

Vol III Issue VI March 2014

ISSN No : 2249-894X

*Monthly Multidisciplinary
Research Journal*

*Review Of
Research Journal*

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Welcome to Review Of Research

RNI MAHMUL/2011/38595

ISSN No.2249-894X

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THE VALUE-RELEVANCE OF ACCOUNTING INFORMATION IN IRAQ: EVIDENCE FROM TWO DIFFERENT PERIODS

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Abstract:

This research aims to provide empirical evidence concerning the value relevance of earnings and book values to stock prices (individually and in aggregate) in Iraqi Stock Exchange market in the light of shift in Iraqi environment from macro-economic to micro-economic after American occupation in 2003. thus, this research aims to explore the association between the value-relevance of accounting information before and after 2003. This study contributes to understand reflections of environmental factors on accounting and the responding of accounting to these factors , and its effect on the way the investors in certain period interpret and apply information, because this information plays a vital role in the efficient capital market.

This research covers the Iraqi value relevance through an empirical approach based mainly on the binary regression technique adopted by Ohlson (1995) through a sample consists of 26 companies listed and continued in Iraqi stock market along for two periods, before and after American occupation in 2003 : first period (from 1996 to 2002) for (182 observation-year) and second period which is after 2003 (from 2006 to 2012) for (182 observation-year), the total sample consists of (364 observations-year).

It is been found that the value relevance before 2003 are higher than after 2003, but it inclines over time for two periods. This result supports the accounting in Iraq which does not respond to the shift in environment factors effectively .

KEY WORDS:

Value-relevance, Accounting Information, Environment Factors, Iraq.

INTRODUCTION:

The key focus of this research is the usefulness of financial statement information in explaining equity market values. That is, able to measure value relevance of different accounting numbers in relation to market values. Hence, I try to understand the interaction between financial reporting (featured by value relevance of accounting information which plays a vital role in an efficient capital market), and the environmental factors (defined as a sum of economic, legal and political factors and designated as an accounting environment), to discover the extend of accounting response to the shift in environment factors. This research examines the value relevance of accounting information (earnings and book value individually and combined), relative to equity market values (market price) before and after the shift in Iraqi environment factors with the American occupation in 2003. Gjerde et al.(2008) state " it is important for accounting producers, regulators, standard-setters and users to gain insight about how the largest

Title: "THE VALUE-RELEVANCE OF ACCOUNTING INFORMATION IN IRAQ: EVIDENCE FROM TWO DIFFERENT PERIODS " , Source: Review of Research [2249-894X] Mohammed Huweish Allawi Alshujairi yr:2014 | vol:3 | iss:6

accounting reform may improve the usefulness of accounting information from an investor perspective." Therefore, one of the roles of value relevance is providing evidence as a signal from an information system, and whether the accounting numbers relate to the value of predicted manner (Andriantomo and Yudianti, 2013).

The importance of this study stems from a lack of alternative information sources in Iraq, such as earnings forecast, and firm research by financial analysts, among others. It is been given that most transactions in many developing countries from which Iraq is executed by individual investors with somehow limited access to information, and reliance on the published accounting numbers. There is no empirical evidence on the informational efficiency of the Iraqi equity market; consequently, this study adds additional empirical evidences to the literature by examining another part of the world . As such, this presents novel evidence on this important issue in Iraq.

This research depends on Ohlson model (1995) who developed a model that relates a firm's market value to the accounting data. This model has been tested extensively with in many countries' stock market data under different methodologies of various studies. Most of the literature on the value relevance of accounting information has comprehensively documented the statistical association among earnings, book values and stock prices (Collins et al., 1997; Chen et al., 2001; Ragab and Omran, 2006; Suadiya, 2012; Andriantomo and Yudianti, 2013; Dung, 2010) .

This research is stimulated by prior studies. Thus, this study attempts to answer the following main questions: does the value relevance of earnings, book value of equity combined and individually have different effect on the market price for Iraqi firms that listed in stock exchange market? does the accounting respond to the changes that happen in its environment? Which of the periods most respond to the environment; before or after of occupation in 2003? Is the value relevance of financial reporting in decline or incline in Iraqi exchange market for periods before and after 2003? Valuation models based on accounting information show that equity value is related to accounting earnings (Ball and Brown, 1968; Collins et al., 1987), and balance sheet measurements or both book value and earnings (Landsman, 1986; Barth, 1991; Shevlin, 1991).

The main objective of this study is to shed light on the value relevance of accounting information in Iraq in light of the change of basic environment factors, through empirical evidence about the association between value-relevance of earnings and book values before and after 2003, based on a sample from firms listed and continued in Iraqi Stock Exchange for seven years before and after 2003. Based on this objective, the research aims to identify the degree of financial reporting response to this change in main environment factors, and understand the effects of the environment variables on the value-relevance in light of properties of accounting system before and after 2003 and its reflection on investors. Schweikart (1985) affirms that there is a significant evident concern in the international accounting literature related to issues such as harmonization and differences in the accounting information presented across countries, as well as he describes that accounting information needs in different countries are subject to environmental influences.

Under these conditions; the shift in economic, legal and political factors, I expect that the difference in the value-relevance of accounting information prepared under two different environment factors should be observed in a single capital market and same firms in order to understand the difference in the properties of accounting information that has a marginal impact on the value-relevance. Thus, a set of financial statements, representing the same underlying economic activities exist, but different environment factors enable us to evaluate value relevance relative to accounting information and capture only environment factors effects.

Deaconu and Buiga (2011) examine the Romanian financial reporting in the Post-Communist period. They demonstrate the existence of three different accounting stages based on the distinction between accounting systems of Continental-European type and Anglo-Saxon type respectively. They test the relevance of the criterion in the historic context through a developed framework comprising economic, legal and cultural factors, as well as to the use of this framework in the accounting environment for each historical stage. They identify the political influential factors of accounting as choices regarding accounting rules. The study interprets the compliance degree between accounting rules (political factors) and the accounting environment (economic, legal and cultural factors). These primary findings are endorsed by other conclusions regarding the influence of environmental factors in the Romanian context over time and confirm the thesis of political influence on accounting, but there has not been a strong correlation between the choice of accounting rules and the economy's level of development. The frequent and rough change of accounting rules has shaken the accounting reform process.

This research aims to explore the growth of value relevance of accounting information in Iraq in light of environment factors. The effective accounting system might reflect the changes in its environment in output of its information. Accordingly, many researches focus on financial reporting differentiation to establish different groups of countries or accounting systems in light of the analyze of the influential

factors. Nair and Frank (1980) establish groups with similar accounting systems, with the exception of Continental European group, developing countries applying British Commonwealth, Latin American or United States models. The difference in properties of accounting information does have a marginal impact on the pattern of the value-relevance of accounting information (Kang, 2003). While Ali and Hwang (2000) have shown that country-specific factors such as the legal origin of a firm affect the value-relevance of its accounting information. Brown et al. (1999); Kothari (2001); Barth et al. (2001); Beaver (2002) document that the value-relevance of accounting information is lower in code law countries where private-sector bodies are less actively involved in the accounting standard setting process compared to common law countries. This finding is consistent with the premise that the government standard setters of the code law countries tend to establish financial accounting rules more to satisfy regulatory needs, such as computing taxes or demonstrating compliance with the national government policies and macroeconomic plans, rather than to provide useful information to investors (Kang, 2003).

This research examines the value-relevance of earnings and book values simultaneously and individually to stock prices in the Iraqi market context with a period of observations of seven years before 2003 (1996-2002) and after 2003 (2006-2012). As a result, I choose (26) cross firms that continued for the period of study. Therefor, I have (182) observations for the year before 2003 and (182) observations for years after 2003, so, the sum is (364) observations. Three testable hypotheses regarding the relations between the value relevance before and after 2003 are derived.

The first two hypotheses test relations between book value and earnings combined and individually to stock price. Many of recent studies have examined the value relevance of accounting information in developing countries' markets (Alford et al., 1993; Chen et al., 2001; Anandarajan and Hasan, 2010; Shamki and Rahman, 2012).

Kwong (2010) examines the value relevance of accounting information among firms in Malaysia across three reporting periods with different levels of the IFRS adoption. He finds that the book value and earnings are significant in jointly explaining the variations in their associated market value for the three reporting periods. Rajab and Omran (2006) examine empirically whether national and international investors in the Egyptian stock market perceive accounting information based on the Egyptian accounting standards to be useful in stock valuation. They obtain evidence of the value relevance of accounting information in Egypt based on both return and price models. More importantly our results suggest that stock prices in Egypt are less informative about the future value of the firm than the accounting information. It is perhaps unreasonable to conclude that accounting information has higher value relevance in Egypt because financial reporting is of higher quality.

The third hypothesis tests the incline or decline of the value relevance of accounting information in Iraq before and after 2003. Dantoh et al. (2007) see the financial statements have lost their value-relevance because of a shift from traditional capital-intensive economy into a high technology, service oriented economy. In particular, the claim is that financial statements are less relevant in assessing the fundamental value of high technology, service-oriented firms/activities, which are by nature knowledge-intensive. These conclusions are based on previous studies that examine the association between accounting numbers (i.e., earnings and book values) and stock prices and show that, in general, the association between accounting information and stock prices has been declining over time.

This paper is organized as follows. In the next section, related literature for the current study is reviewed. Section three describes the nature of accounting system before and after 2003, and explains the nature of the change that happens in the environment after 2003. Section four presents the sample and methodology study. In Section five the findings are discussed, and the final section provides a summary of the findings arrived at throughout the study.

2. LITERATURE REVIEW

Value relevance based on accounting information:

Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions (FASB, SFAC No 1, para. 34, p704). Investors and other external stakeholders want information that is relevant to the decisions they face. Hence, the basic question is the range of accomplishment of financial reporting objectives in practice. Francis and Schipper (1999) investigate the explanatory power of accounting information for measures of market value. Barth (2000) through examining the relevant term of value relevance in prior literatures finds the value relevance is defined in the extant literature as the association between accounting amounts and security market values, and the key commonality of the definitions is that an accounting amount deems the value relevant if it has a significant association with the security market value. Ali and

Hwang (2000) estimate a regression model that includes both book value and earnings and use the book value as the weight. value-relevance is compared in terms of explanatory power of accounting variables for stock price.

Titilayo (2011) investigates the value relevance of accounting data in the Nigerian stock market, with a view to determine whether the accounting information has the ability to capture data that affect share prices of firms listed on this market. He also examines the difference in perception of institutional and individual investors about the value relevance of various items of financial statements in equity valuation. Andriantomo and Yudianti (2013) in Indonesia stock exchange, their results show there is a significant relation between earnings and book values to stock prices that represents equity market value .

On the level of relation the earning and book value with stock price individually , finds that earnings are more value relevant in comparison with the study between US and German companies (Harris et al., 1994). While Vardavaki and Mylonakis (2007) observe in the UK companies that Book value is more value relevant than earnings. Kang (2003:122) in his study highlights "econometrically, the association between stock price and accounting information will increase when (1) price becomes more informative (i.e., as price contains less noise); and/or when (2) earnings quality increases (i.e., as earnings contain less measurement errors)."

Value relevance and environment factors

The AAA (1993) model, like other similar models that have been proposed, indicates the importance of environmental factors as influences upon accounting practices (Gerhardy,2002). Douppnik and Salter (1993) classify the contemporary accounting systems into two broad systems (i.e., a micro-based system versus a macro-based system). Belkaoui (1983) addresses the influence of environmental factors upon accounting . He recognizes 'the need to look for the relations between measures of accounting development and adequacy on one hand and measures of political, civil, and economic development and adequacy as a first step in the formulation of a contingency theory of international accounting. Ali and Hwang (2000) investigate the relation between measures of value-relevance of financial accounting information and several country-specific factors. They find that the value-relevance is lower for Continental model countries (i.e., macro-based system countries) than for micro-based system countries, and that the value-relevance is lower when tax rules significantly influence financial accounting measurements.

Tadesse and Kowk (2005) observe that the difference in the legal environment leads to a difference in the properties of accounting information. It is also possible that the users (i.e., investors) of different legal environments with various levels of capital market development and skills for analyzing the accounting information. To the extent that investors in more highly developed capital markets are on average than sophisticated users of accounting reports, one may, therefore, observe a systematic difference in the value-relevance even if there is no material difference in the properties of the accounting information.

Kang (2003) show that there is an association between the legal regime of a firm's country of domicile and the value-relevance of its accounting information. The varied legal, economic and political backgrounds in countries around the world, are not surprised that national accounting standards vary among countries (Rajab and Omran,2006).

Increase or decrease the value relevance over time

The second concerning is the investigation of whether the value relevance of accounting information has increased over time, as an indicator of improvements in the accounting regulation and practice. Collins et al. (1997) investigate systematic changes of value-relevance of earnings and book values for forty years (1953-1993) and has found the value-relevance of earnings and book values simultaneously has not declined. Khanagha (2011) examines the value relevance of accounting information in per and post-periods of International Financial Reporting Standards implementation using the regression and portfolio approaches for the sample of UAE companies. He finds through a comparison of results for both periods before and after adoption, based on both regression and portfolio approaches. It shows a decline in the value relevance of accounting information after the reform of accounting standards.

Dontoh et.al. (2007) based on many studies, conclude the temporal decline in the association between stock prices and accounting information (earnings and book values). They empirically test a theoretical prediction arising from the Noisy Rational Expectations Equilibrium model that suggests the decline could be driven by non information- based trading activity, because such trading reduces the ability of stock prices to reflect accounting information.

Value relevance in underdevelopment countries

Bao (2004) tests empirically both earnings and book value and finds have value relevant to stock price in seven Asian markets (Hong Kong, Malaysia, Singapore, Thailand, Indonesia, the Philippines and Korea). In Jordan, Hadi, (2005) examines the value relevance of the accounting information using price model. His results have shown that earnings are value relevant. Hellstrom (2005) evaluates the value relevance of accounting information in the Czech Republic in comparison to accounting information in a well-developed market economy, and investigates whether the value relevance of accounting information has increased over time, as an indicator of improvements in the accounting regulation and practice. Sweden is chosen as a benchmark country for the comparison. The results show that the value relevance of accounting information indeed is lower in the Czech Republic than in Sweden. However, They indicate an improvement in the quality of Czech financial accounting information during the research period. Suadiye (2012) examines empirically the impact of IFRS on the value relevance of accounting information in Turkey, through Turkish listed firms in the Istanbul Stock Exchange that is required to adopt IFRS in the preparation and presentation of their financial statements since 2005. Using the equity valuation model as suggested by Ohlson (1995), the analysis results show that earnings and book value are jointly and individually, positively and significantly related to stock price under two different reporting regimes. Klimczak (2009) investigates the theory behind the value Relevance tests and the methodological issues of applying such tests in emerging economies of accounting earnings for market value of companies . He focuses on the usefulness of accounting information in transitional and emerging countries through the association test between accounting earnings reported by stock companies, and the value of their equity. A positive result of the test serves as a proof to the quality of accounting standards, accounting practice and the local stock market.

3. A BRIEF REVIEW OF IRAQI FINANCIAL REPORTING AND ENVIRONMENT FACTORS

Prior to US occupation in 2003, Iraq had a political regime based on one party authority, supported with a net of laws, and a [centrally planned economy](#) (macro-economic). Among other things, it ran most large industries as state-owned enterprises, and imposed large [tariffs](#) to keep out foreign goods.

After the invasion of Iraq in 2003, the [Coalition Provisional Authority](#) dramatically changed the [economy of Iraq](#) in the aftermath of [U.S. invasion](#). The [Coalition Provisional Authority](#) quickly began issuing many binding orders [privatizing](#) and opening it up to [foreign investment](#) (Wikipedia, 2011). Economic reform was implemented alongside the reform of [government institutions](#), [legal system](#), and significant [international investment](#) to repair or replace damaged [infrastructure of Iraq](#)

[Paul Bremer](#), chief executive the of [Coalition Provisional Authority](#) of Iraq, planned to restructure Iraq's state owned economy with a [free market](#) (micro-economic) thinking. Bremer dropped the corporate tax rate from around 45% to a flat tax rate of 15% and allowed foreign corporations to repatriate all profits earned in Iraq (Wikipedia, 2011).

The main laws that released public and private companies and securities market , banks laws and Iraqi Securities Commission (ISC) under the Interim Law No. 74, but the authority did not try to develop any aspects of accounting and auditing in any aspects; therefore, there is a strong association between accounting and law in Iraq environment before and after 2003 .

The report of World Bank (2011) shows the financial sector in Iraq is underdeveloped, and is playing a limited role in the financial intermediation. The banking system is so far the most important part of the Iraqi financial system; accounting for more than 75 percent of the assets which are dominated by the state ownership. Non-bank financial institutions and markets are small and under-developed but have the potential to provide access to sources of finance. The Iraqi financial system is characterized by:

the large size of state ownership among banks and insurance companies with unclear strategy for moving forward.

a weak capital. The capital of operating companies in the Iraqi financial system are limited. Economic capital levels are unlikely to be significantly higher.

inadequate legal framework. The Iraqi financial system operates with significant weaknesses in of the company law, corporate governance codes, bankruptcy law, which hinder the evolution of the Iraqi economy into a market based one. An adequate legal framework is crucial for the participation of Iraqi and foreign investors in this market. There are also weaknesses in the transparency, completeness and accuracy of the financial statements and other disclosures by companies which also need to be corrected.

poor interest rate and loan structure. Poor flexibility in the prevailing interest rates structure of banks, which grant mainly short term trade financing, and only limited medium and long-term loans for real estate

purposes.
weaknesses in financial intermediation. Low levels of capital in market intermediaries limit the ability of the market to facilitate the needs of investors when seeking to buy or sell securities. Also, the absence of credit rating agencies to assess the performance of issuers of securities and banks as borrowers hampers effective decision making by investors and depositors.
access to finance is low and microfinance has started operating relatively recently.
the regulatory framework is relatively well established by law and regulation, but further strengthening of its implementation is required.
the payment's system is relatively well developed.

The capital market in Iraq is concentrated on the Iraq Stock Exchange (ISX). It is small and under-developed but has potential to provide issuers with access to sources of permanent and long term capital via the issuance of equity and corporate bonds to institutional and retail investors, domestic and foreign investors. The Iraq Interim Law on Securities Markets (adopted on 18th April 2004) requires IFRSs for all companies listed on the [Iraq Stock Exchange](#).

Since its foundation in 2004 (under Interim Law No 74), ISX has made progress and has begun to attract international attention, but it has a long way to go to fulfill its potential as an agent for its growth in the Iraqi economy. As in February 2011, there were 85 companies listed on ISX. They are a mix of privately owned joint stock companies and mixed companies. Only one company listed on ISX in 2010 and 5 delisted. New admissions to listing are the lifeblood of any stock exchange. On that basis ISX is at a critical stage of its development.

As Iraq transitions from a largely state owned command economy to a free market in which the securities market plays an increasing role in capital formation and allocation and is a place for savings. The privatization of 296 state owned companies potentially opens up great opportunities for the ISX and its members. It requires significant steps by ISX to increase investor confidence in the integrity of its market and to enhance expectations that they be treated fairly (World Bank, 2011).

In field of accounting the International Financial Reporting Standards (IFRS) are not implemented in Iraq actually, and there does not seem to be a chart of accounts to provide guidance of how to compile the figures that are entered into the financial statements (Deloitte,2013). Significant differences exist between IFRS and Iraqi accounting standards, such as the lack of requirement to consolidate accounts. Furthermore, there are no guidelines for the valuation of financial instruments; for instance mark-to-market requirements. No clear guidance exists on revaluation of fixed assets.

As regards, accounting attempts have been made to implement IFRS, but legislative change is needed to impose it fully. According to the Board of Supreme Audit, this takes at least two years to secure. There are numerous differences between IFRS and Iraqi accounting standards and it is highly unlikely that the Iraqi accounting standard to be considered as one of an internationally acceptable standard. Accountants in Iraq use the outdated Unified Accounting System, which includes standards that have not been updated since the mid-nineties and others which are about 70 years old. Extensive disclosures are required to shareholders, and stakeholders (undefined in the regulation) (World Bank,2011).

4. HYPOTHESIS AND RESEARCH MODELS

I examine whether the same pattern in previous researches has value-relevance of accounting information in Iraqi stock market, and tends to be more value-relevant for the research periods , consistent with the view that environment factors have a marginal impact on the documented pattern in the value-relevance of accounting information , mandatory with high degree of investors' interest and sensitivity to its disclosure are considerable. Gerhardy (2002) approves the relationship between accounting and the environment in which accounting is practiced and indicates the importance of environmental factors as influences upon accounting practices and information. Tadesse and Kowk (2005) assert the relative merits of financial systems are a function of the contractibility of the environment and the relative value of price signals.

Therefore, three testable hypotheses regarding the association between value relevance before and after 2003 are derived. The first two are:

- H1: Earnings and book values simultaneously have value-relevance to stock prices before and after 2003.
- H2: Earnings and book values individually have value-relevance to stock prices before and after 2003.

I also need to test whether financial reporting value-relevance tends to decline or incline in explaining equity market values. Andriantomo and Yudianti (2013) explain that in incremental value

relevance of earnings and book values, incremental value relevance as the explanatory power of book values over those earnings. This research attempts to investigate the decline or incline pattern of incremental values of earnings and book values. The following hypotheses have been used:

H3: There is an incline or decline pattern of combined earnings and book values of value-relevance over time before and after 2003.

To test these hypotheses, this research follows the Ohlson model. The Ohlson model stands among the most important developments in capital markets research in early 90s and provides a foundation for redefining the appropriate objective of valuation research. His model concerns the value relevance of accounting information to include both balance sheet measures of assets and liabilities and income statement measurements, and assess the combined value-relevance of book value and earnings. The relation between stock price and book value as well as earnings is positive, consistent with the results of most prior empirical studies. To preserve consistency in the research design, I closely follow Ohlson's (1995) model. Stock prices as a function of earnings and book values express in the following equation:

$$P_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 BV_{it} + e_{it} \quad (1)$$

Notes:

Pit = stock price of the company i in the end of year t
 Eit = earnings per share reported by company i in t period
 BVit = book values per share of company i in the end of year t
 Eit = error term

The value-relevance of book value and earnings per share is measured by the adjusted R2 from price regression (1). The differences between before and after 2003 figures are analyzed by a two-sample conditional comparison test focusing on differences in adjusted R2. However, since the dependent variable, the stock price is the same respective of reporting regime when utilizing a dataset of financial statements. The difference in adjusted R2 could also be tested as in Vuong (1989). The associated response coefficients, α_1 and α_2 , indicates how book value and earnings influence market value. Furthermore, the importance of various accounting items might be estimated by analyzing coefficient changes between before and after 2003. Marginal changes in adjusted R2 due to the inclusion of different accounting items also shed light on this issue.

Equation (1) is used to test first hypothesis (H1) which is to analyze the value relevance of earnings and book values simultaneously to stock prices. Coefficient determination of this equation is R2 [TOTAL].

Equation (2) and (3) are used to test the second hypothesis (H2), to analyze the value relevance of earnings and book values individually to stock prices. The coefficients of determination from equations (2) and (3) are R2[E] and R2[BV]. The function models for several hypotheses are adopted by Easton and Harris (1991) which are:

$$P_{it} = \beta_0 + \beta_1 E_{it} + e_{it} \quad (2)$$

$$P_{it} = \beta_0 + \beta_1 BV_{it} + e_{it} \quad (3)$$

I follow (Collins et al., 1997; El Shamy and Kaled, 2005) to analyze incremental information content provided by earnings and book values. For this purpose, coefficient determination from equation one (R2 [TOTAL]), equation two (R2 [E]) and equation three (R2 [BV]) is used to compose incremental explanatory power of earnings and book. Also, equation (4) is used to test the third hypothesis (H3). I follow (Collins et al., 1997; El Shamy and Kaled, 2005; Dontoh et al., 2007) to analyze the incremental information content provided by earnings and book values before and after 2003. I find that while both the predictive content of earnings and prices declines over time, and the predictive content of price signals declines by even more. For this purpose, coefficient determination from equation one R2 [TOTAL] is used to compose incremental explanatory power of earnings and book values. To investigate the increase or decrease pattern of value-relevance of combined earnings and book values in all years for two periods, the equation that adopted by (Andriantomo and Yudianti, 2013) is used as follows:

$$R2 [TOTAL]_t = \beta_0 + \beta_1 T + \gamma t \quad (4)$$

5.SAMPLE SELECTION AND DESCRIPTIVE STATICS

I have collected market and accounting data for all firms listed on the Iraqi Stock Exchange for two periods (1996-2002) and (2006-2012). A list of available firms by statements of Iraqi securities market. The sample consists of firms that: (1) are listed in the Iraqi's market for two periods continuously; (2) have necessary available financial statement data in market guide. The objective is to identify value relevance differences between the same sample for two periods of financial statements and to extract important policy implications from our findings. Three types of tests are performed to determine value relevance differences and their significance between two periods and two-sample comparison tests and marginal dependency tests, utilizing value-relevance measures derived from price, earning and book value regressions.

Table 1 provides a summary of the sample. There are 26 firms before 2003 (with 182 firm-year observations) and the same 26 firms (with 182 firm-year observations) after 2003. The final sample consists of 364 firm-year observations of 26 firms that meet these requirements.

Table 1 Before and after 2003 distribution of the sample firms

Time	Number of firms	Number of firm –year observations	Environmental factor
Before 2003	26	182	Macro-economic
After 2003	26	182	Micro-economic
Total observations		364	

The sectors distribution of the sample firms is found in table 2. The sector's classification is taken from the Iraqi exchange market Guide (1996-2002, 2006-2012):

Table 2 Sectors distribution

Sector	Before 2003 sample	After 2003 sample
Banks	5	5
Industry	13	13
Agriculture	2	2
Services	3	3
Tourism & hotels	3	3
total	26	26

The sectors classification is taken from Iraqi securities exchange market Guide. The sample represents five sectors, and has chosen the continuing firms along study period to identify the change in the value relevance for accounting information for these firms. The industry sector is the most represented sector with 13 firms, followed by banks sector with 5 firms, each one of services and tourism and hotels with 3 firms, and agriculture with 2 firms.

Table 3 presents descriptive statistics of the major variables used in the study. It shows that the firms before 2003 are slightly larger than the firms after 2003 in terms of book value of equity.

Table 3 Descriptive statistics of the firms included in the sample

		Mean	S.D	Min	Max
Before 2003 sample (182).	CP	26.5602	51.76865	1.06	272.06
	BV	3.3556	2.84301	1.06	14.77
	EPS	1.4920	1.84813	0.16	8.71
After 2003 sample (182).	CP	9.1624	16.0671	0.9100	70.7857
	BV	1.6940	4.19517	- 6.72	20.34
	EPS	0.1955	0.36736	0.000	1.66
Whole sample (364).	CP	17.8613	32.68006	1.00	171.42
	BV	2.5248	3.28432	- 1.76	17.55
	EPS	0.8437	1.01489	0.11	4.84

CP is the closed price at the end of year . BV is book values per shares and EPS is earnings per share .

The firms on average before 2003 have higher CP,BV and EPS than the firms after 2003, and indicate that there is a systematic pattern before 2003 but unsystematic pattern for growth firms in the two periods.

6. EMPIRICAL RESULTS

Value relevance of combined earnings and book values

Table 4 shows the results of regression equation (1) before 2003 with two combined independent variables, earnings and book values, and one dependent variable stock prices.

Coefficients determination (1) in before 2003 period (1996-2002) data are from 0.345 to 0.937 by which the lowest Adj. R2 is in the year 1996 and the highest are in the year 2000. In the first five years data, Adj.R2 has increased from 0.345 in the year 1996 to 0.937 in the year 2000 and downed to 0.732 , 0.683 in the year 2001and 2002 respectively . The result in time-series cross sectional pooled regression Adj.R2 is 0.788 which means that earnings and book values simultaneously explain 78.8 % of stock prices variance and the 21.2% is explained by other factors. It shows that earnings and book values simultaneously have the value relevance on stock prices. The result indicates that F statistic is higher than F table (3.37). On yearly data F statistic is 7.593 in the lowest point and 185.492 in the highest point. Coefficients of earnings and book values are also significant at 5%. It could be concluded that yearly earnings and book values simultaneously are relevant in explaining stock prices variance.

Table 4 shows that in pooled data, the F value (12.177) is higher than F table (3.00) and significant at 5%. The same conclusion is in yearly data where earnings and book values had value relevance in explaining stock prices variance. It is also concluded that combined earnings and book values have value relevance in explaining stock price variance.

Table 4 The Results of Regression Model before 2003

Year	n	ANOVA	Adj. R ²
1996	26	F: 7.593 Sig:0.003*	0.345
1997	26	F:21.730 Sig:0.000*	0.624
1998	26	F:29.843 Sig:0.000*	0.698
1999	26	F:76.226 Sig: 0.000*	0.858
2000	26	F:185.492 Sig:0.000*	0.937
2001	26	F:35.216 Sig:0.000*	0.732
2002	26	F:27.904 Sig:0.000*	0.683
Pooled	182	F:12.177 Sig:0.020*	0.788

* Significant in 0.05 level

Table 5 shows results of regression; equation (1) for firms data after 2003 . coefficients determination in (2006-2012) data are from 0.045 to 0.721 by which the lowest Adj. R2 is in 2009 and the highest are in 2012. In the first two years data, Adj.R2 is increased from 0.300 in 2006 to 0.409 in 2007 and downed to 0.153, 0.045 in 2008 and 2009 respectively . In 2010 -2012, Adj.R2 is increased from the 0.307 to 0.721 in 2012. The result in time-series cross sectional pooled regression, Adj.R2 is -0.453 which means that earnings and book values simultaneously explain -45.6 % negatively of stock prices variance that is there are other factors explain this variance in stock price.

Table 5 shows the result indicates that F statistic is lowest than F table (3.37) in (2008,2009) and Coefficients of earnings and book values are also insignificant at 5% in these two years . but F statistic is highest in residual years and Coefficients of earnings and book values are also significant at 5%. On yearly data F statistic is 1.592 in the lowest point and 33.291 in the highest point. We concluded that yearly earnings and book values simultaneously relevant more years but not all years in explain stock prices variance. This instability reflect the shift matter in Iraqi environment factors.

Table 5 shows that in pooled data, the F value 0.064 is lower than F table 3.00, and insignificant at 5%. It is summed up that combined earnings and book values in joint data has no value relevance in explaining stock price variances.

Table 5 The Results of Regression after 2003

Year	n	ANOVA	Adj. R ²
2006	26	F: 6.358 Sig:0.006*	0.300
2007	26	F:9.655 Sig:0.001*	0.409
2008	26	F:3.258 Sig:0.057	0.153
2009	26	F:1.592 Sig: 0.225	0.045
2010	26	F:6.539 Sig:0.006*	0.307
2011	26	F:11.027 Sig:0.000*	0.445
2012	26	F: 33.291 Sig:0.000*	0.721
Pooled	182	F:0.064 Sig:0.939	-0.453

* Significant in 0.05 level

The comparison between the results of value relevance before and after 2003 shows the impacts of environment factors on value relevance. This research tests the same firms with the same accounting practices . consequently, the shift of basic environment factors has an effect on the usefulness of accounting information to explain the changes in stock prices interest as the investors of Iraqi stock exchange market.

Value relevance of individual earnings and book values

Table 6 shows regression result based on equation (2) and (3) concerning data before 2003. Regression model is used to test value relevance of earnings and book values individually to stock prices. Yearly data shows that earnings explain 31.2% the lowest point in 1996 until 92.6% the highest in 2000 of stock prices variance. Book values explain 34.5% the lowest point in 1996 and 87.4% the highest in 2000 of stock prices variance.

Information in Table 6 shows that Adj. R2 in pooled data is -0.117 which means that earnings explain -11.7% negatively of stock price variance . Adj. R2 pooled data of regression between book values with stock prices shows that book values explain 81.3% of stock prices variance and the rest of it is explained by other factors.

Comparison between regression model 2 and model 3 shows that book values individually has higher coefficients determination than earnings variable in years (1996, 1997,2001,2002), but earnings variable has higher coefficients determination than book value in years (1998,1999,2000). The regression in pooled data also shows that book values before 2003 individually are more relevant than earnings in explaining stock prices variance .

Coefficients of earnings and book values are significant and positive for yearly data, but for pooled data coefficient is insignificant and negative for pooled data of earnings. On the other hand, it is

significant and positive for pooled data of book value . This result supports hypothesis that book values separately are relevant in explaining stock prices variance. This result additionally supports strongly the impacts of shift of Iraqi environment on value relevance of accounting information.

Table 6 The Results of Regression (Earnings and book value individually to price before 2003)

Year	n	Earnings and price before 2003		Book value and price before 2003	
		earning	Adj. R ²	Earning	Adj. R ²
1996	26	$\beta 1: 5.150$ Sig:0.002*	0.312	$\beta 1: 5.293$ Sig: 0.001*	0.345
1997	26	$\beta 1: 7.197$ Sig: 0.000*	0.554	$\beta 1: 8.126$ Sig: 0.000*	0.558
1998	26	$\beta 1: 7.394$ Sig: 0.000*	0.690	$\beta 1: 7.306$ Sig: 0.000*	0.600
1999	26	$\beta 1: 35.554$ Sig: 0.000*	0.862	$\beta 1: 21.085$ Sig: 0.000*	0.802
2000	26	$\beta 1: 40.912$ Sig: 0.000*	0.926	$\beta 1: 22.954$ Sig:0.000*	0.874
2001	26	$\beta 1: 34.973$ Sig: 0.000*	0.694	$\beta 1: 15.740$ Sig: 0.000*	0.695
2002	26	$\beta 1: 12.636$ Sig: 0.001*	0.351	$\beta 1: 9.219$ Sig: 0.000*	0.672
Pooled	182	$\beta 1: 11.547$ Sig:0.570	-0.117	$\beta 1: 29.604$ Sig:0.003*	0.813

* Significant in 0.05 level

Table 7 shows regression result based on equations (2) and (3) concerning data after 2003. Yearly data shows that earnings explain 4% as the lowest point in 2009 until 39.5% as the highest point in 2011 of stock prices variance. Book values explain -3.2% negatively as the lowest point in 2009 and 43.4% in 2007 as the highest point of stock prices variance.

Information in Table 7, Model regression between earnings with stock prices shows that Adj. R² in pooled data is -0.189 which means that earnings explain -18.9 % negatively of stock price variance . Adj. R² pooled data is -0.163 of model regression between book values and stock prices shows that book values explain -16.3% negatively of stock prices variance .

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The comparison between regression model 2 and model 3 after 2003, shows that book values individually has a higher coefficients determination than earnings variable in years (2007,2008,2012). But earnings have a higher coefficients determination than book value in years (2006,2009,2010,2011). The regression in pooled data shows that earnings and book value individually are irrelevant value in explaining stock prices variance.

Coefficients of earnings and book values are insignificant and negative for pooled data. But yearly earning data is significant and positive in years (2006,2010,2011,2012). Yearly book value data shows significant and positive in years (2007,2008,2011,2012) respectively. The important point is significance and positivity of each book value and earnings to market prices in late (2011, and 2012). This case indicates the growth and stability of environment after the change in 2003. This result shows that earnings and book values separately are irrelevant in explaining stock prices variance after 2003 in Iraqi stock market.

Table 7 The Results of Regression (Earnings and Book values individually to price after 2003)

year	n	earnings and price after 2003		Book value and price after 2003	
		earning	Adj. R ²	Earning	Adj. R ²
2006	26	$\beta_1: 3.869$ Sig: 0.009*	0.223	$\beta_1: 1.024$ Sig: 0.720	-0.036
2007	26	$\beta_1: 19.204$ Sig: 0.111	0.065	$\beta_1: 14.445$ Sig: 0.000*	0.434
2008	26	$\beta_1: 12.052$ Sig: 0.116	0.062	$\beta_1: 6.013$ Sig: 0.016*	0.187
2009	26	$\beta_1: 7.613$ Sig: 0.167	0.040	$\beta_1: 0.968$ Sig: 0.631	-0.032
2010	26	$\beta_1: 17.327$ Sig: 0.015*	0.191	$\beta_1: -0.531$ Sig: 0.692	-0.035
2011	26	$\beta_1: 24.271$ Sig: 0.000*	0.395	$\beta_1: 0.673$ Sig: 0.001*	0.351
2012	26	$\beta_1: 14.856$ Sig: 0.001*	0.376	$\beta_1: 0.805$ Sig: 0.000*	0.428
pooled	182	$\beta_1: -1.842$ Sig: 0.841	-0.189	$\beta_1: -0.217$ Sig: 0.705	-0.163

* Significant in 0.05 level

Incline and decline pattern of value relevance over time

Equation (4) is used to examine the value relevance time series trend. This model is the regression

between Adj.R2 [TOTAL] as dependent variable and time (T) as independent variable.

Regression (4) is used to examine the increasing or decreasing pattern of combined book values and earnings value-relevance before and after 2003.

The result in Table 7 shows insignificance of time (T) variable coefficient in every time series trend regression. It shows no evidence of incline and decline pattern of combined earnings and book values relevance. These results are consistent with Andriantomo and Yudianti (2013).

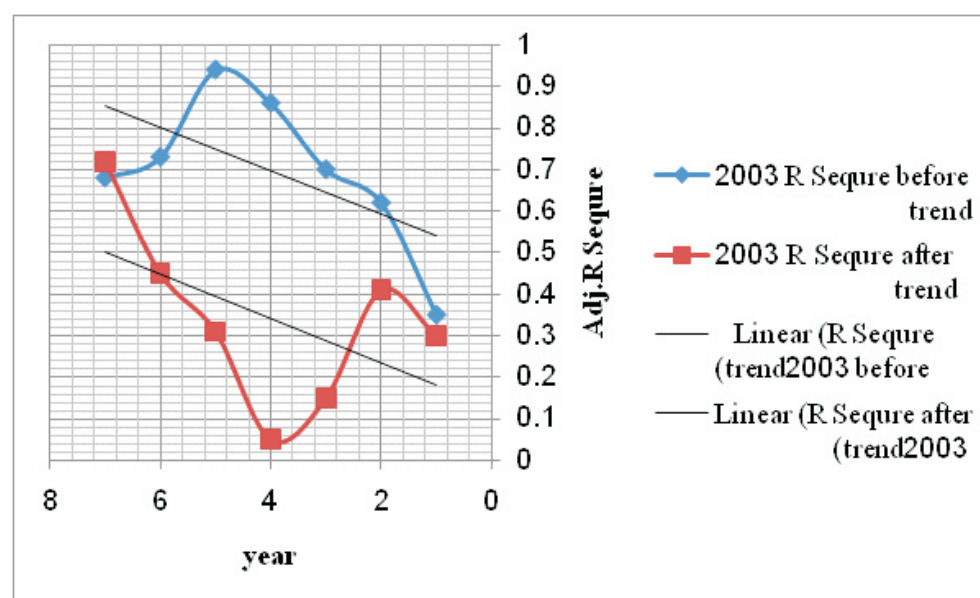
Table 7 The Results of Regression of R 2 [Total] trend before and after 2003

Variable independent	Coefficient time	
	Before 2003	After 2003
R ² TOTAL	Adj.R ² : 0.357	Adj.R ² :-0.053
	F: 4.336	F: 0.701
	β1: 0.055	β1: 0.036
	Sig: 0.092	Sig: 0.441

Time (T) is variable with values 1,2,...,10 according with years.

Figure I represents R2 [Total] time series fluctuation with trend line drawn by least square method for data before and after 2003. it indicates that the trend line of R2 [Total] before 2003 seems to be increased in combined book values and earnings value relevance. But, the trend line of R2 [Total] after 2003 seems to be decreased in value relevance.

**Figure I
R2 [TOTAL] trend before and after 2003**



7. SUMMARY AND CONCLUSIONS

In this study, I use accounting and stock price data of a sample from Iraqi listed firms for two periods, firstly, before American occupation in 2003 and period after 2003, in order to observe the same pattern in the value-relevance of accounting that based on Ohlson model (1995) and Andriantomo and

Yudianti (2013).

The evidences are presented in this research are subject to some limitations. First, the comparability of the same firms included in this research for two periods differently is interesting to identify the impact environment factors. Second, the existence firms that continued for total study period is contributed in succeeding the comparison between both periods. Third, the accounting and reporting requirements of two periods did not improve, and contributed in activating the accounting information and its role in equity market.

Period before 2003, combined earnings and book values are relevant information that explain stock prices. Determination coefficient values are between 0.345 and 0.937. Pooled Adj. R² is 0.788 which means that combined earnings and book values explained 78.8% stock prices variance.

Period after 2003, combined earnings and book values are irrelevant information that explained stock prices. Determination coefficient values are between 0.045 and 0.721. Pooled Adj. R² is -0.453 which means that combined earnings and book values explained -45.3% negatively stock prices variance.

This research also shows earnings and book values individually are relevant in explaining stock prices. The comparison of pooled Adj. R² for period before 2003, indicates that book values are relevant but earnings are irrelevant in explaining stock prices variance. The comparison of pooled Adj. R² for period after 2003, showed that book values and earnings irrelevant in explaining stock prices variance.

The incline or decline value relevance of combined book values and earnings through R² [Total] trend indicates the incline of value relevance of combined earnings and book values for two periods before and after 2003.

This result suggests that the difference in properties of accounting information does have a marginal impact on the pattern of the value relevance of accounting information, but in light of stability of environment factors. An implication of this finding is that future research examines an association between the properties of accounting information and value-relevance in last years that have the same environment factors.

Finally, this study provides some evidences regarding the marginal impact of environment factors on the value-relevance of accounting information.

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