

Empirical Investigation into the Value Relevance of Financial Statements: A Study on Selected S&P BSE Energy Listed Companies

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Abstract : When it comes for accounting information to be helpful in decision-making, it is critical that it be relevant to the process and have a significant link with stock prices or returns. The present study examines the path of the accounting information derived by companies included in the S&P BSE Energy Index sample between FY-2017 and FY-2021 in terms of its aggregate, single, and incremental value relevance. According to the findings, accounting information can be valuable for firms listed on the BSE. The overall value and significance of accounting information as measured by book value per share and earnings per share. The study's results indicated that in the S&P BSE Energy Index sample, earnings per share and book value per share independently had a significant impact on stock prices; the value relevance of accounting information significantly affects share prices, specifically the market price; and there exists a strong correlation between the value relevance of accounting information and book value. However, the significance of EPS and BVPS in terms of aggregate value has decreased significantly.

Keywords-: Accounting information, Value relevance, S&P BSE Energy Index sample, Earning per share and Book value per share

Introduction

Value relevance study is inspired by the fact that financial statements are one of the key forms of communication for publicly traded companies with their investors and the public. The market typically relies on financial reports issued by such organization's management. The information in financial reports must be relevant and credible (**Barth et al., 2001**). We say that is reliable when information can be relied upon to faithfully represent the transactions or events it aims to represent without any undue error or bias. Reliable information influences users' decisions to form predictions or helps confirm or

correct previous evaluations (FASB, 1976). A value relevant information, according to (Barth et al., 2001), should have both relevance and credibility. A firm's worth is determined by how the market perceives its performance, and accounting disclosures offer the necessary information to create the basis of that perception. Many studies have investigated the worthiness of earnings per share (EPS), the book value of equity per share (BVPS), and cash flows. According to such studies, earnings and book values have a large information content for a firm's stock valuation. (Dechow, 1994; Cheng et al., 1994; Pfeiffer et al. 1998; Holthausen and Watts, 2001; Choi et al., 2006; Kwon, 2009). As a result of the severe matching and timing issues that typically accompany cash flows, earnings and book values are regarded as having a greater value relevant to a firm's valuation than cash flows do. (Ohlson, 1995; Barth et al., 1998, Collins et al., 1999). In addition, studies have shown that the value relevance of earnings and book value moves in the opposite direction of one another and that a rise follows a decrease in the value relevance of profits in the value relevance of book values Berger et al. (1996), Burgstahler and Dichev (1997), Collins et al. (1997).

In recent years, research on the value relevance of accounting information has attracted the interest of both practitioners and researchers. This was especially true during the global financial crisis of 2007-2009, which banks reported in North America and Europe. In addition, the recent controversies in India, such as the fraud at Satyam, have brought to light the value relevance of accounting information for the Indian stock exchange Krishnan and Krishnan, (2013). On the other hand, researchers in India have concentrated mainly on the value relevance of financial statements, with a primary emphasis on cash flow reporting Vishnani and Shah, (2008); Srinivasan and Narsimhan, (2010).

Literature Review

In this literature study section, the emphasis has been on research that investigated the value relevance of accounting information. If a specific accounting data has a significant and robust projected relationship with stock prices or other indicators of the stock market, such as price-to-earnings ratios or price-to-book ratios, then that accounting figure is said to be value-relevant (Amir et al., 1993). The Earnings per share (EPS) and book value per share (BVPS) have been identified as the two most crucial accounting measures that have a significant positive association with the market value of a firm, which is a proxy for market value by share prices, according to a large portion of the research that has been published on the subject El-Gazzar et al. (2006), Clarkson et al. (2009), Oyerinde (2009), Alfaraih and Alanezi, 2011 Khanagha et al. (2011). According to the findings that were presented by Hunt et al. (1997), the incremental explanatory power of BVPS was discovered to be higher than that of EPS. Earnings and

book value have been increasingly important in explaining changes in stock prices in China from 1992 to 1996 **Bao and Chow, (1999)**. Using a return and price model, **Chen et al. (2001)** investigated the relationship between accounting information, as represented by EPS and BVPS, and stock price in the Chinese stock market from 1991-98. The research focused on the Chinese stock market. Both pooled cross-sectional and time-series regression indicated that accounting information was of value relevance as a result of their investigation.

The empirical link between earnings per share and book value per share (BVPS) and stock market value was investigated by **Safajaou et al. (2005)** over the period 1997-2003 using the model developed by Ohlson (1995). The findings suggested a meaningful connection between price, EPS, and BVPS. **Ragab and Omran (2006)** researched the relevance of earnings and book values in the Egyptian Market from 1998-2002. They discovered that, based on both returns and price models, EPS and BVPS were all relevant and explained approximately 40 percent of the variation in stock prices. The findings of their study were published in the academic journal of Financial Management. According to an investigation conducted by **Qystein and Frode (2007)**, which examined the value relevance of financial reporting over four decades, the value relevance of Norwegian GAAP did not decrease from 1965 to 2004. **Chandra and Ro (2008)** discovered that the combined value relevance of earnings and revenues had remained the same but that the value relevance of earnings had decreased while the impact of revenue on price had not decreased. This was even though the overall value relevance of earnings and revenues had not changed. **Pourheydari et al. (2008)** examined the value relevance of book value and dividends with book value and reported profits on the Tehran Stock Exchange from 1996-2004. The findings demonstrated a positive link between dividends, book value, and earnings with stock market value. **Dung (2010)** investigated the value relevance of the information included inside financial statements on the Vietnamese stock market. The findings indicated that the value relevance of accounting information was statistically significant, although considerably less than that of other established and developing economies. **Filip (2010)** researched the effects of Romania's mandated adoption of IFRS to demonstrate a rise in the value relevance of earnings post-IFRS implementation.

Several studies have investigated the relevance of profits and book values for voluntary early adopters of the International Accounting Standards (IASs). Using a linear pricing model, **Bartov et al. (2005)** investigated the impact of adopting IASs on their sample of 37 German businesses. They used a pre-post design and discovered that moving from German GAAP to IASs increased the value relevance of profits. This was found when they switched from using German GAAP to using IASs. **Hung and Subramanyam (2007)** investigated the value relevance of re-statement discrepancies for a group of 80 early volunteer IASs adopters in Germany. After switching to the IASs, they discovered that the

combined value relevance of EPS and BVPS went down, which was a negative finding. Using a pre-post design for a sample of 319 companies that voluntarily adopted IASs between 1994 to 2003, According to **Barth et al. (2008)**, the price level model's R^2 grew from 28 to 40 percent in the adoption year compared to the adopters of the IASs. This was in contrast to the year before to adoption.

Objectives of the Study

- To assess the value of accounting information represented by earnings and book values
- To determine the link between accounting information's value relevance and share price

Research Hypotheses

After reviewing the existing literature, the following hypotheses have developed about the value relevance of accounting data:

H₀₁: There is no significant association between a company's market value as represented by share prices and accounting information reflected by EPS and BVPS.

H₀₂: There is no significant correlation between share price and value relevance accounting information.

Research Methodology

For this study, the population is the companies that make up the S&P BSE-500 Index. This research covers the period from April 2017 to March 31, 2022. Since there are different rules for different types of businesses in the Paints, Automobile (2-3 wheeler segment), Pharmaceuticals, Household & Personal Products and Engineering & Construction sectors, they were all phased out. Finally, businesses that had missing data throughout the research period or whose fiscal year ended on a date than March 31 were left out of the final tally. Using these criteria, we generated a sample of 5 companies with 25 firm-year observations during the five-year research period. Stock price and financial reporting information was collected from the BSE official website (www.bseindia.com), Moneycontrol (www.moneycontrol.com), and the corporate database (PROWESS) maintained by the Center for Monitoring the Indian Economy (CMIE). With the use of the value relevance measurement technique, accountants have analyzed how useful financial data really is. Financial statement value relevance is determined by this method by assessing how well the statements capture or summarise the information that has changed stock price summary. This research determined the value relevance of

accounting data using Ohlson's (1995) Price Valuation Model. The model's Market price (MP) is a function of both EPS and earnings per share and book value per share, respectively (BVPS). A few different Value Relevance Models have been applied to the task of determining how certain valuable pieces of accounting data are.

Table 1. Elements of the Study

Sr. No.	Company Name	Symbol	Data Period	Observation
1	Reliance Industries Ltd.	Reliance	2017-2022	5
2	Oil and Natural Gas Corporation Ltd	ONGC	2017-2022	5
3	Chennai Petroleum Corporation Ltd	CHENNPETRO	2017-2022	5
4	Hindustan Petroleum Corporation Ltd	HINDPETRO	2017-2022	5
5	Indian Oil Corporation Ltd	IOC	2017-2022	5
Total Observations				25

Source: Generated by the authors from the official website of the Bombay Stock Exchange (www.bseindia.com).

Model Specification

To examine the significance of EPS and BVPS in explaining market stock price, we used Ohlson's (1995) pricing model, which represents stock prices as a linear function of its EPS and BVPS, as other researchers had previously done (Alfaraih&Alanezi, 2011). Table 2 contains the variable descriptions.

Model 1-: $MP_{jt} = \alpha_0 + \alpha_1 EPS_{jt} + \alpha_2 BVPS_{jt} + e_{jt}$

Model 2-: $MP_{jt} = \beta_0 + \beta_1 EPS_{jt} + e_{jt}$

Model 3-: $MP_{jt} = \gamma_0 + \gamma_1 BVPS_{jt} + e_{jt}$

Table 2-: Description of Dependent and Independent Variables

Name	Nature	Formula	Description
MP_{jt}	Dependent Variable	Closing market share prices of firm j during the financial year t .	
α_o	Independent Variable	Captures the influence of other variables that have been excluded from the model but exercise some influence on the market stock prices.	
EPS_{jt}	Independent Variable	$\frac{\text{Earnings are attributable to ordinary shareholders.}}{\text{Total amount of outstanding ordinary shares}}$	Earnings per share based on PAT for firm j at time t .
$BVPS_{jt}$	Independent Variable	$\frac{\text{Equity share capital + shareholders reserves.}}{\text{Total numbers of outstanding ordinary shares.}}$	Book value per share of firm j during the financial year t .
e_{jt}	Error Term	Indicates the explanatory power of other value relevant information.	
t	Time	Represents the number of years covered for this study.	2017...2022 corresponding to the years 2017-2022.

Analysis and Result

Data is analyzed with the help of SPSS, Gretl, where multivariate regression is done on SPSS whereas, Fixed, and Random Effect test done on Gretl.

Descriptive Result

Descriptive statistics were obtained for the sample utilized to test the value relevance hypotheses. Table 3 displays descriptive statistics for the dependent and independent variables based on the panel and cross-sectional time series utilizing the entire sample space of 25 firm-year data—the mean, median, standard deviation skewness, minimum and maximum for the variables of interest.

Table 3: Descriptive Result (n=25)

Variables	Mean	Median	Std. Dev	Skewness	Kurtosis	Minimum	Maximum
MPPS	450.86	177.81	658.01	2.1852	3.8610	54.427	2634.9
EPS	31.498	27.340	45.329	-1.9992	6.0220	-138.10	92.000
BVPS	322.09	199.45	329.76	2.1121	3.3780	91.280	1314.1
Firm Size	12.226	12.722	1.5394	-0.70520	-0.74432	9.4599	14.221

Table 3 shows that *MPPS* varied significantly, ranging from ₹ 54.427 to ₹ 2634.9 crore with mean (median) of ₹450.86 crore (₹177.81 crore). The table indicate that mean (median) *EPS* during the study period is ₹31.498 crore (₹27.340 crore) ranging from the loss of ₹ -138.10 crore to ₹ 92 crore. The mean (median) *BVPS* is ₹ 31.498 crore (₹ 199.45 crore), ranging from ₹ 91.280 crore to ₹ 1314.1 crore. Mean *BVPS* is about 10 times higher than that of *EPS*. The mean value of *MPPS*, *EPS*, and *BVPS* tended to be higher than their respective median, indicating that distribution was positively skewed.

Correlational Analysis

The correlation is investigated to determine the relationship between the variables for the panel data are shown in Table 4.

Table 4: Correlation Matrix (n=25)

Correlations				
		MPPS	EPS	BVPS
Pearson Correlation	MPPS	1.000	.497	.985
	EPS	.497	1.000	.518
	BVPS	.985	.518	1.000
Sig. (1-tailed)	MPPS	.	.006	.000
	EPS	.006	.	.004
	BVPS	.000	.004	.
N	MPPS	25	25	25
	EPS	25	25	25

	BVPS	25	25	25
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Note:- **Correlation is significant at the level 0.05 level (two-tailed). *Correlation is significant at the level (two-tailed). MPPS is market per share of firm j in year t . EPS is the earning per share based on PAT for the firm j in the year t . BVPS is the book value of equity per share for firm j in the year t .

The correlation matrix reveals a high positive association between BVPS and MPPS as expected (0.985). The relationship between BVPS and EPS is equally robust and positive (0.518), whereas the relationship between EPS and MPPS displays (0.497) low positive correlation. The Pearson correlation yields similar findings. EPS and BVPS are also favorable associated to one another.

Multivariate Analysis

The study's objectives are to establish the value relevance of accounting information represented by EPS and BVPS, as well as changes in this information over time. For this reason, panel and annual cross-sectional regression of value relevance models are calculated. Yearly cross regression helps in assessing changes in EPS and BVPS's combined and incremental value relevance. The adjusted R^2 is the key indication of accounting information's value relevance. Furthermore, the significant regression coefficient of the independent variables are utilized to assess the value significance of independent variable.

Model 1:- $MP_{jt} = \alpha_0 + \alpha_1 EPS_{jt} + \alpha_2 BVPS_{jt} + e_{jt}$

From the table 5, Model Summary’s Adjusted R Square is .967 this adjusted R² indicate goodness of fit (model accuracy) accounting information of value relevance. Further, Durbin Watson value hovers around 2.006 it reveals that model has no auto correlation

From ANOVA table MPPS BVPS and EPS, F-test value is 352.770 and p-value is 0.000, which is significant and indicate that there is difference among group means.

From the coefficients from regression table displays negative alpha i.e. -179.647 and found to be significant, EPS i.e. beta 1 coefficients is -0.259 and it found insignificant, while BVPS is positively affecting with 1.983 % to MPPS and p-value is found significant. However, these findings contradict recent study, which observed a significant decrease in the incremental value of earnings, which was compensated by an increase in the incremental value relevance of book value Collins et al. (1997), Francis and Shipper, (1999), Lev and Zarowin, (1999), and Jang et al., (2002).

Table 5:- Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.985	.970	.967	119.5119148	2.006
a. Predictors: (Constant), BVPS, EPS					
b. Dependent Variable: MPPS					

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10077305.062	2	5038652.531	352.770	.000
	Residual	314228.151	22	14283.098		
	Total	10391533.213	24			
a. Dependent Variable: MPPS						
b. Predictors: (Constant), BVPS, EPS						

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-179.647	34.225		-5.249	.000		
	EPS	-.259	.629	-.018	-.412	.684	.732	1.366
	BVPS	1.983	.086	.994	22.938	.000	.732	1.366
a. Dependent Variable: MPPS								

Model 2-: $MP_{jt} = \beta_0 + \beta_1 EPS_{jt} + e_{jt}$

From the table 6, Model Summary’s Adjusted R Square is .214 which is not found robust for model fit and this adjusted R² indicate model accuracy accounting information of value relevance, which indicates only 21% variation is explained by EPS. Further, Durbin Watson value hovers around .952 it reveals that model has positive auto correlation

From ANOVA table MPPS BVPS and EPS, F-test value is 7.526 and p-value is 0.012, which is insignificant and indicate that there is no difference among group means.

From the coefficients from regression table displays positive alpha i.e 220.581 and found to be significant, EPS i.e. beta 1 coefficients is 7.208 and it found insignificant.

Table 6-: Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.497	.247	.214	583.4475455	.952
a. Predictors: (Constant), EPS					
b. Dependent Variable: MPPS					

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2562079.332	1	2562079.332	7.526	.012
	Residual	7829453.881	23	340411.038		
	Total	10391533.213	24			

a. Dependent Variable: MPPS
b. Predictors: (Constant), EPS

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	220.581	143.742		1.535	.139		
	EPS	7.208	2.627	.497	2.743	.012	1.000	1.000
a. Dependent Variable: MPPS								

Model 3-: $MP_{jt} = \gamma_0 + \gamma_1 BVPS_{jt} + e_{jt}$

From the table 7, Model Summary’s Adjusted R Square is .968 this adjusted R² indicate goodness of fit (model accuracy) accounting information of value relevance, which indicates 96 % variation is explained by BVPS. Further, Durbin Watson value hovers around 2.014 it reveals that model has no auto correlation

From ANOVA table MPPS BVPS and EPS, F-test value is 731.781 and p-value is 0.000, which is significant and indicate that there is difference among group means.

From the coefficients from regression table displays positive alpha i.e. -181.989 and found to be significant, BVPS gamma coefficient is 1.965 and it is found significant.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.985	.970	.968	117.3354944	2.014
a. Predictors: (Constant), BVPS					

b. Dependent Variable: MPPS

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10074877.994	1	10074877.994	731.781	.000
	Residual	316655.219	23	13767.618		
	Total	10391533.213	24			
a. Dependent Variable: MPPS						
b. Predictors: (Constant), BVPS						

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-181.989	33.136		-5.492	.000		
	BVPS	1.965	.073	.985	27.051	.000	1.000	1.000

a. Dependent Variable: MPPS

Fixed Effect Panel Data Test

Test for differing group intercepts -
 Null hypothesis: The groups have a common intercept
 Test statistic: $F(4, 18) = 0.599581$
 with p-value = $P(F(4, 18) > 0.599581) = 0.667704$

Source: Authors own computation (GRETl)

In order to test that group have a common intercept or fixed effect model, we run fixed effect model to validate for model fit, testing at 5% level of significance p-value displays 0.667704 which means reject the null hypothesis i.e. the group have different intercept, and go for random effect panel data test

Random-effects (GLS), using 25 observations
 Included 5 cross-sectional units
 Time-series length = 5
 Dependent variable: MPPS

	coefficient	std. error	z	p-value
const	-179.647	34.2254	-5.249	1.53e-07 ***
EPS	-0.259276	0.628973	-0.4122	0.6802
BVPS	1.98326	0.0864610	22.94	1.93e-116 ***

Mean dependent var	450.8573	S.D. dependent var	658.0126
Sum squared resid	314228.2	S.E. of regression	116.8850
Log-likelihood	-153.4609	Akaike criterion	312.9219
Schwarz criterion	316.5785	Hannan-Quinn	313.9361
rho	-0.139538	Durbin-Watson	1.691032

'Between' variance = 0
 'Within' variance = 15404.6
 theta used for quasi-demeaning = 0
 corr (y, yhat) ^2 = 0.969761

Joint test on named regressors
 Asymptotic test statistic: Chi-square (2) = 705.541
 with p-value = 6.22028e-154

Breusch-Pagan test -
 Null hypothesis: Variance of the unit-specific error = 0
 Asymptotic test statistic: Chi-square (1) = 1.19307
 with p-value = 0.274711

Hausman test -
 Null hypothesis: GLS estimates are consistent
 Asymptotic test statistic: Chi-square (2) = 1.44627
 with p-value = 0.485227

Source: Authors own computation (GRETl)

$$\text{MPPS} = -179.647 - 0.259276 \text{ EPS} + 1.98326 \text{ BVPS}$$

From the above equation it evident that constant (alpha) and BVPS is significant by observing over p-value of these coefficients and also EPS and constant coefficients jointly effect negatively on MPPS, only BVPS coefficients effect positively on MPPS. This means book value plays major role of value information in energy companies stock on Market Price.

Whether fixed effect model or random effect model is appropriate with the help of hausman test it is found that we cannot reject null hypothesis this means GLS estimates are consistent or we have to stick with random effect.

Conclusion

The value relevance of EPS and BVPS on stock price of Energy listed companies listed on the S&P BSE Energy Index is investigated in this research. Ohlson's (1995) pricing model is used in the research, which represent this study was divided into 3 Model. The present research is conducted to investigate the empirical link between Market Price per share and explanatory factors such as EPS and BVPS from year 2017-22. Accounting information from Model 1 such as EPS and BVPS shown to be strongly connected with MPPS at the 5% significance level and to have a strong positive association. According to regression study, the value relevance of accounting information has a significant influence on MPPS at the 5% significance level of BVPS on and EPS doesn't found considerable influence on MPPS at 5% significance level. From Model 2, multivariate pooled regression EPS variable displays negative influence on dependent variable i.e. MPPS further it is found that EPS has significant impact on MPPS and from this it can be insinuated that by diluting equity shares will effect EPS and ultimately effect negatively on MPPS. From Model 3, multivariate pooled regression BVPS variable displays positive influence on dependent variable i.e. MPPS, further it is found that BVPS has significant impact on MPPS. From the above model 3 it can be concluded that BVPS has significant impact on MPPS and is supported by previous studies (Penman, S. H. (1991); Collins, D. W., Maydew, E. L., & Weiss, I. S. (1997) Francis, J., & Schipper, K. (1999); Lev, B. (2001))

According to the study's conclusions, analysts, investors, and other industry stakeholders should utilise and prefer book value per share above earnings per share to evaluate energy stocks in order to allocate resources more effectively in the equity markets.

The conclusions of this research have significant effects for investors, creditors, and analyst in energy index listed companies stocks and they have few limitations. First, the study investigate the value relevance of chosen accounting information from the statement of financial position and income statement; future research may include more factors.

Second, the conclusion based on a 5-year research of five Energy companies listed on the BSE Energy Index from 2017 to 2022, and the findings may be applied to Energy Companies comparable to those utilized in this study. Further studies may the study period and cover additional industries such as pharmaceuticals, banking, financial services and FMCG.

Third, now that converged international financial reporting standards have been adopted in India, a research evaluating the value relevance of pre and post-converged accounting rules for different industries may be carried out.

Finally, it is possible to conclude that value accounting information has a considerable influence on share price and is strongly connected with Market price per share.

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