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Mandatory IFRS enforcement and value relevance of accounting information in India

Aplicación obligatoria de las NIIF y relevancia del valor de la información contable en la India

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Abstract

This study investigates the influence of IFRS enforcement on the explanatory power of earnings and book value on the market price in an emerging economy, India over five years that is two years before mandatory IFRS enforcement for 2014-2015 and three years after IFRS enforcement for 2016- 2018. Total 3470 firm-year observations were examined by assembling data from the BSE website and the annual reports of the firms for this purpose. The findings of the study conclude that the financial reporting environment has improved after introducing the IFRS, which was reflected through a strong and significant association between market price and its two dominating variables earnings and book values. However, the findings also suggest that earnings have been stronger and more significant predictors of market price post-IFRS enforcement than book values, which showed a negative association with market price and declined after IFRS enforcement. The study also suffers from diverse constraints similar to previous studies such as limited data sets and years coupled with only two variables and suggests future scope for research in diverse angles where researchers can employ the return model, and add more control variables such as cash flows, leverage, size, growth...

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JEL Code: E44, G11, C59, H83
Keywords: accounting; IFRS; value relevance; India; ohlson model

Resumen

Este estudio investiga la influencia de la aplicación de las NIIF en el poder explicativo de las ganancias y el valor contable sobre el precio de mercado en una economía emergente, India, durante cinco años, es decir, dos años antes de la aplicación obligatoria de las NIIF para 2014-2015 y tres años después de la aplicación de las NIIF para 2016. - 2018. Se examinaron un total de 3470 observaciones por año de empresa reuniendo datos del sitio web de la BSE y los informes anuales de las empresas para este fin. Los hallazgos del estudio concluyen que el entorno de información financiera ha mejorado después de la introducción de las NIIF, lo que se reflejó a través de una asociación fuerte y significativa entre el precio de mercado y sus dos variables dominantes, las ganancias y los valores contables. Sin embargo, los hallazgos también sugieren que las ganancias han sido predictores más sólidos y significativos del precio de mercado después de la aplicación de las NIIF que los valores contables, que mostraron una asociación negativa con el precio de mercado y disminuyeron después de la aplicación de las NIIF. El estudio también adolece de diversas limitaciones similares a estudios anteriores, como conjuntos de datos limitados y años combinados con solo dos variables, y sugiere un margen futuro para la investigación en diversos ángulos donde los investigadores pueden emplear el modelo de retorno y agregar más variables de control como flujos de efectivo. apalancamiento, tamaño, crecimiento...

Código JEL: E44, G11, C59, H83
Palabras clave: contabilidad; NIIF; relevancia del valor; India; modelo ohlson

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Introduction

Improvement in the financial reporting environment is vital for any economic reform that captivates global market participants. International Financial Reporting Standard (IFRS) is, hence, regarded as a key instrument to improve the financial reporting quality, which magnifies the capital market efficiency. The process to harmonize local accounting standards was formally evoked in 1973 by setting up the International Accounting Standards Committee (IASB) Tan et al., (2008), but the international acknowledgment became ostensive after its enforcement by the European Union (EU) in 2002.

Hanna et al., (2011) in their investigation mentioned that enforcing new international standards is speculated to bring revolutionary alterations in financial reporting practices. Studies in past examined the influence of IFRS enforcement in tandem with value relevance (Clarkson et al., (2011); Ahmed & Goodwin, (2006); Goodwin et al., (2008))

Ball, (2006) endorsed the advantages of IFRS by asserting that IFRS provides more authentic, extensive, and transparent financial reports than local standards and also claimed that IFRS produces more informed equity valuation. Ismail et al., (2013) implied in their research that the influence of IFRS enforcement in emerging nations could be more prominent than in developed nations because of its superiority and merits. However, on the contrary Fox et al., (2013) showed some discrepancies in the benefits of IFRS enforcement and suggested that the influence of IFRS is diverse, which relies heavily on the dynamics of the market and adoptee. Sibel Kargin, (2013), revealed in their study that IFRS implementations substantially influenced the value relevance of accounting information in Turkey.

Joseph et al. (2010), examined IFRS enforcement in fourteen European countries with value relevance of information and suggested a certain association between IFRS enforcement and value relevance. Although much literature manifested resolute affinity between IFRS enforcement and the value relevance of accounting information, few noteworthy empirical studies produced inverse findings e.g., (Khanagha, 2011; Callao, et al., 2007; Hung and Subramanyam, 2007; Jeanjean and Stolowy, 2008; Lambertides and Mazouz, 2013; Dobija and Klimczak, 2010).

In India, the Accounting Standards Board (ASB) is accountable for setting up local standards (AS) (ICAI, 2007; Krishman, 2018). However, with the increasing internationalization, India sensed the pressure for compliance with IFRS and announced the Implementation of Ind. AS (converged IFRS standards) in 2011 (Jain, 2011), but the final convergence process was instituted in the fiscal year 2015. During this phase, companies realized the essential role of converged IFRS standards and value augmentation of financial information.

Ernst and Young (2017), investigated the impact of transition on 82 listed Indian companies and inferred that the majority of them notified a positive impact on their net worth. Gomes and Costa J C, (2022) indicated in their study that BVPS and EPS are more value relevant after the conversion of Ind. AS with IFRS of 910 listed firms of NSE.

Though voluminous literature is available on the subject, investigating the linkage between IFRS and value relevance but they are majorly confined to western economies, and mainly in India, IFRS enforcement and its benefits are yet to be explored since it is a recent development. The research findings suggested that both earnings and book values, which reflect the balance sheet and income statement quality, explained a significant positive association with market price per share during the IFRS enforcement period. However, book values were value-relevant before implementing the IFRS merely.

Review of literature

IFRS is significant in modifying the transparency and comparability of financial reporting Callao et al., (2007). It is one of the prominent speculated control mechanisms to resolve the information asymmetry problem in the capital market too. The evidence of the value relevance concept was first unearthed by (Beaver 1968; Ball and Brown 1968), who investigated the value relevance of accounting earnings. Accounting information is regarded not value relevant if there is no statistically significant link between the market value of a company and accounting information, which further reflects the failure of financial reporting in serving the real purpose (Gjerde et al., 2010; Ali and Hwang, 2000; Arce and Mora, 2002; Collins et al., 1997; Hung, 2001; King and Langli, 1998; Black and White, 2003).

Zavodny and Prochazka (2023) conducted research on the stock exchanges of four countries named Visegrád Group to check the value relevance of accounting information and the findings suggested that there is no substantial association between share returns on the Slovak capital market and accounting variables e.g. EPS, operating cash flows and BVPS.

Voluminous studies in the past investigated value relevance of accounting information on various accounting figures but among all variables, book values per share and earnings per share dominated the literature as they proxy the content of financial statements i.e. balance sheet and income statement and have a perceptive affinity with script prices , Mishary and Alanezi, (2011).

Abdelrahim and Shareif (2023) documented a positive affinity between share price and value relevance of accounting information. The authors also validated that BVPS, EPS, cash flows and dividends are statistically more relevant than other variables. Srivastava and Muharram A (2022) concluded in their study that there is a positive influence of accounting information on capital market during the IFRS convergence period In India and Indonesia. Alomair, et al. (2022) narrated in their research that there is an ambiguous impact of IFRS enforcement on different accounting metrics in the case of Saudi Arabia. Chehade and Procházk, (2023) provided evidence through their research that in the Saudi Arabian capital market, the accounting information is value-relevant. The authors also concluded that earnings and cash flows are relevant during, both, pre and post IFRS implementation but EPS is relevant only after the enforcement of IFRS. .Agbodjo, el al. (2021), documented in their study that the AAOIFI accounting standards mandatory enforcement moderately impacted the value relevance of accounting information both Islamic banks and hybrid banks

Rao, et al. (2023), in their study conducted in India, revealed that BVPS, PAT and net cash flows were value relevant during the pre-implementation of Ind. AS. BVPS and Investing activities related Cash flow substantially impacted the stock prices after the implementation of Ind AS. Many other researchers in the past examined the IFRS enforcement’s linkage with financial reporting (Jermakowicz, et al., 2007; Hung and Subramanyam 2007) where few studies documented an enhancement in the earnings and book values per share after shifting to new global accounting standards (Karampinis and Hevas, 2011; Suadiye, 2012; Kousenidis et al., 2010; Agostino, et al., 2011; Jermakowicz, 2004, 2007, Paananen and Li, 2009) while few showed diverse findings (Hung and Subramanyam, 2007; Bilgic and Ibis, 2013; Karğin, 2013). Krismiaji and Surifah, (2020) conducted their research on Indonesian firms and found inconsistent findings similar to previous research findings which links IFRS enforcement with the quality of accounting information. Filip and Raffournier, (2010) recorded an amelioration in the value relevance of

EPS after IFRS implementation and same has reported by other researchers in various countries Goldberg, and Kim, (2005) in German, Hellström, (2006) in Czech and Bartov, Tsalavoutas, et al., (2012) in Greece and Callao, et al.,(2007) in Spain, etc.

Bhattacharji and Islam (2009) in their research in Bangladesh debated the trade-off between the benefits of IFRSs and the benefits of decentralised adaptation and strongly recommended IFRS adoption in their study. On the contrary Gordon, et al.,(2010) in the United Kingdom suggested earnings were not substantially higher under IFRS regimes similar to the findings of Morais and Curto (2008) in Portugal and (Niskanen, et al. (2000), Jarva and Lantto (2011) in Finland.

Ashraf et al., (2017), conducted a comparative analysis of two countries, i.e. Germany and the UK, and revealed from an empirical analysis that a shift to the new international standards creates vagueness in the measurement of accounting data. The previous literature on the subject in Asia also supplied mixed results (Liu & Liu, 2007; Benyasrisawat, 2011; Kadri et al., 2011; Kwon, 2010; Wen et al., 2012; Bao and Chow, 1999; Sami & Zhou, 2004; Bingbin et al., 2015) suggested that accounting information was relevant after IFRS enforcement, while others reported a decrease in the quality in accounting information post-IFRS implementation (Haw et al., 1999; Eccher and Healy, 2000; Lin and Chen, 2005).

In India too, researchers (Khanna, 2014; Sharma et al., 2012; Vishnani and Shah, 2008; Kaur and Yadav, 2020), documented the same mixed findings. Bhatia and Mulenga (2019) examined 90 empirical studies published globally across continents and summed up that accounting information is relevant across the globe during the IFRS convergence process with a few diverse opinions. A thorough analysis of the literature on the matter across several economies revealed that few academics came to the conclusion that IFRS enforcement had no effect on the caliber of financial reporting, which encouraged the author to carry out further research on the subject.. .Hence, to investigate the effects of IFRS in India, this study aims to derive the following objectives-

1- To examine the value relevance of accounting information during the IFRS enforcement period.

2- To analysis and compare IFRS convergence standards' impacts on the application of accounting information in India both before and after its adoption.

3- To evaluate the impact of IFRS on the value relevance of accounting information during pre and post-transition year.

4- To investigate the impact of IFRS on the value relevance of BVPS and EPS individually.

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Method – data and model

The data collection

In India, the IFRS enforcement process was initiated in the year 2015-16 with voluntary adoption but the mandatory implementation started from the fiscal year 2016 -17, thus this study regards 2016-17 as a transition period portraying the first year of mandatory enforcement of IFRS is consistent with few previous studied in past (Jiao et al., 2012; Jones & Finley, 2010). The study spreads over five years from 2014 to 2018 while considering the transitional year 2016 and we segment the period as the pre-IFRS period (2014-2015) and post-mandatory IFRS period (2016-2018) aiming to equate the effect of IFRS on value relevance. Financial statements accounting variables and stock prices were assembled from the BSE website and annual reports of firms. However, some firms were excluded from the sample, which included banks, NBFCs. financial firms, which were eliminated because of the Non-applicability of financial reporting practices, and firms that reported negative earnings, market price, and book values. The exclusion procedure yielded a sample of 694 firms with 3470 firm-year observations. Following table represents details of sample firm year observation.

Table 1
Details of sample firm year observation

Year	Number of firms	Pre-IFRS (2014-2015)	Post-IFRS (2016-2018)
2014-15	694	694	---
2015-16	694	694	---
2016-17	694	---	694
2017-18	694	---	694
2018-19	694	---	694
Total Firm-Year Observations	3470	1388	2082

The model

Innumerable investigations have been conducted in past to examine the influence of IFRS on the value relevance of accounting information by employing the value relevanc e Ohlson (1995) Model which is given as below;

$$P_{it} = \alpha + \beta_1 BV_{it} + \beta_2 EPS_{it} + \varepsilon_{it} \tag{1}$$

Where P_{it} is per script price of firm i at a given time t, BV_{it} is the book value per equity share of firm i at a given year t, EPS_{it} is the earnings per equity share of firm i at the given time t and ε_{it} is error term. Few researchers in past emphasized the affinity between accounting earnings and script returns (Kothari and Zimmerman, 1995; Collins and Kothari, 1989, 2001; Ball & Brown, 1968) whereas others investigated the linkage between book value per equity share and script price (Shelvin, 1991;Barth, 1991). (Kadri et al.,(2009), Chamisa et al., (2012), Beisland and Knivsfla, (2015), Chalmers at al., (2010), Kargın, (2013) suggested that previous investigations have explored the influence of IFRS enforcement through the changes in value relevance, and all those researchers employed the Ohlson model. The market price per share was derived through log transformation to bring normality; the price model is detailed below:

$$LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \varepsilon_{it} \tag{2}$$

Where, $LnMPS_{it}$ is the Log return of market price per share of firm i in the given year t (fiscal year end), $BVPS_{it}$ is book value per share of firm i in the given year t and EPS_{it} is the earnings per equity share of firm i in the year t and ε_{it} demonstrate the error term. The IFRS influence on value relevance for the selected data is examined in five proportions. Model 2 is applied to determine the yearly modifications in explanatory potency of BVPS and EPS throughout the IFRS enforcement period.

The second dimension of the study is to investigate whether the accounting information is value relevant for the given data set for the entire research period of five years which will be derived by running pooled regression of script price on earnings and book values. The pooled regression model is stated as follows:

$$LnMPS_{it}^{(preifrs+postifrs)} = \alpha + \beta_1 BVPS_{it}^{(preifrs+postifrs)} + \beta_2 EPS_{it}^{(preifrs+postifrs)} + \varepsilon_i \tag{3}$$

Where, $LnMPS_{it}^{(preifrs+postifrs)}$ is the log return of MPS of firm i for the study period representing both before and after IFRS enforcement, $BVPS_{it}^{(preifrs+postifrs)}$ is the BVPS of firm i for the study period representing both before and after IFRS enforcement and $EPS_{it}^{(preifrs+postifrs)}$ is the earnings per share of firm i for the study period representing both before and after IFRS enforcement and ε_{it} demonstrate the error term. Third aspect of this analysis endeavors to assess the impact of IFRS on value relevance separately before and after IFRS enforcement periods which is derived by running pooled regression for Model 4(a) and Model 4(b).

$$LnMPS_{it}^{(preifrs)} = \alpha + \beta_1 BVPS_{it}^{(preifrs)} + \beta_2 EPS_{it}^{(preifrs)} + \varepsilon_{it} \tag{4a}$$

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$$LnMPS_{it}^{(postifrs)} = \alpha + \beta_1 BVPS_{it}^{(postifrs)} + \beta_2 EPS_{it}^{(postifrs)} + \varepsilon_{it} \tag{4b}$$

Where, $LnMPS_{it}^{(preifrs)}$ and $LnMPS_{it}^{(postifrs)}$ are respectively the Log return of MPS of firm i for the period representing before and after IFRS enforcement respectively, $BVPS_{it}^{(preifrs)}$ and $BVPS_{it}^{(postifrs)}$ are respectively the BVPS of firm i for the period representing before and after IFRS enforcement respectively and $EPS_{it}^{(preifrs)}$ and $EPS_{it}^{(postifrs)}$ are respectively the earnings per share of firm i for the period representing pre and post-IFRS enforcement respectively and ε_{it} demonstrate the error term. The fourth aspect aims to assess the influence of IFRS enforcement on value relevance of accounting information in India for the given data set. Hence, Model 5 is designed to determine the modifications in the value relevance of accounting data after IFRS enforcement.

$$LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DIFRS_{it} + \varepsilon_{it} \tag{5}$$

Where, $LnMPS_{it}$ is the log return of MPS of firm i at the time t (end of fiscal year), $BVPS_{it}$ is the BVPS of firm i in the given end of year t, EPS_{it} is the earnings per equity share of firm i in the given end of year t, $DIFRS_{it}$ denotes the dummy variable representing different accounting period where Pre IFRS period observations are denoted by nominal value "0" and post IFRS enforcement regimes is denoted by "1 and ε_{it} demonstrate the error term." With a purpose to assess the impact of transitional year on the regression Model 5, the Model is examined as Model 5(a) and Model 5(b) which respectively represent the inclusion and removal of the year 2016,(the transitional year).

In addition, the study also aims to reveal the influence of IFRS enforcement on incremental value relevance individually for Book values and earnings as part of research objectives, and for this purpose Model 6 is designed. Model 6 aims to explore the impact of IFRS enforcement on book values and earnings by employing interaction terms in the model which has also been employed in previous IFRS literature to determine the incremental value relevance of accounting data (Kadri, et al., 2009; Karin, 2013; Chalmers et al., 2010); Beisland and Knivsfla, 2015). DIFRS*BVPS (dummy variable demonstrating diverse accounting periods times BVPS) narrates the interaction between IFRS enforcement and book values whereas DIFRS*EPS (dummy variable demonstrating different accounting regimes times EPS) narrates the interaction between IFRS enforcement and earnings. The dummy variable for diverse accounting periods is denoted by the nominal value of '0', for pre-IFRS enforcement and '1' for post-IFRS enforcement. Model 6 is as follows:

$$LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DIFRS{*}BVPS_{it} + \beta_4 DIFRS{*}EPS_{it} + \varepsilon_{it} \tag{6}$$

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In the above model β_3 and β_4 reflect the variation between coefficients of book values and earnings for the pre-and post-IFRS enforcement periods where the positive (negative) differences in coefficients will indicate increases (decreases) in the value relevance of accounting information in the post-IFRS period. In addition, with the purpose of examining the impact of the transitional year on the regression of Model 6, the model will be investigated as Model 6(a) and Model 6(b) representing exclusion and removal of a transitional year, 2016.

Results

Descriptive statistics

Table II shows the descriptive details for each observation with an annual breakdown of the all cases. As per Table II, the mean for BVPS has increased over the years from 2014 to 2018 respectively from INR 132.73 to INR 195.64 and the standard deviation of mean BVPS also demonstrated an increase over the years from INR. 149.51 In 2014 to INR 206.40 in the year 2018. This implies that the standard deviation for book values were relatively high during IFRS enforcement period than pre- IFRS adoption coupled with the fact that the mean for book values record high growth of 47 percent from 2014 to 2018. This may be due to the revolution in financial reporting environment in India in 2016. Correlation results between market price, book value and earnings also exhibited positive and significant positive correlation with BVPS and EPS (significant at 0.01 levels). In table III, lnMPS values are showing positive and significant correlation with earnings and book values (significant at 0.01 levels).

Table 2
Descriptive Statistics for yearly date (2014-2018)

	Year	n	Min	Median	Max	$\bar{x}$	s	s^2
MPS	2014	694	2.90	175.02	25421.3	488.85	1348.67	1818912.09
	2015	694	3.05	192.93	20784.50	486.98	1205.00	1452025.90
	2016	694	4.00	284.65	22751.25	636.85	1378.87	1901286.29
	2017	694	4.60	288.29	22684.55	751.63	1626.81	2646529.54
	2018	694	1.45	286.33	24972.25	736.90	1791.70	3210192.42
BVPS	2014	694	1.00	83.66	997.59	132.73	149.51	22355.41
	2015	694	1.01	90.71	936.03	146.29	163.50	26734.70
	2015	694	1.00	99.85	922.80	159.23	171.11	29278.86

	2017	694	1.03	114.64	960.66	176.27	185.55	34428.89
	2018	694	1.03	123.32	997.74	195.64	206.40	42601.37
EPS	2014	694	0.03	10.28	481.67	21.25	38.31	1467.67
	2015	694	0.02	11.98	671.94	24.052	44.97	2023.02
	2016	694	0.02	13.20	950.05	28.29	57.99	3363.63
	2017	694	0.01	15.10	592.06	31.40	51.56	2659.25
	2018	694	0.02	17.52	632.69	35.44	58.72	3449.06

Source: Authors' own findings

Table 3
Correlation for firm year observation (2014-2018)

		BVPS	EPS	MPS	LnMPS
BVPS	r	1	---	---	---
	Sig.(2-tailed)	---	---	---	---
EPS	r	0.366**	1	---	---
	Sig.(2-tailed)	<0.001	---	---	---
MPS	r	0.292**	0.673**	1	---
	Sig.(2-tailed)	<0.001	<0.001	---	---
LnMPS	r	0.542**	0.581**	0.600**	1
	Sig.(2-tailed)	<0.001	<0.001	<0.001	
n=	3470				

Note- ** Correlation is significant at the 0.001 level (2-tailed).
Source: Authors' own findings

Yearly cross sectional regression for value relevance of accounting information

Table IV exhibits the regression findings for yearly cross sectional panel data. The F values of the model indicated an ascending trend in each year throughout the IFRS enforcement periods. Adjusted r^2 exhibits the strong statistical linkage between price and its independent variables. According the Table IV, the adjusted r^2 also displayed an increasing trend except in year 2018 while comparing the pre and post IFRS enforcement findings, adjusted r^2 was 43.4 percent and 45.5 percent in year 2014 and 2015 respectively which reflects a lower percentage before IFRS enforcement. However, after mandatory enforcement of IFRS in year 2016, it has increased up to the 51.4 percent in year 2017. The findings also suggested that both Book values and earnings has been a strong explanatory factor in each year of observation. Intercept was significant thought out the years at the 0.001 significant level.

Table 4
Value Relevance; Yearly Cross -Sectional Regression of price on BVPS and EPS

	n	α	β_{bvps}	β_{eps}	Adj. R^2	F-Value	P value (Two-tailed)
2014	694	4.482	0.003	0.014	0.433	265.207	<0.001***
T-Statistics		87.417	12.582	12.473			
P-Value		<0.001***	< 0.001***	<0.001**			
(Two-tailed) (2015)	694	4.581	0.003	0.012	0.454	289.331	<0.001***
T-Statistics		95.636	13.203	13.931			
P-Value		<0.001***	<0.001**	< 0.001			
Two-tailed) 2016	694	4.925	0.003	0.009	0.460	295.815	<0.001***
T-Statistics		104.817	14.847	14.318			
P-Value		<0.001***	<0.001***	0.004***			
(Two-tailed) 2017	694	5.013	0.002	0.013	0.514	314.144	<0.001***
T-Statistics		108.49	11.704	18.205			
P-Value		<0.001***	<0.001***	<0.001***			
(Two-tailed) 2018	694	4.784	0.002	0.011	0.476	314.016	<0.001***
T-Statistics		90.191	11.350	16.380			
P-Value (Two-tailed)		<0.001***	<0.001***	0.03*			

Model 2: $\ln MPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \varepsilon_{it}$
Note* Correlation is significant at the 0.05 level (2-tailed).,** Correlation is significant at the 0.01 level (2-tailed). *** Correlation is significant at the 0.001 level (2-tailed).
Source: Authors' own findings

Pooled regression for firm-year observation (2014-2018)

This paper employs market price per share, book values, and earnings to reduce heteroscedastic disturbances and scaling effects (Barth, et al., 1992; Kothari and Zimmerman 1995), in addition, heteroscedasticity and autocorrelation in the pooled OLS were amended by heteroscedasticity consistent covariance matrix estimator which supplied heteroscedasticity adjusted t-statistics values. According to Model 3, which provides the regression findings for pooled sample for total 3470 firm-year observations, the model is significant with p-value< 0.001). The adjusted r^2 exhibited a strong positive association with 50.7 percent and explained that 50.7 percent variation caused in market price per share due to earnings and book values the firms. Hence earnings and book values are significant predictors for stock prices per share at the significance level of 0.001 and 0.01 levels. The result also implies that implicates that both earnings and book values generated by BSE listed firms in India provide significant information about the stock prices and are considered important by the capital market participants.

Table 5
Pooled Regression output
Model 3: $LnMPS_{it}^{(preifrs+postifrs)} = \alpha + \beta_1 BVPS_{it}^{(preifrs+postifrs)} + \beta_2 EPS_{it}^{(preifrs+postifrs)} + \varepsilon_{it}$

	Parameter Estimate	SE	T-Statistics	P-Value(2-tailed)
Intercept	4.788653	0.021138	226.544736	<0.001***
BVPS	0.002940	0.000091	32.183674	<0.001***
EPS	0.000422	0.000011	38.762415	<0.001**
n	3470			
Adjusted r^2	0.507237			
SE	0.913621			
F-Value	1786.450			
P-Value	<0.001***			

Note **. Correlation is significant at the 0.01 level (2-tailed)., ***. Correlation is significant at the 0.001 level (2-tailed)
Source: Authors' own findings

Value relevance of accounting information for pre- and post-IFRS enforcement

Table VI exhibits two panels where panel A provides for the regression output for the 1388 firm-year observations corresponding to years 2014–2015 which signifies pre IFRS enforcement period.

The results conclude that pre IFRS period is significant at 0.001 level and the adjusted r^2 for model 4(a) is 44.19 percent which indicated that the model explains 44.19 percent of the variation in market price. On the same note, Panel B in table VI explains Model 4(b) exhibits the regression output for the 2082 firm-year observations corresponding to years 2016- 2018 which reflect post IFRS enforcement period. The findings for Panel B which represents post-IFRS enforcements period, indicated that post-IFRS enforcements period is significant at 0.001 level and the adjusted r^2 for this model 4(b) is 47.28 per cent which implied that 47.28 per cent of the variation in market price is interpreted by the model. The Table VI findings observed that the adjusted r^2 (47.28 percent) after the mandatory IFRS enforcement was relative higher than the adjusted r^2 (44.19 percent) before the mandatory IFRS enforcement regime which shows an improved financial reporting environment in market

Table 6
Value Relevance of Accounting Information Pre and Post IFRS Adoption

	Parameter Estimate	SE	T-Statistics	P-value (2-tailed)
Panel A-Value Relevance of Accounting Information – Pre-IFRS Adoption (2014-2015)				
Model 4(a): $LnMPS_{it}^{(preifrs)} = \alpha + \beta_1 BVPS_{it}^{(preifrs)} + \beta_2 EPS_{it}^{(preifrs)} + \varepsilon_{it}$				
Intercept	4.533565	0.035088	129.206862	<0.001***
BVPS	0.003263	0.000179	18.247608	<0.001***
EPS	0.012462	0.000671	18.582121	<0.001***
n	1388			
Adjusted r^2	0.441993			
SE	0.963734			
F-Value	550.315			
P-Value	<0.001***			
Panel B-Value Relevance of Accounting Information – Post-IFRS Adoption (2016-2018)				
Model 4(b): $LnMPS_{it}^{(postifrs)} = \alpha + \beta_1 BVPS_{it}^{(postifrs)} + \beta_2 EPS_{it}^{(postifrs)} + \varepsilon_{it}$				
Intercept	4.919478	0.028421	173.094589	<0.001***
BVPS	0.002484	0.000115	21.532501	<0.001***
EPS	0.010665	0.000387	27.543879	0.002**
n	2082			
Adjusted r^2	0.472814			
SE	0.930262			
F-Value	934.195			
P-Value	0.001***			

Note **. Correlation is significant at the 0.01 level (2-tailed).,***. Correlation is significant at the 0.001 level (2-tailed).
Source: Authors' own findings

As per the above table No VI exhibits that the overall explanatory power of both earnings per share and book value per share has slightly reduced after mandatory IFRS enforcement as compared to the pre-IFRS enforcement regime. Hence the findings as per table VI suggested that both earnings and book values are a significant predictor of market price per share and exhibit a declined value post-IFRS enforcement period. However, the enhancement in the overall predictive power of value relevance is indicated by the increase in adjusted r^2 which suggests that the association between market price and its predictors are strengthened after the mandatory IFRS enforcement.

The impact of mandatory IFRS enforcement on value relevance model

Since Model 4(a) and Model 4(b) given in Table VI provide the findings on data set that comprises data of two diverse financial periods representing pre and post IFRS implementation regimes, the key finding caused because of mandatory enforcement of IFRS(transition period) is not demonstrated. Thus, Model 5 is incorporated in the study to examine the impact of IFRS and the transition period on value relevance of earnings and book values. Model 5 incorporated a dummy variable where pre IFRS period was denoted with "0" and all observations after mandatory IFRS enforcement was denoted with "1" and it was implied that mandatory IFRS enforcement will significantly influence the value relevance of accounting information if the dummy variable in model exhibits significant predictability. According to Table VII which explains model 5(a) and model 5(b), the regression findings for Model 5(a), is significant at 0.001 level and adjusted r^2 is 46.99.percent which suggests that 46.99 percent variation in script price of data set is caused by earnings and book values of the firm. In addition, earning is significant at 0.05 level and book value is significant at 0.001 level and the dummy variable is showing positive co coefficient which explains that there is positive and significant association between value relevance of accounting information and IFRS both during pre- and post-IFRS enforcement period. Positive coefficient of 0.22 for dummy variable DIFRS indicates that market price has increased throughout the course of IFRS implementation. The finding were even similar at the removal of the transitional period of mandatory IFRS enforcement (2016) where Model 5(b) was examined with 2766 firm year observations and the results displayed adjusted r^2 47.4 percent. The dummy variable (DIFRS) displayed positive coefficient of 0.193 at 0.001 significance level under Panel B of Table 7.

Table 7

Impact of IFRS on Value Relevance of Accounting Information

$$LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DIFRS_{it} + \varepsilon_{it}$$

Model 5: $LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DIFRS_{it} + \varepsilon_{it}$

	Parameter Estimate	SE	T-Statistics	P-value (2-tailed)
Panel A-Model 5(a): Impact of IFRS on Value Relevance including the Mandatory Transition Period				
Intercept	4.636699	0.028566	162.314559	<0.001***

http://dx.doi.org/10.22201/fca.24488410e.2024.4827

BVPS	0.002739	0.000098	28.050840	<0.001***
EPS	0.011132	0.000338	32.889152	0.012*
DIFRS	0.222937	0.033059	6.743626	<0.001***
n	3470			
Adjusted r^2	0.469942			
SE	0.947565			
F-Value	1026.189			
P-Value	< 0.001***			
Panel A-Model 5(b): Impact of IFRS on Value Relevance Excluding the Mandatory Transition Period				
Intercept	4.61034	0.029570	156.613376	<0.001***
BVPS	0.00262	0.000111	23.740713	<0.001***
EPS	0.01206	0.000402	30.032856	0.020*
DIFRS	0.19331	0.036731	5.262983	<0.001***
n	2766			
Adjusted r^2	0.474232			
SE	0.957489			
F-Value	835.331			
P-Value	< 0.001***			

Note* Correlation is significant at the 0.05 level (2-tailed), ** Correlation is significant at the 0.01 level (2-tailed).*** Correlation is significant at the 0.001 level (2-tailed).
Source: Authors' own findings

Impact of IFRS on value relevance of book values and earnings

The linkage between IFRS enforcements and the Ohlson model is required to assess to determine the incremental influence of IFRS on financial reporting quality. Thus Model 6 given in Table VIII was examined to determine the incremental influence of IFRS enforcements on the value relevance of book values and earnings and Table VIII provides for regression findings for Model 6(a) and Model 6(b). The adjusted r^2 after adding up two more variables in the valuation model as an interaction to book values and earnings resulted in 46.30 percent. The beta coefficient for DIFRS*BVPS is negative and significant at 0.10 levels while for DIFRS*EPS is not significant, under model 6(a). Model 6(a) signifies that IFRS enforcements influence the value relevance of book values significantly and negatively but this is the opposite for EPS. The negative beta coefficient of DIFRS*BVPS exhibits that IFRS enforcements demonstrate a negative association with book values therefore it signifies that there has been a decline in the book values because of IFRS enforcements. In addition, Panel B explains Model 6(b) where the transitional year, signifying mandatory adoption phase, 2016 was excluded from the pooled data set and the model output also validated the previous model 6 (a) findings. The enforcement of IFRS has improved the financial report quality and endorsed for application for fair values measurement because of such developments there has been an enhancement in comprehensive income, which is part of equity. Reduction in the value relevance of book values because of IFRS enforcement could be attributed to the additional comprehensive income reported as a part of equity. Table VII explains earnings as a significant predictor of market price per share for both before and after IFRS enforcements.

Table 8
Impact of IFRS on Value Relevance of BVPS and EPS
Model 6: $LnMPS_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \beta_3 DIFRS*BVPS_{it} + \beta_4 DIFRS*EPS_{it} + \varepsilon_{it}$

	Parameter Estimate	SE	T-Statistics	P-value (2-tailed)
Panel A-Model 6(a): Impact of IFRS on Value Relevance of BVPS and EPS including Mandatory Transition Period				
Intercept	4.760020	0.022319	213.270195	<0.001***
BVPS	0.002634	0.000001	16.381684	<0.001***
EPS	0.011769	0.000659	17.868429	<0.001***
DIFRS*BVPS	-0.000218	0.000178	-0.933983	0.03503*
DIFRS*EPS	0.000712	0.000763	1.225189	0.2206
n	3470			
Adjusted r^2	0.463078			
SE	0.953680			
F-Value	748.977			
P-Value	<0.001***			
Panel B-Model 6(b): Impact of IFRS on Value Relevance of BVPS and EPS Excluding Mandatory Transition Period				
Intercept	4.714025	0.025183	187.191600	<0.001***
BVPS	0.002761	0.000165	16.713246	<0.001***
EPS	0.011909	0.000666	17.895138	0.0110**
DIFRS*BVPS	-0.000122	0.000192	-0.638047	0.05234*
DIFRS*EPS	0.000459	0.000827	0.555106	0.5788
n	2766			
Adjusted r^2	0.468875			
SE	0.962354			

F-Value	613.431
P-Value	<0.001***

Note* Correlation is significant at the 0.10 level (2-tailed), ** Correlation is significant at the 0.01 level (2-tailed).
*** Correlation is significant at the 0.001 level (2-tailed).
Source: Authors' own findings

Discussion and conclusion

The research findings of this study suggested that both BVPS and EPS explained a significant positive affinity with market price per share during the IFRS enforcement period, however, book values were valued relevant only before implementing IFRS. The results are similar to Sun, et al.,(2021), the researchers conducted an investigation on banking industry in Indonesia and the concluded that the earnings are more value relevant than cash flows and book values after the IFRS adoption. The overall regression result for pooled data set also suggested a similar significant association between stock price per share and its dominating predictors with strong and significant adjusted r^2. Kaushalya and Kehelwalatenna,(2020) investigated the influence of IFRS enforcement on value relevance of accounting information in Sri Lanka and the findings of the research concluded that the price value relevance of accounting information of Sri Lankan firms increased after implementing IFRS.

As per the research findings, the capital market participants in India give weightage to information quality provided in the financial reports. The yearly adjusted r^2 has shown an ascending trend for both earning and book values, except for 2018 showed that the predictive power of Ohlson's (1995) value relevance model has been positive and significant. The findings also suggested that predictive power for accounting information increased after IFRS implementation due to an improved financial reporting environment, but when examining the incremental value relevance of earnings and book values separately, it was discovered that the incremental value relevance for book values had decreased, which is consistent with previous literature findings. (Maigoshi, et al., 2017, Nijam and Jahfer 2018). These outcomes were also endorsed and did not change even after excluding the transitional year representing the mandatory enforcement of IFRS (2016) from the data set, such reduction in book value per share post-IFRS enforcements could be because of an increase in the components of other comprehensive income as a part of equity and several other changes such as the application of fair value method, time value of money, transparency, etc.

Overall, the findings support the notion that profits, which are consistent with previous study findings and indicate that investors are more likely to rely on the income statement's informative content than the balance sheet, can accurately predict market price per share after a transition phase, Ashbaugh and Pincus (2001). This paper's research findings offer a significant contribution for market participants as well as standard setters. The paper's implications suggest that the companies listed on the BSE in India should prioritise accurate financial reporting and continuously work to improve the quality of their reporting, with a particular emphasis on components related to earnings and book values, as these are the main factors that have a significant impact on the companies' market prices.

An improved financial reporting environment will strengthen the capital market and will eventually allure substantial local and global funds by transmitting accurate and transparent information in the market. Hence, the market regulators, officials, and other policymaking bodies should ensure amendments and upgradation of existing rules and standards in the market. Both global and local market participants assess the financial position of the firm before investing in the market and hence the financial reporting should be of high quality and transparent for which the regulatory bodies, companies, and other authorities are responsible. The standards setters should constantly review the rules and ensure stricter compliance to strengthen and enhance the value relevance of accounting information to facilitate the decision-making associated with an investment.

This study suffers from a few imitations similar to previous research. The paper employed the Ohlson model on the data set got from BSE-listed firms while there are many other firms that are not listed on BSE/NSE India, but they comply with IFRS which can be incorporated in the data set by future investigators. Future researchers may also examine IFRS enforcement’s impact on the value relevance in diverse angles such as they can employ return model by Easton and Harris (1991), add more control variables like cash flows, leverage, size, growth. The research may also assess IFRS's impact on earning management, earning forecast, qualitative characteristics of financial reports, auditors’ perspectives and corporate governance, etc.

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