

Chapter 7

Revisiting the Value Relevance of Accounting Information in the Italian and UK Stock Markets

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ABSTRACT

This chapter aims to investigate the results of the value relevance of accounting information with reference to the study: “The value relevance of accounting information in the Italian and UK stock markets”. Results revealed from this study are as follows: - First, evidence shows the greater value relevance of accounting information in Italy than in the UK, even if this result must be explained according to the sample’s characteristics. Second, the study underlines that in Italy the most value relevant accounting data refer to earnings while in the UK the focus is mainly on cash flows. The chapter also seeks to contribute to the gap in the literature on the value relevance of accounting information in the UK and Italy. In so doing it investigates the relevance and reliability of results derived in this study, their applicability to current market developments – as well as recent fluctuations and volatility in the financial markets.

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INTRODUCTION

This chapter aims to investigate the results of the value relevance of accounting information with reference to the study: “The value relevance of accounting information in the Italian and UK stock markets.” Results revealed from this study are as follows:

- First, evidence shows the greater value relevance of accounting information in Italy than in the UK, even if this result must be explained according to the sample’s characteristics. Second, the study underlines that in Italy the most value relevant accounting data refer to earnings while in the UK the focus is mainly on cash flows.

The chapter also seeks to contribute to the gap in the literature on the value relevance of accounting information in the UK and Italy. In so doing it investigates the relevance and reliability of results derived in this study, their applicability to current market developments – as well as recent fluctuations and volatility in the financial markets.

The following research questions, in line with the theme and volume of the Call for Chapters, will also be addressed:

1. What is the extent to which accounting information can be relied upon based on given market values and can a relationship or pattern be established in certain jurisdictions based on certain operating variables which function in such economies?
2. How valid and applicable is the Efficient Markets Hypothesis (as well as the Efficient Capital Markets Hypothesis)?
3. How can accounting information be harnessed in such a way as to 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. What factors influence the quality of accounting information - and how can these be addressed by markets if the audit is to achieve its intended aims and functions?
5. Have accounting and legislative reforms undertaken in investigated jurisdictions achieved their desired goals of improving the quality of accounting information? If not, what measures could be proposed or recommended to address the current issues being faced by such jurisdictions?

Based on IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors:

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