS 2004	b1= - 4.088	84	23.512	0.11912 422.400		1.1280	45.60 %	1.453	**0.000
BVPS2004	b2= 3.345	84	2.2131	0.3120	1.2210 300.00		46.24%	1.118	**0.000
M2									
EPS 2005	b1=2.513	84	0.1280	0.4307	1.2419	45.75	47. 00 %	1.307	**0.000
BVPS 2005	b2= - 2.666	84	0.2141	0.0091	0.3000 19.34		47.53%	1.292	**0.000
M3									
EPS 2006	b1=- 2.951	84	0.5461	1.1092	0.5213 42	20.	55.21%	1. 440	**0.000
BVPS 2006	b2=- 0.760	54	0.4170	0.801	0.1063 1.161	254.31	60.00%		**0.000
M4									
EPS 2007	b1=- 2.951	84	0.6461	1.1192	0.4213	24. 42	64.21%	1. 450	**0.000
BVPS 2007	b2=- 0.670	84	0.3170	0.790	0.1163	244.31	63.00%	1.159	**0.000

Source: Author work ** 0.005

Ordinary least squares are used to calculate the regression models. Adjusted R-square and standardized beta coefficients were used to make meaningful comparisons. Earnings Per Share (EPS) and Book Values Per Share (BVPS) are both acronyms for the same item.

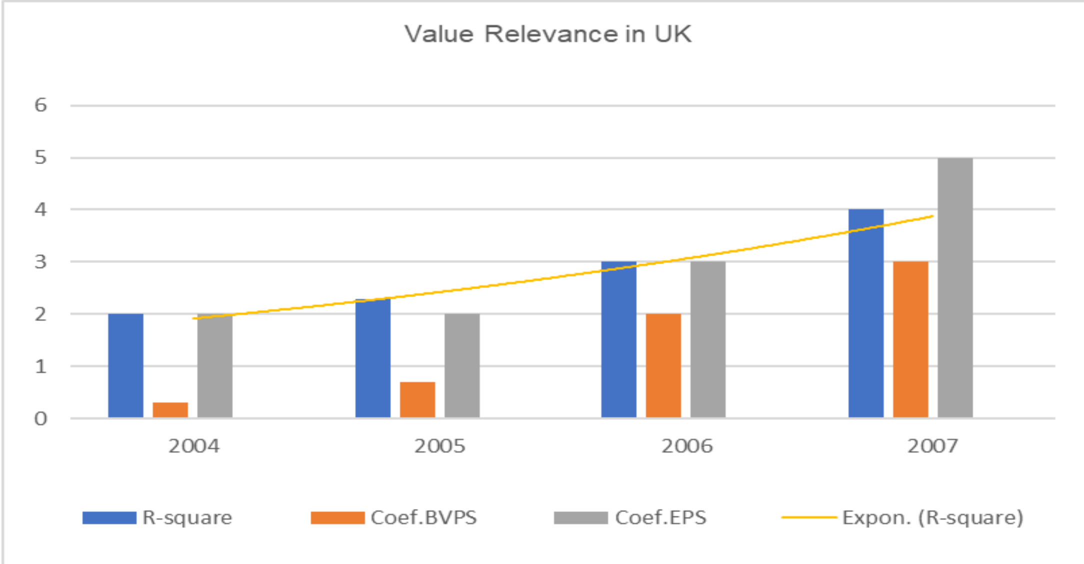

Figure 2 Value relevance in the UK

Figure 2 reinforces the earlier findings in Table 4, since the total r-square is much lower in column 2 than in column 3, despite increasing from 0.4560 in 2004 to 0.6000 in 2006 and 0.6421 in 2007. A increasing r-square implies that when the criteria are implemented, the value's fit increases International Financial Reporting.

The figure 0.6421 suggests that valuations and profits explain 60% of the stock market price, and other factors can also play a role in expressing the importance of accounting information. In this regression model, the United Kingdom is identified as the country with the highest sampling deviation.

H2: is approved and null hypothesis has been rejected, since when IFRS is adopted, the value relevance has altered and the alteration will be beneficial since financial statements indicate that users of the accounts have more relevant and trustworthy information available.

4. Discussion

The International Financial Reporting Standards (IFRS) bring value to financial reporting. This is the International Accounting Standards Board's key finding in order to justify its existence. The value of accounting information has grown in importance throughout time. The Netherlands was the country with the most users of IFRS after Germany. The United Kingdom did not have many early adopters of IFRS. However, it is still one of the countries of least importance in terms of total

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value. In addition, the sensitivity tests conducted when the mean differences were substantial demonstrate that the average result may not even reflect the IFRS implementation effect on individual companies in the sample, and these impacts might also rely on unique business characteristics.

Another point is that the application of International Financial Reporting Standards (IFRS) has a clear impact on companies listed in the Netherlands and the United Kingdom. Specifically, the study concluded that EPS and BVPS before and after the application of IFRS had a positive impact on the stock price and thus could be the basis for market decisions. Post-IFRS financial information is more relevant than post-IFRS financial information.

5. Conclusions

A large number of surveys in the literature examined the impact of the application of international standards on the quality of accounting; For example, some studies show that companies in IFRS countries generally present a higher quality of accounting, that is, IFRS-based accounting is more appropriate than accounting quality under IAS accepted before 2005. The results are reported on a larger scale. It reveals, for example, more stable, less predictable and more conditional revenue for organizations that agreed to apply IFRS between 2000 and 2004. And thereafter between 20052006 and 2007. There are studies conducted in this regard, the results of which were contrary to the above results, for example, the results of some of these studies showed that there is no relevance of the value of the information after the application of international financial reporting standards. This paper concludes that there is an increase in the relevance of value after the implementation of IFRS, however this is a little improvement for the United Kingdom. Following the implementation of IFRS, the Netherlands has made the most improvement in terms of the relevance of accounting information's value. Specifically, the study concluded that EPS before and after the implementation of IFRS had a positive impact on the stock price and thus could be the basis for market decisions. Post-IFRS financial information is relevant to a greater value than the pre-IFRS information. This topic is still a new topic that requires a lot of research and articles to write about, so this study recommends taking a sample of banks, especially with the application of IFRS, there will be a significant impact on the suitability of financial value and specific accounting information related to Basel 3.

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