Chapter 6

Value Relevance of Accounting Information in Capital Markets:
A Comparative Analysis between Jurisdictions from the Middle East, Africa and Asia

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ABSTRACT

By way of reference to a comparative analysis between three selected jurisdictions from the Middle East, Africa and Asia, this chapter aims to investigate the trends in value relevance of accounting information in these stock markets and exchanges. Further, amongst other goals and objectives, this chapter also seeks to illustrate why in light of recent developments which have resulted in decline of reliability - as a valued attribute, relevance and reliability still constitute fundamental characteristics which are required in the development of global stock markets and economies. It consolidates this aim in view of recent IASB and FASB's initiatives and the resulting framework which categorizes understandability, comparability, timeliness and verifiability as enhancing qualitative characteristics of accounting information.

INTRODUCTION

By way of reference to a comparative analysis between three selected jurisdictions from the Middle East, Africa and Asia, this chapter aims to investigate the trends in value relevance of accounting information in these stock markets and exchanges.

As highlighted in the theme to the volume:

Value relevance approach "measures both relevance and reliability because accounting information is reflected in the price. (Khanagha, 2011; Barth, Beaver & Landsman, 2001). Further, "value relevance approach is an instrument used to estimate quality of accounting information – this being of vital importance to the economy."

An efficient market is one in which security prices adjust rapidly to the infusion of new information, and current stock prices fully reflect all available information including the risks involved. (Reilly, 1989).

To what extent can accounting information be expected to provide or convey complete information to investors? Further to what extent can capital markets of advanced market economies and emerging market economies be considered to be efficient?

Amongst other goals and objectives, this chapter also seeks to illustrate why in light of recent developments which have resulted in decline of reliability - as a valued attribute, relevance and reliability still constitute fundamental characteristics which are immensely required in the development of global stock markets and economies.

As well as contributing to the literature on the topic, the following constitute the aims and objectives of the chapter:

1. To investigate the extent to which accounting information can be relied upon based on given market values and whether a relationship or pattern can be established in certain jurisdictions based on given operating variables which function in such economies.
2. To demonstrate and highlight the validity of the Efficient Markets Hypothesis (as well as the Efficient Capital Markets Hypothesis)
3. To demonstrate how accounting information can serve as a useful and vital indicator which will enable investors to interpret financial information in such a way which mitigates information asymmetries between management and investors
4. To highlight those areas and factors which influence the quality of accounting information - and which must be addressed by markets if the audit is to achieve its intended aims and functions

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