

# CHAPTER 1

## INTRODUCTION



### 1.1 Motivation of Research

Accounting information both in income statement and balance sheet is useful. The investors can use accounting information in valuing their securities and help them in the investment decision-making. In the beginning period of prior research (1960s), earnings are found to be value relevant information (e.g. Ball and Brown, 1968; Beaver, 1968). The later studies find that the components of earnings (e.g. revenue and expense) are value relevant information (Lipe, 1986; Swaminathan and Weintrop, 1991; Ohlson and Penman, 1992; Strong and Walker, 1993). The components of balance sheet items (e.g. property, plant, and equipment, investment in securities) are also value relevant information (Barth, 1994; Barth and Clinch, 1998). There are many factors that affect value relevance of accounting information such as earnings persistence (Collins and Kothari, 1989; Easton and Zmijewski, 1989), earnings volatility (Kormedi and Lipe, 1987; Lipe, 1990), firm's growth (Collins and Kothari, 1989), and firm's default risk (Dhaliwal, Lee, and Fargher, 1991; Dhaliwal and Reynolds, 1994). The more pronounced reason of changes in value relevance of the accounting information is the changes in recognition and measurement criteria due to the adoption of new accounting standards (Amir, 1996; Ayers, 1998).

In 1999, The Institute of Certified Accountants and Auditors of Thailand (ICAAAT) has issued a new accounting conceptual framework and many new accounting standards. These new accounting standards follow closely to International Accounting Standards (IAS). Issuing the new standards by adapting from IAS, the ICAAT adjusts some points in order to be suitable to Thai business environment. The new accounting conceptual framework identifies the qualitative characteristics of financial statements that compose of understandability, relevance, reliability and comparability. Many new accounting standards supercede the olds standards. Other new accounting standards are new issues such as accounting for troubled debt restructuring and the impairment of assets. The changes in accounting standards may affect value relevance of accounting information both in income statement and balance sheet. It is interesting whether the value relevance of accounting information in financial statements will increase or decrease because of such changes.

## **1.2 Research Objective**

This study focuses on the effects of new Thai Accounting Standards (TAS) that become operative for financial statements covering periods beginning on or after 1 January 1999. The objective of this study is to investigate the effects of year 1999 changes in Thai accounting standards on value relevance of accounting information.

## **1.3 Research Questions**

From the research objective stated above, the research questions are set as follows.

1. Are there any effects of year 1999 changes in the accounting standards (TAS No.32 to 40 and TAS interpretation No.1-4) on value relevance of accounting information both in income statement and balance sheet?

2. How do year 1999 changes in accounting standards affect the value relevance of accounting information both in income statement and balance sheet?

## **1.4 Scope of Study**

As discussed above, the study focuses on the effects of changes in accounting standards in year 1999 on value relevance of accounting information. The new accounting standards are TAS No. 32-40 and TAS interpretation No. 1-4 in addition to the new accounting conceptual framework. This study examines the value relevance of accounting information from quarterly financial statements of listed companies in The Stock Exchange of Thailand (SET) during the first quarter of year 1997 through the second quarter of year 2001. The accounting information that are affected by the adoption of new accounting standards are earnings, gain and loss on troubled debt restructuring, impairment loss of property, plant, and equipment, impairment loss of investment in securities, unrealized gain and loss on trading securities, total assets, property, plant and equipment, investment in securities, and other assets.

### **1.5 Contribution of Research**

The contribution of this study can be summarized as follows. The results of research help us understand whether and how the changes in Thai Accounting Standards (including the adoption of new accounting conceptual framework and the accounting standard interpretations) affect the value relevance of accounting items in income statement and balance sheet. The adoption of new accounting standards changes the components of earnings by introducing the new accounting items in income statement. This study provides the evidence of the value relevance of new accounting items and the effects of these items on value relevance of earnings. In addition to the effects of the adoption of new accounting standards on value relevance of earnings, the result will help us understand the effects on value relevance of total assets, property, plant and equipment, investment in securities, and other assets. Thus, it can give some guidelines for accounting policy-makers in the improvement of new accounting standards and accounting standard interpretations.

### **1.6 Structure of Research**

Chapter two presents the changes in Thai Accounting Standards and analyzes the effects of changes in accounting standards on accounting items in income statement and balance sheet. Chapter three, a literature review and the development of research questions and hypotheses are discussed. Chapter four, research design provides the details about the sample selection, models for hypotheses testing and data analyses. Chapter five presents the empirical results. Finally, chapter six concludes the research results.