



UNIVERSITI PUTRA MALAYSIA

**VALUE RELEVANCE OF ACCOUNTING INFORMATION
IN SELECTED MIDDLE EAST COUNTRIES**

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By

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Thesis submitted to the Graduate School of Management (GSM),
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DEDICATION

To my beloved mother and wife, my son Amir Hossein, my daughter Fatima for their constant support, patience, understanding and love.



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment
of the requirement for the degree of Doctor of Philosophy

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Chair: Professor Shamsheer Mohamed Ramadili, PhD

Faculty: Graduate School of Management

In the past, stock markets in the Middle East have been widely ignored by international investors due to imposed limitations on foreign stock ownership, the lack of common accounting standards and corporate transparency, or they have been simply dismissed on the basis of economic and political uncertainty. Currently, most of the Middle East countries had some economic reforms and structural adjustment programs (e.g. changes on institutional setting and regulations such as establishing security market regulation, investor protections, trading rules based on shared regulatory responsibility, etc.). Following improvements in financial markets, the Middle East accounting standards have also been reformed to improve the quality of accounting information. Thus, the role of the Middle East stock exchanges have recently become more effective in the international financial system due to the efforts made to increase development in the areas of financial markets, accounting and economic growth. Despite their effective role, the review of literature showed

that there is no comprehensive study to identify the value relevance of accounting information and effects of accounting reforms in this region.

This study investigates the value relevance of accounting information through three main objectives a) determine the value relevance of accounting information in selected Middle Eastern countries, b) investigate the effect of reform and enforcement of accounting standards in the selected Middle East markets and c) investigate the effect of different classifications of transaction on value relevance of cash flow statement in the Middle Eastern countries. The study uses both the regression-variations and the portfolio-returns approaches to measure the value relevance. Using both approaches provides different perspective on the issue of value relevance of accounting information.

Overall, the findings in selected countries showed that firstly, accounting information in all of selected countries is value relevant. Secondly, the results for each country showed, there is a significant difference in value relevance between the periods before and after reform. In other words, accounting standards reforms had impact on the value relevance of accounting information in all of the selected countries.

The results showed that accounting standards reforms have improved value relevance of accounting information in Bahrain and Saudi Arabia's stock exchanges, while for the UAE and Iran reforms did not improve value relevance of accounting information. The results of control variables for selected countries indicated difference in value relevance of accounting information in large and small companies. Findings also revealed greater value relevancy of accounting information

of small companies in Bahrain, UAE, and Iran than the large companies, whereas for Saudi Arabia the results are reverse. Results in selected countries revealed differences in value relevance of accounting information in different industries.

The results also indicated that information content of cash flow statements based on International Financial Reporting Standards (IFRS) is more value relevant than statement based on the Financial Accounting Standards Board (FASB).

Overall, the relevancy of accounting information in selected countries is consistent with the literature. Inconsistent with expectations, the reforms initiated in different countries to improve quality of selected financial information did improve value relevance in only some countries.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**RELEVANSI NILAI MAKLUMAT AKUNTANSI DI BEBERAPA NEGARA
TIMUR TENGAH**

Oleh

JAMAL BARZEGARI KHANAGHA

Disember 2010

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Pada masa lepas ,pasaran sekuriti di Timur Tengah diabaikan sepenuhnya oleh pelabur-pelabur antarabangsa disebabkan had-had dikenakan ke atas pemilikan skuriti asing, kekurangan piawaian yang diterima umum dan ketelusan korporat, atau syarikat yang terlibat dengan sendirinya mengambil mudah atas asas ketidakpastian ekonomi dan politik. Buat masa ini, kebanyakan negara-negara Timur Tengah mengalami program penstrukturan dan pelarasan struktur (cth: perubahan keatas penetapan dan peraturan seperti pengstabilan peraturan pasaran sekuriti, perlindungan pelabur, peraturan perdagangan berasaskan peraturan-peraturan tanggungjawab bersama, dan lain-lain yang berkaitan). Berikut adalah penambahbaikan dalam pasaran kewangan, piawaian perakaunan Timur Tengah yang juga telah mengalami penstrukturan untuk meningkatkan kualiti maklumat perakaunan. Oleh itu, peranan pasaran saham Timur Tengah , baru-baru ini telah

menjadi lebih efektif dalam sistem kewangan antarabangsa disebabkan usaha dibuat untuk meningkatkan pembangunan dalam skop pasaran kewangan, perakaunan dan pertumbuhan ekonomi. Di samping peranan aktif, ulasan karya menunjukkan, tiada kajian komprehensif untuk mengenal pasti relevansi nilai untuk maklumat perakaunan dan kesan ke atas penstrukturan perakaunan di rantau ini.

Kajian ini menyiasat relevansi nilai maklumat perakaunan melalui tiga objektif utama a) menentukan relevansi nilai maklumat perakaunan bagi negara-negara Timur Tengah yang terpilih, b) menyiasat kesan penstrukturan dan menguatkuasakan piawaian perakaunan pasaran Timur Tengah yang terpilih dan c) menyiasat kesan perbezaan klasifikasi bagi transaksi ke atas relevansi nilai bagi penyata aliran tunai di Negara-negara Timur Tengah. Kajian ini menggunakan kedua-dua pendekatan variasi-regresi dan pulangan portfolio relevansi nilai. Dengan menggunakan kedua-dua pendekatan, ia menyediakan perspektif yang berbeza ke atas isu nilai relevan bagi maklumat perakaunan.

Secara keseluruhan, keputusan dari ujian bagi hipotesis utama dan subsidiari dan dapatan yang lain bagi negara-negara terpilih menunjukkan pertama, maklumat perakaunan bagi semua negara-negara terpilih adalah relevansi nilai. Kedua, keputusan untuk setiap negara menunjukkan, terdapat perbezaan yang signifikan dalam relevansi nilai di antara jangkamasa sebelum dan selepas penstrukturan. Dalam kata lain pengstrukturan piawaian perakaunan mempunyai impak ke atas relevansi nilai bagi maklumat perakaunan dalam semua negara-negara terpilih.

Keputusan terperinci menunjukkan penstrukturan piawaian perakaunan menunjukkan peningkatan relevansi nilai bagi maklumat perakaunan di dagangan sekuriti Bahrain

dan Arab Saudi, sementara untuk UAE dan Iran, penstrukturan tidak menunjukkan peningkatan relevansi nilai maklumat perakaunan di pasaran negara-negara ini. Keputusan kawalan pengubahubah untuk negara terpilih menunjukkan relevansi nilai maklumat perakaunan adalah tidak sama bagi syarikat besar dan syarikat kecil di Timur Tengah. Dapatan kajian juga mendedahkan relevansi nilai maklumat perakaunan bagi syarikat kecil di Bahrain, UAE dan Iran adalah lebih bebanding syarikat besar, manakala untuk Arab Saudi keputusannya adalah vis versa. Keputusan bagi negara –negara terpilih mendedahkan perbezaan dalam relevansi nilai maklumat perakaunan dalam industri yang berbeza di negara –negara Timur Tengah yang terpilih. .

Keputusan juga menunjukkan klasifikasi traksaksi ke atas penyata aliran tunai mengikut Piawaian Pelaporan Kewangan Antrabangsa (IFRS) adalah lebih relevan berbanding klasifikasi transaksi berdasarkan Lembaga Piawaian Perakaunan Kewangan (FASB).

Secara keseluruhan, perkaitan maklumat perakaunan di negara-negara yang dipilih adalah konsisten dengan kesusasteraan. Tidak sesuai dengan harapan, pembaharuan bermula di pelbagai negara untuk meningkatkan kualiti maklumat kewangan yang dipilih tidak meningkatkan perkaitan nilai hanya beberapa negara.

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APPROVAL

I certify that an Examination Committee has met on 3th of December 2010 to conduct the final examination of Jamal Barzegari Khanagha on his PhD thesis entitled "Value relevance of accounting information in selected Middle East countries" in accordance with Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U(A) 106] 15 March 1998. The Committee recommends that the student be awarded the degree of Doctor of Philosophy.

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DECLARATION

I hereby declare this thesis entitled “*Value relevance of accounting information in selected Middle East countries*” is the result of my own research except as cited in the references. I also declare that it has not been previously or concurrently submitted for any other degree at UPM or other institutions.

JAMAL BARZEGARI KHANAGHA

Date:

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