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How IFRS Affects Value Relevance and Key Financial Indicators? Evidence from the UK

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Abstract: This paper has two contributions to the International Financial Reporting Stands (IFRS) adoption literature. First is the scrutinizing impact of IFRS adoption on value relevance in the UK with TEST-A analysis under the H_{01} hypothesis. The second contribution is capturing the impact of IFRS adoption on key financial indicators of firms with the TEST-B analysis that hypothesizes H_{02}.The statistical differences of items of two different reporting standards are examined with non-parametric tests as all input variables failed the Shapiro-Wilk and Lilliefors normality tests in TEST-A. The finding rejects the H_{01} hypothesis for BvMv, and agrees that IFRS has impact on value relevance. Besides, Ohlson's (1995) model documents that the coefficient of dummy variable (MODE) is positive. Therefore, the analysis concludes that IFRS has positive impact on value relevance. The aftermath of TEST-B rejects the H_{02} hypothesis for all profitability ratios (ROE, ROCE, ROA, PM) and gearing ratios (GR). It concludes that profitability and gearing ratios are affected by IFRS adoption, whereas efficiency-liquidity ratios are not. Also, in Forward Stepwise regression analysis only ROCE, ROA, and PM ratios show significant results. The analysis documents positive and significant impact of IFRS on these three ratios.

Key words: IFRS, UK GAAP, IFRS Adoption, Value Relevance
JEL: M41, M48

1. Introduction

The rationale of financial reporting is to supply transparent financial information and outlook about a firm to investors and the public. As all firms in the world do not stand on the same base of accounting and reporting framework, a healthy comparability by investors or interested parties was nearly impossible. Besides in recent years international