Review of Accounting Variables Affecting Stock Price Movements

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Value relevance research aims in finding out whether accounting information published in financial statements provide useful and valuable information for the users of accounting information especially investors (Negakis2005, Mishary and Alanezi 2011). This study provides an extensive and comprehensive review of research undertaken on value relevance of accounting information. Interviews and previous studies undertaken in the various countries, sectors or industries were selected as sample to present the empirical findings. The purpose is to help the future researchers to have understanding on this nature of study. It provides detailed discussion of variables used by various researchers. The review considered 70 studies conducted by researchers from various countries, where stock markets are well emerged or are emerging. It helps in identifying gaps in the current literature which future research may aim to cover.

Keywords: *Value relevance, accounting information, share price, stock market.*

INTRODUCTION

The literature on value relevance of accounting information is vast and it investigates the relationship between share price and accounting information and also investigates whether the release of financial accounting information is related to the change in stock prices. The study on the value relevance is based on Capital market based accounting research (CMBAR) and originated from the studies carried by Beaver (1968) and Ball and Brown (1968). The majority of literature on the value relevance has comprehensively documented the relationship between accounting information and stock prices or stock returns (Francis & Schipper,1999; Lev & Zarowin,1999; Chen,Chen & Su,2001; Shamki & Rahman, 2012; Kousenidis, Ladas & Negakis,2010; Khanaga,2011; Takacs,2012, Ragab & Omran,2006; Mishary & Alanezi,2011) and few covered the reactions of the stock markets to the release of new and different financial accounting information (Bayezid & Chowdhury, 2010; Naser,2002; Javid & Faraz,2011; Dongwei 2002; Menike & Wang, 2013).Value relevance research aims in explaining the usefulness of accounting information to stock investors; it measures statistical and significant relationship between accounting information and stock prices or stock returns or both (Beisland,2009).Value relevance research aims in finding out whether accounting information published in the financial statements provide useful

and valuable information for the users of accounting information especial investors (Negakis,2005) whilst (Amir, Harris, & Venuti,1993; Beaver & Landsman,1998; Ohlson,1999; Oyerinde,2009), define value relevance as the ability and influence of accounting of accounting numbers in capturing equity share price of listed companies.

Accounting information is defined as the written quantitative information presented in the financial statement (Oyerinde,2009) and the study on value relevance motivated by the fact that listed companies use accounting information as the means of communication with investors (Vijitha & Nimalathan,2014).The primary objective of financial statements is to provide information about the company's performance, financial position and to enable users to make better decisions particularly the investors (Tharmila & Nimalathan, 2013).

OBJECTIVE OF THE STUDY

The objective is to provide a brief academic literature and also conceptualize the publications investigated the influence of accounting variables on stock prices. To address this issue we review the literature and provide the results of different researchers and the methodology used by them. The purpose in doing so is to clarify the contribution of this area of study, its limitation and importance in the literature. The review considered 70 studies conducted by researchers from various countries, where stock markets are well emerged or are emerging. It helps in identifying gaps in the current literature which future research may aim to cover. This is descriptive study where a wide selection of papers selected from different sources. The 70 studies considered for review are primarily form Indian stock market, Nigeria stock market, Dhaka stock exchange, Colombo stock exchange, Karachi stock exchange, Shanghai stock exchange, Indonesia stock exchange,

Jakarta stock exchange, Egyptian stock exchange, Athens stock exchange, Istanbul stock exchange, Tehran stock exchange, Amman stock exchange, Abu Dhabi stock market, Kuwait stock exchange and Nairobi stock exchange, Warsaw stock exchange, Chinese stock market, United Kingdom stock market, German stock market, Korea stock market, Oslo stock market, Hochiminh stock exchange, Saudi Arabia stock market, US stock market (NASDAQ,AMEX and NYSE).The studies considered for the review are from the period 1997-2014 selected from reputed journals and reference is also made to the dissertation work related to this topic.

The structure of this review paper organized as follows. Section 2 gives meaning of value relevance, section 3 give brief description about the nature of accounting information. Discussion and recommendation is covered in section 4 and section 5is for conclusion.

MEASURING VALUE RELEVANCE

International accounting standard board (IASB 2001, p.24), defined the word relevance as the principal qualitative characteristic that financial statements should have in order to be useful in the decision making. IASB(2001 p.26) considers financial statement information to be relevant when it has the ability of influencing user's economic decision by helping them to evaluate past, present and future events and correcting their past evaluation.

Study by Amir et al.(1993) is considered as the first study to use the term "value relevance"; it defined it as the relationship between accounting figures and market value of equity. Similar definitions were used by Beisl and (2009); Barth et al.(1998); Franscie and Schipper (1999); Vijitha and Nimalathan (2014); Sharma(2014); Varun (2014).

NATURE OF ACCOUNTING INFORMATION

The primary objective of financial statements is to provide information about company's performance, financial position and to enable users to make better decisions particularly investors (Tharmila & Nimalathan, 2013; Mulenga & Bhatia, 2017). Decision of investors to invest in the company's stocks depends on financial performance of the company, and investors does not have direct way in measuring performance of the company they usually depend on the financial statements which is prepared by the company they wish to invest (Tharmila & Nimalathasan,2013).

The following include the list of accounting variables used, its definition and empirical results as reported by different researchers.

Earnings per share

Earnings per share is presented and published in the statement of profit and loss of a company, it measures the profit allocated to each share. Profitability ratios are most popular and frequently used accounting information variable (Bhatia & Dhamija,2015). EPS was found to be significant in varied stock market across the globe; Egyptian stock exchange (Ragab & Omran,2006); Dhaka Stock Exchange (Miah, 2012); Nigeria Stock Exchange (Thompson & Adah,2012; Olugbenga & Oyerinde,2014); Istanbul Stock Exchange (Kargin,2013); Indonesia Stock Exchange (Andriantomo & Yudianti, 2013); Amman stock exchange (Almumani,2014; Shamki &Rahman,2012);Shanghai stock exchange (Wang & Luo, 2013); Sri-Lanka (Tharmila & Nimalathan, 2013, Pathirawasam, 2010, Vijitha & Namalathan, 2014). In Indian stock market as well the EPS was found to be a significant accounting variable by (Sharma,2011); Sukhija (2014); Karpagavalli & Nirmala (2014); Malhotra & Tandon (2013); Dhole (2013); Varun (2014); Khanna (2014).

Book value per share

Book value per share also known as net assets value per share is used in measuring amount of assets company has on behalf of each share. The company can have good record of past performance if the value of its book value is very high (Sharma, 2011).The impact of book value per share on share price was examined by Malhotra and Tandon (2013); Karpagavalli and Nirmala, 2014); Pathirawasam (2010); Tharmila and Nimalathan (2013); Vijitha and Namalathan (2014); Olugbenga and Oyerinde (2014) in Nigeria, Abdelkarim (2014), Andriantomo and Yudianti (2013); Ragab and Omran (2006); Miah (2012); Thompson and Adah (2012); Ozlen (2014); Sharma (2011). Based on their findings, book value found to have positive and significant relation with market price. Consistent with Collin, Maydew and Weiss (1997); Barth et al (1998); Francis and Schipper (1999) by using US data.

Financial leverage

Financial leverage ratios used in measuring ability of the company or business to utilize borrowed fund (Bhatia & Mehrotra,2016). Efficient use of borrowed funds by company would result to an increase in profit and more attraction to investors and would also result in increase in share price (Maliki & Ali,2013).

Empirical results of Uwalomwa, Olowe and Agu (2012) reported financial leverage ratio to have inverse relation with market share price of listed firms in Nigeria. While Malik and Ali (2013) and Floor and Chalevas (2010) show positive and significant relationship between financial leverage ratio and market share price, the results of the Oshodin and Chijoke (2014) were found to be inconsistent.

Dividend per share

Dividend defined as the source of income regularly distributed to shareholders by the firm, computed by taking annual amount of dividend paid to ordinary shareholders divided by outstanding number of equity shares. Numerous studies conducted in different stock market examined value relevance of dividend per share on share price (Oyerinde,2009; Sharma, 2014; Nyabundi,2013; Khan & Amanullah, 2012; Olugbenga & Oyerinde,2014). Based on their findings, dividend per share found to be positive and significant related to stock prices, consistent to Nyabundi (2013);Khan and Amanullah (2012);Sharma(2014); Varun (2012). Study by Srinavasan (2012)reported that dividend per share have negative and significant relation with share price.

Price/Earnings ratio

Price earnings ratio focused on expressing relationship between market price of the company's share and its earnings per share. The studies of Almumani (2014);Sharma and Singhania (2006); Sighania (2008); Sukhija (2014); Malhotra and Tandon (2013); Srinavasan (2012); Sharma (2011); Karpagavalli and Nirmala (2014) reported price earnings ratio to have positive and significant relation with share price. Contrary to Vijitha and Nimalathasan (2014) price earnings found to have weak negative relationship with market share price.

Return on Equity

Return on equity ratio is used in measuring amount of profit generated by company from the amount of money invested in the company by shareholders (Modi,2014; Mohanty,2012; Maliki & Ali,2013). According to Hague and Faruquee (2013) a firm reported to have high ratio of return on equity will have better investment opportunities. Compared with earnings per share and book value per share, return on equity was used in fewer studies and presumed to have positive and significant relation with market price, this evidenced in the studies of Malik and Ali (2013); Perera and Thrikawala (2010); Pathirawasam (2010); Haque and Faruque (2013); Mohanty (2012);Sharma, Kumar, and Singh (2012).Contrary to Vijitha and Nimalathasan (2014); Modi (2014) return on equity found to have positive and insignificant influence on the share price.

Return on Assets

Return on assets is used in measuring company's efficiency in utilizing assets they have for the purpose of generating company's profits. Mathematically, computed by taking a company's net earnings divided by its average of total assets(Hague & Faruquee,2013). Without considering time effect return on assets reported to have positive and significant relation with share price (Hague et al,2013).The results found to be consistent with Uwuigbe et al. (2012).

Dividend payout ratio

Dividend payout ratio usually expressed as a percentage of share of net profit calculated after taxes and preference dividend given to ordinary shareholders. The relationship has been found to be significant and positive by Uwalomwa, Oloweand Agu (2012), though there have been contrary results as well (Sukhija, 2014; Almumani2014).

The following tables show summary of selected previous work from 1997 -2014 from different countries. The study divided the table into table 1(a) and table 1 (b).Table 1 (a) cover a number of 62 studies which have a number of independent variables not more than 5 and table 1 (b) cover a number of 8 studies which have a number of independent variables more than 5.

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S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
	Table 1 (a), Summary of studies with independent variable not more than 5.					
1	Collin,Maydew and Weiss (1997)	1953-1993	Share price	Earnings and Book value	Ohlson (1995) valuation and Theil (1997) technique	Book value
2	Barth, Beaver and Landsman (1998).	1974-1993	Share price	Equity book value and Net income	Regression analysis	Equity book value
3	Jermakowicz and Gornik (1998)	1995-1997	Stock returns	Annual earnings, Change in earnings level.	Return model	Earnings
4	Francis and Schipper (1999)	1952-1994	Stock returns or Stock price	Earnings and Book value	Returns and Price model	Book value per share
5	Lev and Zarowin (1999)	1977-1996	Stock returns or Stock price	Earnings, Book value and Cash flow	Returns and Price model	Earnings
6	Rees (1999)	1987-1997	Share price	Net income, Debt and dividend per share	Simple version of Edwards, Bell and Ohlson model	Equity
7	Chen et al (2001)	1991-1998	Share price or Stock return	Earnings and Book value	Returns and Price model by applying pooled cross-section and time series regression	Earnings and Book value
8	Dongwei (2002)	1997-1998	Stock prices	Average Abnormal Returns and Cumulative Average Abnormal Returns	Event study methodology	Investors do not correctly anticipate the changes in earnings and failed to adjust to new earnings information
9	Naser (2002)	1995-1999	Stock prices	Average Abnormal Returns and Cumulative Average Abnormal Returns	Event methodology	Released financial statements information changing investors' behavior.
10	Bartov,Goldberg and Kim (2005)	1998-2000	Stock returns	Earnings	Cross-sectional model and Time series model	Earnings
11	Ragab and Omran (2006)	1998-2002	Share price	Earnings per share and Book value per share.	Theoretical framework of Ohlson (1995) and Easton and Harris (1991) valuation models.	Earnings per share
12	El-Gazzar,Finn and Tang (2006)	1970-1984	Share price	Earnings per share and Book value per share	Regression	Earnings per share.

S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
13	Liu and Liu (2007)	1999-2003	Share price	Earnings per share and Book value per share	Theoretical framework of Ohlson valuation model	Earnings per share
14	Papadaki and Siougle (2007)	1985-1996	Market price per share	Price earnings ratio, Book value and earnings	Simple earnings capitalization model	Price earnings ratio
15	Bae and Joeng (2007)	1987-1998	Share price	Earnings, Book value, Owneship structure and Business group affiliation	Regression approach based on the theoretical framework of Ohlson (1995)	Earnings and Bok value
16	Oyerinde(2009)	2002-2008	Share price	Book value per share, Earnings per share and Dividend per share.	Ordinary Least Squared , Random Effects Model, Fixed Effects Model and Independent - Samples t-Test.	Dividend
17	Kwon (2009)	1981-2001	Share price	Earnings per share and Book value per share	Option style equity valuation model, Simple linear egression model, Multiple regression model and Piece linear regression model	Earnings per share.
18	Kwon (2009)	1994-2005	Share price	Earnings, Book value and Cash flow.	Myers (1977), Ohlson (1995) and Feltham and Ohlson (1995) valuation models	Book value and Cash flow.
19	Dung (2010).	2003-2007	Share price	Earnings per share, Book value per share	Ordinary Least Square, Fixed Effect Model and Random Effects Model.	Earnings per share
20	AL- Shubiri (2010)	2005-2008	Share price	Dividend, Net assets value per share and Earnings per share	Simple and multiple regression analysis	Net asset value per share
21	Bayezid and Ali (2010)	Jan 2008-Sept 2008	Share price	Market dividend yield, Market price-earnings ratio	Standard event study methodology.	Dividend yield
22	Kousenidis et al. (2010)	2003-2006	Share price	Earnings per share and Book value per share	Theoretical framework of Easton and Harris (1991) and Felt ham and Ohlson (1995)	Earnings per share
23	Pathirawasam (2010)	2006-2009	Share price	Earnings per share, Book value per share and Return on Equity.	Ohlson model framework (1995)	Earnings per share

S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
24	Perera and Thrikawala (2010)	2005-2009	Share price	Earnings per share, Return on Equity and Earnings Yield	Simple linear and multiple regression	Earnings per Share, Earning Yield and Return on Equity
25	Clarkson, Douglas, Richardson and Thompson (2011)	2004-2005	Share price	Earnings per share and Book value per share	Ordinary Least Square, Weighted Ordinary Least Square and Product Model.	Earnings per share and Book value per share
26	Khanagha (2011)	2001-2008	Share price	Earnings per share, Book value per share and cash flow of the firms.	Regression variation approach and portfolio approach.	Earnings per share
27	Mishary and Alanezi (2011)	1995-2006	Share price or Stock returns	Earnings and Book value per share	Price model and return model	Earnings and Book value
28	Azeem and Kouser (2011)	2002-2009	Share prices	Book value and Earnings	Ordinary Least squared, Fixed effect model and Random effect	Book value and earnings
29	Beisland (2011)	1994-2004	Stock returns	Earnings and disaggregating earnings	Multiple regression analysis	Earnings
30	Agostino, Drago and Silipo (2011)	2000-2006	Share price	Earnings per share and Book value per share	Ohlson valuation model	Earnings per share
31	Menike and Man (2013).	5 years	Stock prices	Average Abnormal Returns and Cumulative Average Abnormal Returns	Event study, Ordinary least squared method	Average Abnormal Return and Cumulative Average Abnormal Returns are positive around the announcement day but not significant at 5% level.
32	Aleksanyan and Karim (2012)	1996-2010	Market value per share	Earnings per share, Book value per share, common dividends, research and development costs, and advertising expenses	Residual income and option-style valuation models,	Book value per share
33	Thompson and Adah (2012)	2001-2009	Share price	Book value and Earnings per share	Modified the Ohlson Residual Income Model	Book value and earnings per share
34	Shamki and Rahman (2012)	1992-2002	Share price	Earnings and Book value per share.	Price and return valuation models	Earnings per share
35	Miah (2012)	2000-2010	Share price	Earnings per share and Book value per share	Multiple correlation analysis	Earnings per share

S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
36	Abiodun (2012)	1999-2009	Market price per share	Earnings and Book value	Price and Logarithmic regression models	Earnings per share
37	Modugu et al (2012)	2001-2011	Market price per share	Dividend per share and Earnings per share	Ohlson (1995) valuation models and OLS	Earnings per share
38	Takacs(2012)	2005-2010	Market price per share	Earnings and Book value	Price model and Return valuation model.	Book value
39	Srinavasan (2012)	2006-2011	Share price	Book value per share, Price earnings ratio, Size and dividend per share	Fixed Effects model and Random Effects model	Earnings per share and Price Earnings ratio
40	Sharma et al (2012)	1994-2009	Share price	Return on Networth, Profit after tax, Cash flow from operation, Cash flow from investment and Market to Book value ratio	Correlation and multiple regression analysis	Return On Net worth
41	Bhatt and Sumangala (2012)	2007-2011	Share price	Earnings per share	Regression analysis and Correlation	Earnings per share
42	Varun (2012).	2001-2010	Share price	Earnings, book values, dividend, debt, capital expenditure	Ohlson (1995) price model	Dividend per share and investment expenditure
43	Devalle (2012)	2006-2009	Share price	Book value of equity, Net income and Other comprehensive income	Price regression model	Comprehensive income
44	Karğın (2013)	1998-2011	Share price	Book value and Earnings per share	Theoretical framework of Ohlson (1995) valuation models.	Earnings per share
45	Halolen, Jelena and Rickard (2013)	2007-2010	Market price per share	Earnings per share and Book value per share	Theoretical framework of Ohlson valuation model	Book value per share
46	Malik and Ali(2013)	2001-2009	Share price	Financial leverage, Current ratio, Net profit margin, Return on equity and Assets turnover.	The pooled ordinary least squares regression (OLS) and panel data fixed effects regression	Financial leverage and Assets turnover
47	Andriantomo and Yudianti (2013)	2000-2009	Share price	Earnings per share and NBVPS	Ohlson (1995) valuation model	Book value
48	Tharmila and Nimalathasan (2013)	2009-2013	Share price	Earnings per share and NBVPS	Correlation and regression techniques	Earnings per share and Net book value

S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
49	Nyabundi(2013)	2005-2010	Share price	Dividend, earnings and book values	Simple linear regression models and multiple regression	Dividend
50	Kairuki and Oyugi (2013)	1998-2011	Share price	Returns on equity, earnings per share and book values of equity	Residual income valuation method.	Book value of equity and Return on equity
51	Buguit et al (2013)	2006-2011	Share price	Debt, equity and gearing ratio	Multiple regression method	Gearing and debt ratio.
52	Pathirawasam (2013)	2005-2009	Market price per share	Earnings and Book value	Ohlson (1995) model framework	Earnings and Book value
53	Menike and Man (2013)	2008-2012	Stock price	Abnormal returns and cumulative abnormal returns	Event study methodology	Abnormal return and cumulative abnormal return found to be positive but insignificant around the release of annual financial statements.
54	Vijitha and Nimalathasan (2014)	2007-2011	Market value per share	EPS), (NAVPS), and Return On Equity (ROE) and Price Earnings Ratio	Correlation and Regression analysis	Book value per share,P/E ratio and Earnings per share
55	Olugbenga and Oyerinde (2014).	1992-2009	Share price	Earnings, Book Value Per Share, Dividend per share and Cash flow per share	Ordinary Least Square (OLS) regression method	Earnings per share
56	Shehzad and Ismail 2014)	2008-2012	Share price	Earnings per share and Book value per share	Pooled regression technique	Earnings per share
57	Oshodin and Chijoke(2014)	2007-2011	Share price	Earnings per share, Book value of equity, and Leverage	Multiple regressions analysis and OLS	Earnings per share
58	Almumani (2014)	2005-2011	Share price	Earnings per share, Dividend per share, Book value per share, Price Earnings ratio and Size	Correlation and a linear multiple regression models	Earnings per share, Book value per share and Price earnings ratio.
59	Sharma (2014)	2001-2013	Share price	Dividends, book value and earnings	Correlation Analysis	Dividend and Earnings per share
60	Khanna (2014)	2006-2010	Share price	Book value per share and Earnings per share	Correlation and Regression analysis	Book value per share and Earnings per share.

S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
61	Oyerinde and Olugbenga (2014)	1990-2009	Share price	Earnings, Book Value Per Share, Dividend per share and Cash flow per share	General least squared regression method	Earnings, Book Value Per Share, Dividend per share and Cash flow per share
62	Varun (2014)	2006-2011	Market value of equity	Abnormal earnings, book value per share and Cash flow from operations	Theoretical framework of Ohlson valuation model	Abnormal earnings and book value per share

Note: This table shows the summary of studies with independent variable not more than 5.

Table 1 (b), Summary of studies with independent variable more than 5.						
S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
1	Ozlen (2010)	2000-2012	Share price	Total asset turnover ratio, Debt ratio, Current ratio, Price to Earnings ratio, Net profit margin, and Book value.	Non-Linear and Multivariate	Book value
2	Chalmers, Navissi and Qu (2010)	1997-2004	Share price	Earnings per share, Book value of equity, Operating cash flow per share, Debt to equity and Share return	Return regression model	Book value per share
3	Sharma (2011).	1993-2009	Market price per share	Book value per share, Dividend per share, Earnings per share, Price earnings ratio, Dividend Yield, Dividend payout ratio, Size in terms of sale and net worth for the period.	Correlation and a linear multiple regression models	Dividend
4	Mohanty (2012)	2003-2007	Share price	RONW, FA to total assets ratio, CFO to total assets ratio, Investment to total Assets ratio, Current ratio and Debt equity ratio	Panel data regression model	Cash flow from operations to total assets, Debt equity ratio, Investments to total assets and Return on net worth.

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S/No.	Author(s)	Year	Dependent variable	Independent variables	Method of analysis used in the study	Most significant accounting information
5	Wang et al (2013)	2011	Share price	Earnings per share, Price-Earnings ratio, Income from main operation ratio, Return on Equity, Receivable turnover ratio, Inventory turnover ratio, liquidity ratio and current ratio	Correlation and Regression analysis	Earnings per share and Return on equity.
6	Haque and Faruque (2013)	2005-2011	Share price	Earnings per share, Dividend per share, Return on equity, Return on Asset, and the ratio (Fixed Asset/Total Asset), Net Assets value	Multiple regression analysis	Net Assets Value
7	Sukhija (2014)	2000-2013	Share price	Book Value, Dividend per Share, Earnings per share, Dividend payout ratio and Growth, ROCE, Price Earnings ratio.	Fixed Effects model and Random Effects model	Earnings per share
8	Modi (2014)	2004-2013	Market price and Price to Book value ratio and Market price	Price Earnings ratio, Net income, Earnings Yield, Return on Equity, Cash flow from operating, Cash flow from financing and Net worth	Regression and Correlation analysis	Price Earnings ratio and Net income

Note: This table shows the summary of studies with independent variable more than 5.

METHODOLOGIES USED IN VALUE RELEVANCE STUDIES

Correlation and multiple regression analysis are used as the method of analysis to examine value relevance of accounting information (Sharma et al, 2012; Bhatt & Sumangala, 2012; Tharmila & Nimalathasan, 2013; Vijitha & Nimalathasan, 2014; Modi 2014; Oshodin & Chijoke, 2014). Other method of analysis mostly used were simple and multiple regression (Nyabundi,2013; Haque & Faruque,2013; Buguit et al, 2013; Oshodin & Chijoke, 2014), pooled ordinary least square and fixed regression (Malik &Ali 2013; Olugbenga & Oyerinde, 2014), Price Logarithmic regression (Abioud, 2012), Cross sectional linear regression (Bartov et al, 2005), Ordinary least squared, fixed effects model and random effects model (Dung 2010; Oyerinde 2009).

DISCUSSION AND RECOMMENDATION FOR FUTURE RESEARCH

The objective of value relevance is to establish relationship between accounting numbers and stock prices/stock returns (Beisland, 2009; Oyerinde,2009; Amir et al,1993; Barth et al, 2009; Ohlson, 1999; Barth

et al,1998). In testing value relevance of accounting numbers, book value and earnings found to be the most significant and leading variables in value relevance literature as can be interpreted from table 1a and b. Other accounting variables like financial leverage, dividend per share, price earnings ratio, return on equity, return on assets and dividend payout ratio have been used in addition to book value and earnings in order to determine its significance influence on the market share prices. This review focus on the value relevance of accounting information presented in the income statements and balance sheets and the overall empirical findings suggested that balance sheet items (book value) and income statement (earnings, dividend per share) are value relevant.

Different methodologies used by various researchers in examine value relevance of accounting information like price and returns valuation models. The results of both price and returns models showed that earnings and book value jointly and individually have positive and significance influence on the market share prices and stock returns. Future review on value relevance may focus on value relevance studies that used theoretical framework of Ohlson (1995) and Easton and Harris (1991) and link it with the adoption of international accounting standards. In addition, researchers may also focus on studies related to the announcements made by companies and its reactions on stock prices.

CONCLUSION AND CONTRIBUTION OF THE STUDY

One of the main goals of financial reporting is to assist users of accounting information particularly stock investors in estimating value of the company. Research on value relevance studies investigates whether this goal has been achieved or not. The study identifies that earnings per share and book value per share are the most significant and leading variables in value relevance literature. Other accounting variables like financial leverage, dividend per share, price earnings ratio, return on equity, return on assets and dividend payout ratio have been used in addition to book value and earnings in order to determine its significance influence on stock prices. The results on value relevance studies found to be contradictory from one market to another may be because of accounting regulations differences, behavior of the market, methodology used, length of time period considered and number of companies selected as sample. There are many studies across countries and sectors which study the value relevance of accounting information, future research may focus on qualitative information that impact the stock prices movement. This study contribute to the literature by documenting the results of previous researchers and this will help new and future researchers who wish to familiarize with this line of empirical accounting research. The significance of this review originates from the importance of accounting information to investors and other user of financial statements in making informed investment decisions and other economic decisions.

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