

Value Relevance of Book Value & Earnings Under the Local GAAP and IFRS: Evidence from Turkey

Yerel Muhasebe Standartlarına ve UFRS'ye Göre Hazırlanan Kar ve Özkaynak Rakamlarının Hisse Senedi Fiyatlarına Yansımaları: Türkiye Örneği

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ABSTRACT

This study examines empirically the impact of International Financial Reporting Standards (IFRS) on the value relevance of accounting information in Turkey. Turkish listed firms on the Istanbul Stock Exchange (ISE) are required to adopt IFRS in the preparation and presentation of their financial statements since 2005. Using the equity valuation model as suggested by Ohlson (1995), firstly, the value relevance of earnings and book values of equity produced under Turkish Local Standards (during 2000-2002) and under IFRS (during 2005-2009) is analyzed. And then, these two periods are compared to investigate whether the mandatory adoption of IFRS has an impact on value relevance of accounting information. The analysis results show that earnings and book value are, jointly and individually, positively and significantly related to stock price under the two different reporting regimes. Additionally, the results provide that book value of equity is more value relevant than earnings. When two different reporting standards are compared, it is found that the adoption of IFRS increased the value relevance of accounting information for Turkish listed firms. This study contributes to the existing literature on the value relevance of accounting information and to the debate over the mandatory adoption of IFRS.

Keywords: IFRS, value relevance, local GAAP, capital markets.

ÖZET

Bu çalışmada, Türkiye'deki muhasebe bilgilerinin hisse senetleri fiyatına yansımada Uluslararası Finansal Raporlama Standartları (UFRS)'nin etkisi ampirik olarak incelenmiştir. 2005 yılından itibaren İstanbul Menkul Kıymetler Borsası (İMKB)'nda işlem gören şirketlerin finansal tablolarını UFRS'ye uygun olarak hazırlayıp sunmaları benimsenmiştir. Ohlson (2005) tarafından önerilen hisse senedi değerlendirme modeli kullanılarak öncelikle, ulusal muhasebe standartlarına (2000-2002 dönemi) ve UFRS (2005-2009 dönemi)'ye göre hesaplanan özkaynak ve kar rakamlarının hisse senedi fiyatına yansımaları analiz edilmiştir. Daha sonra, zorunlu UFRS uygulamasından elde edilen muhasebe bilgilerinin hisse senedi fiyatı üzerindeki etkisi incelenmek üzere 2 ayrı dönem kıyaslanmıştır. Yapılan analiz sonucunda, farklı her iki raporlama sistemine göre hesaplanan özkaynak ve kar rakamlarının birlikte ve ayrı ayrı, hisse senedi fiyatına olumlu ve önemli ölçüde yansıdığı görülmüştür. Ayrıca analiz sonuçları, özkaynak rakamlarının hisse senedi fiyatına kar rakamlarından daha fazla yansıdığını göstermiştir. İki farklı raporlama standardı kıyaslandığında da UFRS'nin İMKB'de işlem gören şirketlerin muhasebe bilgilerinin hisse senetleri fiyatlarına daha iyi yansıttığı sonucuna varılmıştır. Bu çalışmayla muhasebe bilgilerinin hisse senetleri fiyatlarına yansımaları ve zorunlu UFRS uygulamalarına ilişkin literatürde varolan tartışmalara olumlu katkı sağlaması düşünülmektedir.

Anahtar Kelimeler: UFRS, hisse senedi fiyatlarına yansımaları, yerel muhasebe standartları, sermaye piyasaları.

1. INTRODUCTION

The International Accounting Standards Board (IASB) developed a set of accounting standards (International Financial Reporting Standards-IFRS) that represents the most commonly accepted global accounting framework. By now, IFRS are used in many parts of the world and it is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements. Currently, more than 100 countries around the world either permit or require public companies to use IFRS, and with more countries are expected to apply IFRS in the future. With the growth of Turkish

economy and increasing integration with the global economies, Capital Markets Board of Turkey required all publicly traded companies to adopt IFRS for fiscal years starting on or after 1 January 2005.

The IASB sets out that the main objective of IFRS is "to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements". Ball et al. (2003) argue that adopting high quality standards might be a necessary condition but not sufficient one for high quality information. Many studies have been conducted to investigate

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whether the adoption of IFRS is associated with high financial reporting quality and compare the quality of the financial information prepared under the new financial reporting regime (IFRS) over the old one, namely local accounting standards. Most of these studies used value relevance as a proxy measure in order to assess accounting standards quality. Among these studies are works done by Harris and Müller, 1999; Niskanen et al., 2000; Eccher and Healey, 2003; Barth et al., 2005; Bartov et al., 2005; Lin and Chen, 2005; Schiebel, 2006; Horton and Serafeim, 2006; Christensen et al. 2007; Turel, 2009. These studies found either the accounting information of IFRS or local standards is more value relevance. The main reason for the lack of consistent findings of these studies was that they were performed in different countries, which have different economic & political system and the social & cultural factors.

According to the Preface to IFRS, IASB states that the other main objective of IFRS is "to bring about convergence of National Accounting Standards and International Accounting and Reporting Standards to high quality solutions". However, Ball (2006) has expressed that it is unclear how much convergence in actual financial reporting practice will occur as accounting shaped by economic and political forces. Moreover, financial reporting outcomes are determined by the interaction between accounting standards, preparers' incentives, regulation, enforcement, and other institutional features of the economy (Ball, 2006; Holthausen, 2009). Therefore, it is difficult to state with confidence that mandatory IFRS adoption is optimal and leads to improved financial reporting quality.

Motivated by both the lack of adequate studies on the value relevance of accounting information in emerging markets and the fact that the regional differences in accounting can lead to different results, I conducted this study. There are two objectives of this study. The first is to provide comprehensive insights into the value relevance of earnings and book values to investors. The second is to investigate how the change in financial reporting regime affected value relevance of book values and earnings. To achieve first objective, I used the price model to examine links among stock prices, earnings and book values, as in Ohlson (1995). To achieve second objective, I compared the value relevance of earnings and book value prepared under the new financial reporting regime over the old one namely IFRS and Turkish GAAP.

As mentioned above, financial reporting outcomes are shaped not just by accounting standards but also by many factors including the strength of a country's legal institutions and enforcement efforts and firm-level incentives. Therefore, my investigation has limitations to Turkish companies' financial reports and investors' behaviors that were affected by institutional economic and political factors such as regulations, taxation and inflation and financial crises.

The structure of the paper is as follows. Section two, defines value relevance and revises previous studies about value relevance. Section 3 provides a brief history of financial reporting in Turkey. Section 4 presents data and research method. Section 4 shows empirical results. Finally, section 5 summarizes and concludes the paper.

2. THE LITERATURE REVIEW

Value relevance is defined as the ability of financial statement information to capture and summarize firm value. Value relevance is measured as the statistical association between financial statement information and stock market values or returns. The studies on the relation between stock returns and earnings figures go back to the seminal article of Ball and Brown (1968). Since Ball and Brown (1968), several studies have investigated the association between stock prices or returns and the information disclosed in financial statements. Amir et al. (1993) were the first to use the term "value relevance" to describe this association. Ohlson (1995) developed a model that relates a firm's market value to accounting data. In this model, value of a firm expressed as a liner function of book value, earnings, and other value relevant information. Since 1995, the Ohlson model has been tested extensively with in many countries' stock market data under different methodologies of study. Most of the literature on the value relevance of accounting information has comprehensively documented the statistical association among earnings, book values and stock prices (or stock returns). For instance, in their study, Collins et al. (1997) investigated the value relevance of earnings, book value, and combined earnings and book value for U.S. firms over 1953-1993. They explored that earnings and book value are value relevant and jointly explain 54% of the cross-sectional variation in stock prices. However, the value relevance of earnings, individually, appears to decline, while the value relevance of book value increases over the study period. Chen

et al (2001) examined A share companies from 1991 to 1998 in the Chinese Stock Market and reported positive evidence of value relevance of accounting information in the A share market. Using a sample of Egyptian Listed firms from 1998 to 2002, Ragab and Omran (2006) found that accounting information in Egypt is value relevant. Bae and Jeong (2007) investigated the value relevance of earnings and book values for Korean firms during 1987-1998. They found that value relevance of book value and earnings of Korean firms' are 41% lower than value relevance of US firms. They argue that governance structure is one of the main determinants of value relevance. There are few studies in Turkey related to value relevance of accounting numbers. To mention about them, Anandarajan et al. (2006) studied the role of earnings and book values in pricing stocks from 1992 through 2001. They adjusted all accounting values for inflation and found that both inflation-adjusted earnings and book value are important determinants of equity values in Turkey. Kirkulak and Balsari (2009) examined the value relevance of inflation-adjusted earnings and book value. Consistent with the findings of Anandarajan et al. (2006), they found that both inflation-adjusted and historical cost-based earnings and book values are significantly value relevant. Balsari and Ozkan (2009) investigated the value relevance of earnings and book value during financial crises (1994 and 2001) in Turkey. They found that 1994 crises and 2001 crises have very different implications for value relevance of earnings due to different characteristics of these two economic crises. They concluded that long period of economic worsening followed by an economic crisis is more influential than a sudden shorter crisis in terms of value relevance of earnings.

Following IFRS mandatory implementation in many countries the recent value relevance literature focused on the effect or impact of adoption of IFRS on accounting numbers and their value relevance. The IFRS has been around, in various forms, since 1973 and was previously known as International Accounting Standards (IAS). However, the IFRS has only recently begun to be adopted more prevalently throughout the world. It is expected that the use of IFRS would improve the quality of financial reporting and ensure a better presentation of enterprise performance. Many studies have been conducted to investigate the value relevance of the financial information prepared under the new financial reporting regime (namely IFRS) over the old one. The findings of these studies found either the

accounting numbers of new regime or old regime is more value relevance. For instance, Harris and Müller (1999) tested the value relevance of IFRS and US GAAP for 1992-1996. By using Ohlson model, they found that IFRS accounting numbers are more closely associated with price per share than US GAAP accounting numbers. Bao and Chow (1999) found that earnings and book value reported under International Accounting Standards (IAS) had greater information content than those based on Chinese Accounting Standards. In contrast, Eccher and Healey (2003) found that accounting data based on IAS are not more value relevant than those based on Chinese accounting standards. Chen et.al (2002) and Lin and Chen (2005), reconciled book value and earnings of stock A (established for domestic investors) and stock B (established for foreign investors) firms generated by Chinese GAAP and IFRS. They found that Chinese GAAP accounting numbers are more value relevant for stock A, whereas IFRS accounting numbers are more value relevant for stock B. Hung and Subramanyam (2007) identified the sources of reconciling items between German accounting standards and international accounting standards (IAS) and found that the adjustments don't differ in value relevance. Niskanen et al. (2000) reconciled the Finnish GAAP and IFRS earnings for 18 Finnish firms and found that reconciliation of earnings is not value relevant. Contrast to this finding, Horton and Serafeim (2006) reconciled UK GAAP and IFRS book value and earnings for 85 companies that published financial statements in 2005. They reported that reconciliation of earnings is value relevant but reconciliation of book value is not value relevant. Christensen et al. (2007) also reported that earnings reconciliations have incremental price relevance over U.K GAAP numbers. However, Bartov (2005) explored that the value relevance of book value increases, but not that of earnings, when German companies switch to IAS. Stergios, Athanasios and Nilolaos (2007) observed 40 voluntary IAS/IFRS firm adopters and found similar result with Bartov (2005) that the value relevance of book value increases when Greece firms switch to IAS/IFRS, but not that of earnings. Finally, Turel (2009) compared the value relevance of earnings and the book value of equity for Turkish firms that published financial statements under Turkish local Standards during 2001-2002 with those under IFRS during 2005-2006. He found that the value relevance of earnings and book value of equity has increased significantly after adopting IFRS. However, the incremental value relevance of

book value of equity decreased in the same period. As can be seen, the existing literature related to value relevance of accounting numbers shows mixed results. As noted by Ball (2006), Daske et al., (2007) and Holthausen, (2009), some factors such as preparers' incentives, ownership concentration, legal systems, financial systems and other institutional features of the economy have effects on financial reporting outcomes. Therefore the findings of studies can vary from country to country to the extent that these factors vary.

As stated above, the objectives of this study are to examine the value relevance of accounting numbers (book values and earnings) for Turkish listed firms in pre-and post IFRS periods and to explore whether a change in financial reporting regime affected value relevance of book values and earnings.

3. A BRIEF HISTORY OF FINANCIAL REPORTING IN TURKEY

The ministry of finance published accounting regulation in 1992 in order to have high quality and comparable financial information in Turkey. This uniform accounting system that known as the Turkish Uniform Accounting System is designed according to Generally Accepted Accounting Principles (GAAP). Turkish entities except those in financial sector have used this uniform accounting system in keeping accounting records and preparing financial reports since 1994. Unfortunately, the Turkish economy has experienced a high inflation environment beginning in the late 1970's until 2004. High inflation for over 30 years has been raising concerns about the usefulness of financial statements issued in Turkey. To solve this problem the Capital Market Board of Turkey issued a regulation about inflation accounting and consolidation standards. The implementation of those standards, originally planned for 31 December 2001, was postponed until 2003. Firms required restating and reporting their 2003 financial statements according to this regulation. Thereby, the first financial statements prepared using inflation accounting was published as of December 31, 2003. Before this date (2003), Turkish companies prepared and reported their financial statements under the local accounting standards (GAAP) based on historical cost accounting and they tried to benefit from the incentives in the Turkish Tax Regulation negating the effect of inflation. The mandatory application of inflation accounting for the financial

statements of listed companies was terminated in 2005 with adoption of IFRS. Since 2005, the listed companies in the Istanbul Stock Exchange (ISE) are required to prepare and present consolidated accounts under IFRS. Application of inflation adjustment and subsequently implementation full IFRSs (besides declining inflation to single digit in 2004 as a result of tight fiscal policies and prudent monetary policies) seem to be reduced the concerns about usefulness of accounting information distorted due to the high inflation in Turkey. The implementation of IFRS, consistent with general perspective of the rest of the world, is expected to improve the quality of financial reporting and ensure a better presentation of enterprise performance in Turkey.

4. DATA AND EMPIRICAL MODEL

In this study, I considered the period between 2000-2002 (Turkish GAAP adoption, which financial statements contain historical cost information) and 2005- 2009 (IFRS/IAS adoption). As stated above, until 2003, Turkish companies prepared and reported their financial statements under the local accounting standards based on historical cost accounting. For the years 2003 and 2004, Turkish companies' financial statements were prepared and reported in terms of inflation accounting that was required by CMB of Turkey. Furthermore, in 2003, 35 Turkish listed firms started voluntarily preparing their financial reports in accordance with IFRS. Since financial statements for 2003 and 2004 based on inflation-adjusted accounting numbers and some of them based on IFRS, the period 2003-2004 could be regarded as a transition period, the period 2003-2004 could be also considered as a distinctive period. Therefore, I excluded from the study in order to compare two different financial reporting regimes, namely financial statements based on Turkish local standards and those based on IFRS.

Currently, there are 242 Turkish companies listed in national capital market, which is the market where the stocks of companies that satisfy ISE listing requirements are traded. The sample used in this study consists of the 193 firms. For remaining 49 firms data was not available for all the years that the study covered. Therefore 49 firms with missing data were excluded from the purview of study. The final sample of the 193 Turkish companies comprises a range of industries, namely: Mining (1) , Manufacturing (133), Electricity gas and water (4), Construction (3), Wholesale and retail trade (9),

Transportation and telecommunication (3), Financial institutions (32), Education (1), Technology (7)

To test the value relevance of earnings and book value of equity, I used the model suggested by Ohlson (1995). Ohlson's 1995 model expresses a firm's market value as a linear function of earnings, book values, and other value relevant information. The Ohlson model equation used in this study complies with the empirical methodology followed by Collins et al. (1997) and Collins et al (1999). The model is specified as follows;

$$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BVPS_{it} + \varepsilon_{it} \quad (1)$$

Following Collins et al (1999), to investigate the relative explanatory power that earnings and book value individually have for stock prices, the following two equations also are used over the local accounting standards period and the IFRS mandatory period.

$$P_{it} = \beta_0 + \beta_1 EPS_{it} + \varepsilon_{it} \quad (2)$$

$$P_{it} = \beta_0 + \beta_1 BVPS_{it} + \varepsilon_{it} \quad (3)$$

Where the variables are defined as: P_{it} is the stock price per share for firm i at time t , six months after the fiscal year's end of time t ; EPS_{it} is the earnings per share of firm i at time t ; $BVPS_{it}$ is the book value per share of firm i at time t ; t is 2000-2002, corresponding to the years 2006-2009; i is other value relevant information.

Consistent with the recommendations of Barth et al. (2008) and Kothari and Zimmerman (1995), I used in this study, the per-share value of price and earnings to reduce heteroscedastic disturbances and scaling effects. Furthermore, following Lang et al. (2003, 2006), Barth et al.(2005) and Gregory et al.(2005), I regressed the market price of shares, as of six months after year-end (hereafter P); on earnings per share and (hereafter EPS) book value of equity per share (hereafter $BVPS$). "The thinking here is to allow six months for markets to fully reflect information contained in earnings and book values, whilst the EPS ratio at the time of the year end ensures that prices cannot possibly reflect actual earnings, since no firm releases instantaneous earnings information" (Gregory et. al. 2005).

To compare value relevance of Turkish listed firms before and after the adoption of IFRS, the regression models (1-3) are tested by using panel data analysis. The data set of this study is appropriate for balanced panel data. For economic research panel data sets possess several major advantages over cross-sectional or time-series data sets (Baltagi, 2008; Hsiao, 2003). Panel data usually give the researcher a large number of data points, reducing the co-linearity among explanatory variables, hence improving the efficiency of econometric estimates. More importantly, longitudinal data allow a researcher to analyze a number important economic question that cannot be addresses using cross-sectional or time series data sets (Hsiao, 2003).

5. EMPIRICAL RESULTS

Although it is possible to use ordinary multiple regression techniques on panel data, they may not be optimal. The estimates of coefficients derived from regression may be subject to omitted variable bias. With panel data, it is possible to control for some types of omitted variables even without observing them, by observing changes in the dependent variable over time. Fixed effects regression model controls for omitted variables that differ between cases but are constant over time. It is to be expected in an accounting data panel that there will be heterogeneity between different companies or cross-sections. In these cases ordinary least squares can be statistically inefficient, or even give misleading inferences. For this reason, generalized least squares (GLS) regression is applied when heteroscedasticity is present.

In order to determine which model should be used in panel data analysis, I applied Hausman test. The Hausman test is used to determine whether fixed effect is more appropriate or random effect for datasets. According to the test, the fixed effects model yielded more effective results than the random effects model. Therefore, to control omitted variables and to ensure statistical efficiency in this study, the fixed effects general least square (GLS) is used as the estimation method.

The results are summarized in table 1-4. The overall R^2 of the regression model (model 1) for the Turkish accounting standards period is 0.17 and for the IFRS period is 0.33. In addition, the results show that the earnings and book value coefficients were positive and significant across all models ($p < 0.01$).

Table 1: Descriptive Statistics for Value Relevance of Earnings and Book Value Jointly for Turkish Accounting Standards (2000-2002)

$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BVPS_{it} + \varepsilon_{it} \quad (1)$				
Dependent Variable: PRICE Method: Panel EGLS (Period SUR) Sample: 2000 2002		Periods included: 3 Cross-sections included: 193 Total panel (balanced) observations: 579 Linear estimation after one-step weighting matrix		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.581188	0.028356	126.2951	0.0000
EPS	0.012271	0.002751	4.460218	0.0000
BVPS	0.006627	0.000708	9.366573	0.0000
Weighted Statistics				
R-squared	0.172804	Mean dependent var		5.284213
Adjusted R-squared	0.167040	S.D. dependent var		1.434315
S.E. of regression	0.978923	Sum squared resid		550.0590
F-statistic	29.97763	Durbin-Watson stat		1.902501
Prob(F-statistic)	0.000000			

Table 1 presents the results of the regressing price on both earnings and book value jointly (model 1), and table 2 presents individually (models 2 and 3) for the period of 2000-2002. The adjusted R2 for regression of model (1) shows that earnings and book value jointly explained % 16.7 of the variations in ISE firms' stock prices. Similar results

were obtained when stock prices were regressed on earnings and book value, individually (models 2 and 3). The adjusted R2 for the regression of model (2 and 3) indicates that book value explained %12 and earnings explained % 6 of the variations the price stock of the firms.

Table 2: Descriptive Statistics for Value Relevance of Earnings and Book Value Individually for Turkish Accounting Standards (2000-2002)

$P_{it} = \beta_0 + \beta_1 EPS_{it} + \varepsilon_{it} \quad (2)$				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.623247	0.029121	124.4224	0.0000
EPS	0.016209	0.003423	4.736061	0.0000
Weighted Statistics				
R-squared	0.067111	Mean dependent var		4.979045
Adjusted R-squared	0.062244	S.D. dependent var		1.714384
S.E. of regression	0.957226	Sum squared resid		526.8614
F-statistic	13.78837	Durbin-Watson stat		1.764425
Prob(F-statistic)	0.000000			
$P_{it} = \beta_0 + \beta_1 BVPS_{it} + \varepsilon_{it} \quad (3)$				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.591342	0.030199	118.9230	0.0000
BVPS	0.006102	0.000749	8.152007	0.0000
Weighted Statistics				
R-squared	0.127898	Mean dependent var		4.829697
Adjusted R-squared	0.123348	S.D. dependent var		1.784916
S.E. of regression	1.002350	Sum squared resid		577.7058
F-statistic	28.10875	Durbin-Watson stat		2.000438
Prob(F-statistic)	0.000000			

Table 3 presents the results of the regressing price on both earnings and book value jointly (model 1) and Table 4 presents individually (models 2 and 3) for the period of 2005-2009. The adjusted R2 for the regression of model (1) shows that earnings and book value jointly explained % 33 of the variations in firms' stock prices. Similar results were obtained when stock prices were regressed on earnings and book

value, individually (models 2 and 3). The adjusted R2 for regression of model (2 and 3) indicates that book value explained %33 and earnings explained %24 of the variations the price stock of the firms. The implication of the result is, book value generated from IFRS contains information more than earnings and more valued accordingly by the equity investors.

Table 3: Descriptive Statistics for Value Relevance of Earnings and Book Value Jointly for IFRS (2005-2009)

$P_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 BVPS_{it} + \varepsilon_{it}$ (1)				
Dependent Variable: PRICE Method: Panel EGLS (Period SUR) Sample: 2005 2009		Periods included: 5 Cross-sections included: 193 Total panel (balanced) observations: 965 Linear estimation after one-step weighting matrix		
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.488256	0.029877	16.34235	0.0000
EPS	0.005830	0.001810	3.220934	0.0013
BVPS	0.009499	0.000782	12.14599	0.0000
Weighted Statistics				
R-squared	0.336483	Mean dependent var	0.317525	
Adjusted R-squared	0.332328	S.D. dependent var	1.336674	
S.E. of regression	1.001182	Sum squared resid	960.2660	
F-statistic	80.97033	Durbin-Watson stat	1.978432	
Prob(F-statistic)	0.000000			

Table 4: Descriptive Statistics for Value Relevance of Earnings and Book Value Individually for IFRS (2005-2009)

$P_{it} = \beta_0 + \beta_1 EPS_{it} + \varepsilon_{it}$ (2)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.554971	0.030652	18.10536	0.0000
EPS	0.015511	0.002231	6.953767	0.0000
Weighted Statistics				
R-squared	0.248179	Mean dependent var	0.383631	
Adjusted R-squared	0.244259	S.D. dependent var	1.188117	
S.E. of regression	0.950695	Sum squared resid	866.7650	
F-statistic	63.31402	Durbin-Watson stat	1.948594	
Prob(F-statistic)	0.000000			
$P_{it} = \beta_0 + \beta_1 BVPS_{it} + \varepsilon_{it}$ (3)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.486682	0.029809	16.32656	0.0000
BVPS	0.010348	0.000746	13.86899	0.0000
Weighted Statistics				
R-squared	0.332194	Mean dependent var	0.332743	
Adjusted R-squared	0.328712	S.D. dependent var	1.330313	
S.E. of regression	1.000605	Sum squared resid	960.1607	
F-statistic	95.40913	Durbin-Watson stat	1.977188	
Prob(F-statistic)	0.000000			

The results, presented in the table 1-4, show that book value and earnings are value relevant and jointly explain 17 % stock prices before adoption IFRS and % 33 after adoption of IFRS for Turkish listed firms. The adjusted R2 indicates that the transition from Turkish Accounting Standards to IFRS has positively changed the relevance of earnings and book value in explaining firms' stock prices. Book value generated from both Turkish GAAP and IFRS contains more information than earnings and more valued by the equity investors. These results are consistent with previous study done by Turel (2009) but with different numbers. Turel (2009) found that the overall adjusted R2 of the regression model (1) was 0,27 for the period adopted Turkish accounting standards (2001-2002) and 0,84 for the period adopted the IFRS (2005-2006). This difference might be due to the periods and data set used in his study.

6. CONCLUSION

Turkish listed firms are required to adopt IASB standards in the preparation and presentation of consolidated accounts for periods beginning from 1st of January, 2005. Before this date, Turkish listed firms were required to apply local accounting standards. In this study, I investigated whether accounting information produced under IASB standards are more value relevant than the ones produced under Turkish accounting standards. I regressed the market price of shares (as of six months after the year- end), with book value of equity per share and earnings per share, in order to estimate R2 for Turkish listed firms before and after the adoption of IFRS. I found that the value relevance of accounting information improved with the adoption of IFRS. This result is consistent with previous literature that shows the adoption of IFRS improves value relevance.

END NOTES

¹ In this study it is used EViews program to estimate regression equations and used period SUR as the option GLS Weights. Since the $T < N / 2$. See http://www.econ.canterbury.ac.nz/personal_pages/bob_reed/Courses/

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