Accepted Manuscript

Title: Change in Value-Relevance of Disclosed RPT across Accounting Regimes: Evidence from Malaysia

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PII: S0275-5319(17)30120-4
Reference: RIBAF 804

To appear in: Research in International Business and Finance

Received date: 16-2-2017
Accepted date: 5-7-2017

Please cite this article as: Maigoshi, Zaharaddeen Salisu, Latif, Rohaida Abdul, Kamardin, Hasnah, Change in Value-Relevance of Disclosed RPT across Accounting Regimes: Evidence from Malaysia. Research in International Business and Finance http://dx.doi.org/10.1016/j.ribaf.2017.07.114

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Change in Value-Relevance of Disclosed RPT across Accounting Regimes: Evidence from Malaysia

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Abstract

This study investigates the value-relevance of the disclosure of the related party transaction and whether the value-relevance of such disclosure has changed after the mandatory adoption of international financial reporting standard (IFRS) in 2012 by listed firms in Malaysia. Analyses of the sampled firm from 2009 to 2015 revealed that the disclosure of related party transaction is value-relevant. We also find that earnings per share are value-relevant in pre-IFRS adoption, post-IFRS adoption and combined periods, while book value per share is only value-relevant in the post-IFRS adoption and combined periods. Our results also recorded a significant decrease in the value-relevance of the book value per shares of the firms with related party transactions during the post-IFRS adoption and combined periods. Conversely, the value-relevant of earnings per share of the firms with related party transaction increased in the post-IFRS adoption and combined periods. Our results are robust to the number of tests to validate our results.

Keywords: Book value per share, Earnings per share, Related party transaction, Value-relevance, Disclosure.

JEL Classification M480, G32, G18, G14

1. Introduction

One of the cardinal objectives of the financial reports is to provide relevant accounting information that aids rational economic decision (Badenhorst, Brümmer, & de Wet, 2015). Accounting information is said to be relevant if it is capable of influencing the economic decisions taken by the users of such information by helping them to evaluate the past, present and future events or prospect of the reporting entity (IASC Framework, 1989). Therefore, accounting information is value-relevant if it has a predictive power in determining the stock price (Barth, Beaver, & Landsman, 2001). Information on related party transactions (RPTs) are believed to be among the top concern of the investors and other users of the financial reports (Badenhorst et al., 2015; Lei & Song, 2011). This is because even though, such transactions may be legitimate, investors can analyze and identify transactions that may give rise to a conflict of interest and ultimately amount to potential wealth expropriation. This problem is prevalent most especially in a firm with concentrated ownership due to conflict of interest
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